



**The State of New Hampshire
Annual Report
of the
State Treasury**

**As of and for the
FISCAL YEAR ENDED JUNE 30, 2014**

**William F. Dwyer
Commissioner of the Treasury**

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William F. Dwyer
COMMISSIONER OF THE TREASURY



**THE STATE OF NEW HAMPSHIRE
STATE TREASURY**

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September 30, 2014

Pursuant to, RSA 6:17, RSA 6:43, RSA 11:5-b and RSA 20:7, I am pleased to present the Annual Report of the State Treasury, as of and for the fiscal year ended June 30, 2014.

The New Hampshire Treasury is charged with conducting a variety of financial management tasks. Among those responsibilities, the Treasury performs internal cash 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 from holders and returning to owners all financial property that qualifies as abandoned property under the law. The Treasurer is also a member of several boards and commissions and serves as trustee and custodian of various State funds.

Please note that all of 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 look forward to the opportunities ahead as we continually strive to enhance the wide range of financial management services we provide to the citizens of New Hampshire and to all branches of State government.

Respectfully submitted,

William F. Dwyer
Commissioner of the Treasury



STATE OF NEW HAMPSHIRE SELECTED STATE OFFICIALS

GOVERNOR

Margaret W. Hassan

EXECUTIVE COUNCIL

Joseph D. Kenney, District 1
Colin Van Ostern, District 2
Christopher T. Sununu, District 3
Christopher C. Pappas, District 4
Debora B. Pignatelli, District 5

SECRETARY OF STATE

William M. Gardner

ATTORNEY GENERAL

Joseph A. Foster

COMMISSIONER OF ADMINISTRATIVE SERVICES

Linda M. Hodgdon

COMMISSIONER OF THE TREASURY

William F. Dwyer

OVERVIEW OF THE 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 State 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.

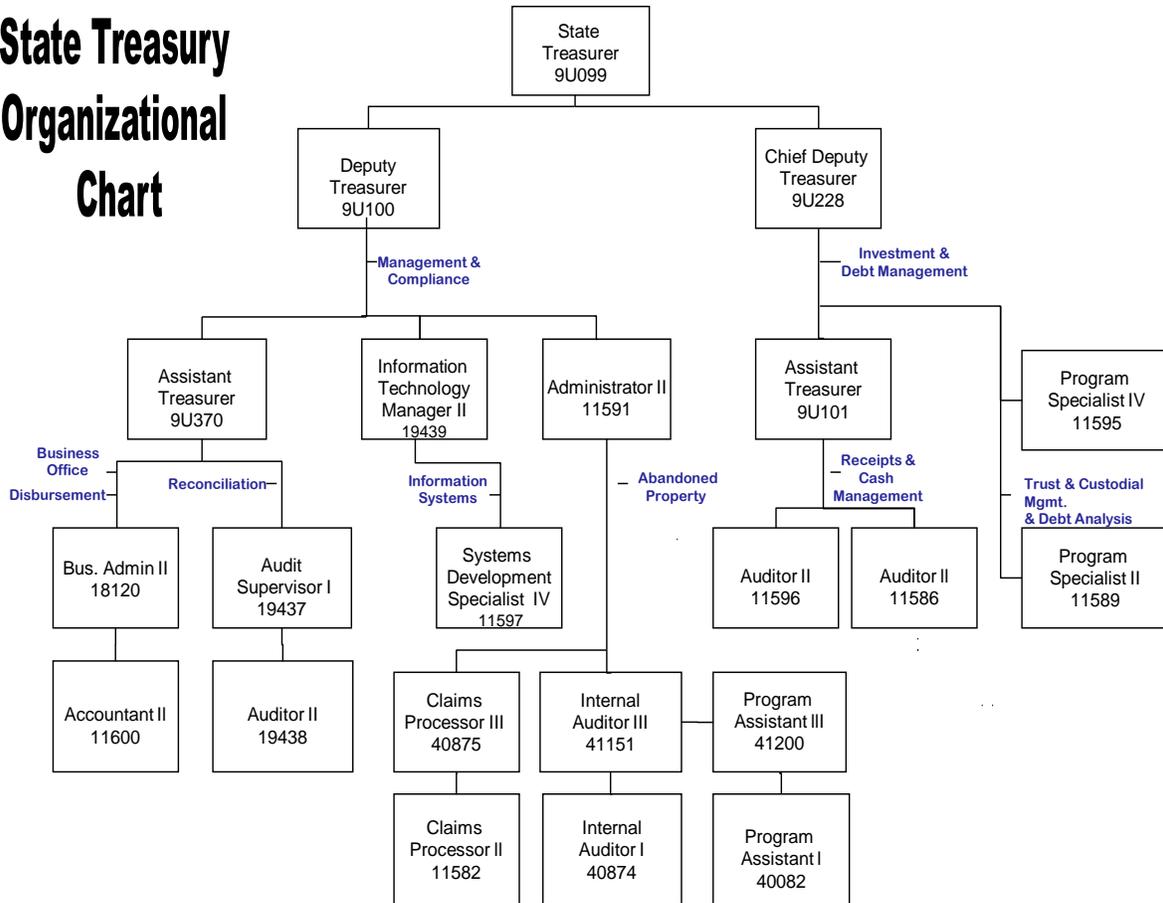
State Treasurer Catherine A. Provencher resigned effective March 28, 2014. Pursuant to RSA 6:20, *“Upon the death, resignation, or removal of the treasurer, the governor, with the advice of the council, shall appoint some suitable person as commissioner, to take charge of the money, books, electronic records, and papers in the office, and to perform all the duties of treasurer until a treasurer is elected and qualified.”* On March 12, Governor Hassan nominated Deputy State Treasurer Bill Dwyer to the position of Commissioner of the Treasury. The Executive Council confirmed the nomination on March 26, and Mr. Dwyer was sworn in on March 28. He will serve the remainder of former State Treasurer Provencher’s term until a new State Treasurer is elected during a joint session of the newly-elected members of the legislature on Organization Day, Wednesday, December 3.

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 State Treasury will optimize the use of state financial assets and financial obligations while protecting both through the deployment of secure technology, cost-effective and efficient banking practices, a commitment to the prudent management of public funds, and a dedicated and highly-qualified staff.

The State Treasurer is an *ex-officio* member of many boards and commissions, including but not limited to the New Hampshire Retirement System, the New Hampshire Municipal Bond Bank, the New Hampshire Business Finance Authority, the Nuclear Decommissioning Finance Committee, and the New Hampshire College Tuition Savings Plan Advisory Commission. The State Treasurer is also the trustee of, or has administrative responsibilities for many trust, custodial, escrow, and other funds.

The authorized staffing of the State Treasury for the 2014-2015 biennium is 22 positions, 5 unclassified and 17 classified, and, as of the close of fiscal year 2014, all positions except one were filled. The organizational chart below illustrates the authorized positions for each functional area as of June 30, 2014.

State Treasury Organizational Chart



As of June 30, 2014

CASH MANAGEMENT

The Treasury is responsible for a wide array of cash management activities related to its role as the state’s “bank”. It is the Treasury’s responsibility to maintain the appropriate amount of cash, when and where needed in order to finance the State’s operating and capital budgets. This responsibility is met in several ways, including cash flow forecasting, collecting and concentrating funds, administering disbursements, and investing available daily cash balances.

In fiscal year 2014, the Treasury managed over \$5.3 billion in receipts and disbursements. A summary of receipts and disbursements for the previous three fiscal years follows:

COMPARATIVE STATEMENT OF RECEIPTS AND DISBURSEMENTS
(Unaudited)

| | As of and for the Year Ended June 30 | | |
|----------------------------|--------------------------------------|-----------------|-----------------|
| | 2014 | 2013 | 2012 |
| BEGINNING BALANCE | \$ 965,070,029 | \$ 745,594,037 | \$ 655,975,613 |
| TOTAL RECEIPTS | 5,327,456,481 | 5,508,233,414 | 5,255,496,091 |
| TOTAL DISBURSEMENTS | (5,331,528,524) | (5,288,757,422) | (5,165,877,667) |
| ENDING BALANCE | \$ 960,997,986 | \$ 965,070,029 | \$ 745,594,037 |

TRUST AND AGENCY ACCOUNTS

Pursuant to RSA 11:1, the State Treasurer serves as the custodian of “All trust funds left to and accepted by the state...”. As of June 30, 2014, the fair market value of the forty-six (46) trust and agency funds was approximately \$37 million, with a maximum individual fund value of nearly \$7 million and investment objectives ranging from short-term liquidity to maximum capital gain. Three accounts were liquidated, and two accounts were opened during the fiscal year. These funds originated from a variety of sources and serve a wide range of beneficiaries and purposes. A list of these trust and agency funds, along with activity and balances for fiscal year 2014, is included at the end of this report as Exhibit 1.

DEBT MANAGEMENT

General Obligation Bonds

General obligation debt is paid from the State's taxes and other revenues. As of June 30, 2014, total outstanding general obligation debt was \$956 million (unadjusted). Approximately 72% of this debt will be repaid from the general fund while the remaining balance is paid from a variety of dedicated user fees and fines.

On August 15, 2013 the Treasury issued a \$5,165,000 general obligation capital improvement bond through a private placement sale to the NH Municipal Bond Bank (NHMBB) to hold for investment in its Debt Service Reserve Fund. The bond carries a 5% coupon and pays interest-only until maturity in 2033, thereby serving as a stable reserve investment for the NHMBB.

On December 17, 2013 the Treasury issued taxable as well as tax-exempt capital improvement bonds together through a competitive sale. The first series (tax-exempt) was \$59,050,000 General Obligation Capital Improvement Bonds, 2013 Series B the (“Series B Bonds”), and the second

series was \$18,965,000 General Obligation Capital Improvement Bonds, Series C (Federally Taxable) (the “Series C Bonds”).

The State will use the proceeds of the Series C Bonds to fund the 2010-2013 EPA Clean Water and Drinking Water State Revolving Fund program matches as authorized by the Laws of 2011, Chapter 253:1-VI-A and B. Interest earned on loans made to local municipalities over the years from the State Revolving Funds will be used to pay the debt service on these bonds. Given the administrative and time constraints imposed by federal Internal Revenue Service regulations with respect to expending tax-exempt proceeds and given the historically low level of interest rates, a taxable issue was chosen to mitigate compliance issues while still generating a low cost of capital. Additionally, the Series C Bonds will be amortized over ten years (as opposed to a typical twenty year schedule), recognizing that although not significantly different than tax-exempt rates, taxable debt comes at a slightly higher cost. The sale of this series resulted in an overall true interest cost of 2.28% with maturities ranging from 2014 to 2023 and an average coupon of 2.35%.

The Series B Bonds resulted in an overall true interest cost of 3.099% with maturities ranging from 2015 to 2032 and an average coupon of 4.44%. These Series B Bonds were issued for the sole purpose of financing state-authorized capital projects. The projects funded with the proceeds are associated with a variety of state agencies and have been authorized over several capital budgets. The majority of the projects funded are those authorized in both the 2012-2013 and 2014-2015 capital budgets.

Turnpike System Revenue and Federal Highway Grant Anticipation Revenue Bonds

In addition to coordinating the issuance of general obligation debt, the Treasury issues capital improvement revenue and refunding bonds for the Turnpike System as well as bonds backed in large part by Federal Highway funds for the Department of Transportation. Turnpike System bonds are repaid solely from the revenues (tolls) collected throughout the Turnpike System. Total outstanding debt of the Turnpike System as of June 30, 2014 was \$405 million (unadjusted). Total outstanding Federal Highway Grant Anticipation (“GARVEE”) Bonds was \$167 million (unadjusted). No bonds were issued in fiscal year 2014 for either type of funding.

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, 2014 the remaining unused guarantee authorizations under the various statutory limitations were:

| <u>Purpose</u> | <u>Guarantee Limit</u> | <u>Remaining Capacity</u> |
|--|---|---------------------------|
| Water Pollution and Waste Control Bonds | \$ 50.0 million ⁽¹⁾ ⁽²⁾ | \$ 48.7 million |
| School Building Authority Bonds | \$ 95.0 million ⁽¹⁾ ⁽²⁾ | \$ 53.3 million |
| Superfund Site Bonds | \$ 20.0 million | \$ 20.0 million |
| Landfill and Waste Site Bonds | \$ 10.0 million ⁽¹⁾ ⁽²⁾ | \$ 10.0 million |
| Business Finance Authority Bonds | \$ 95.0 million ⁽¹⁾ | \$ 32.8 million |
| Pease Development Authority Bonds | \$105.0 million | \$ 48.9 million |
| Housing Finance Authority Child Care Loans | \$ 0.3 million ⁽¹⁾ | \$ 0.3 million |

(1) Revolving limit

(2) Limit applies to total principal and interest.

Chapter 144, Laws of 2009, increased the State guarantee for School Bonds to \$95 million, effective July 1, 2009. In accordance with RSA 195-C:2 and as recommended by the School Building Authority and approved by the Governor and Executive Council, the State guaranteed \$51.6 million (principal and interest) of General Obligation Qualified School Construction Bonds issued by five school districts as of June 30, 2010. These bonds are federally taxable bonds created through the American Recovery and Reinvestment Act of 2009 and issued by school districts for facility construction and/or renovation or for the purchase of land upon which a facility will be built.

The State also has 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 in assessing the potential impact on the State's credit rating. Chapter 324, Laws of 2008, amended RSA 35-A:24 to include an intercept program where in the case of a default by a governmental unit, the Treasurer shall pay the bond bank the defaulted amount from general or education trust fund appropriations that are due to the governmental unit which defaulted.

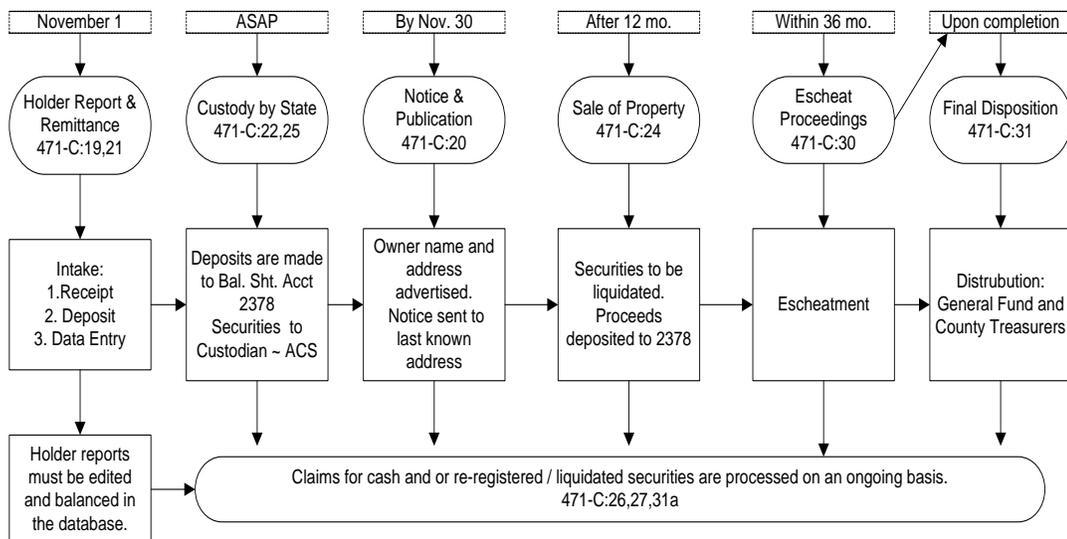
ABANDONED PROPERTY

Overview

Pursuant to the provisions of NH RSA Chapter 471-C, Treasury’s Abandoned Property Division is charged with the task of recovering 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.

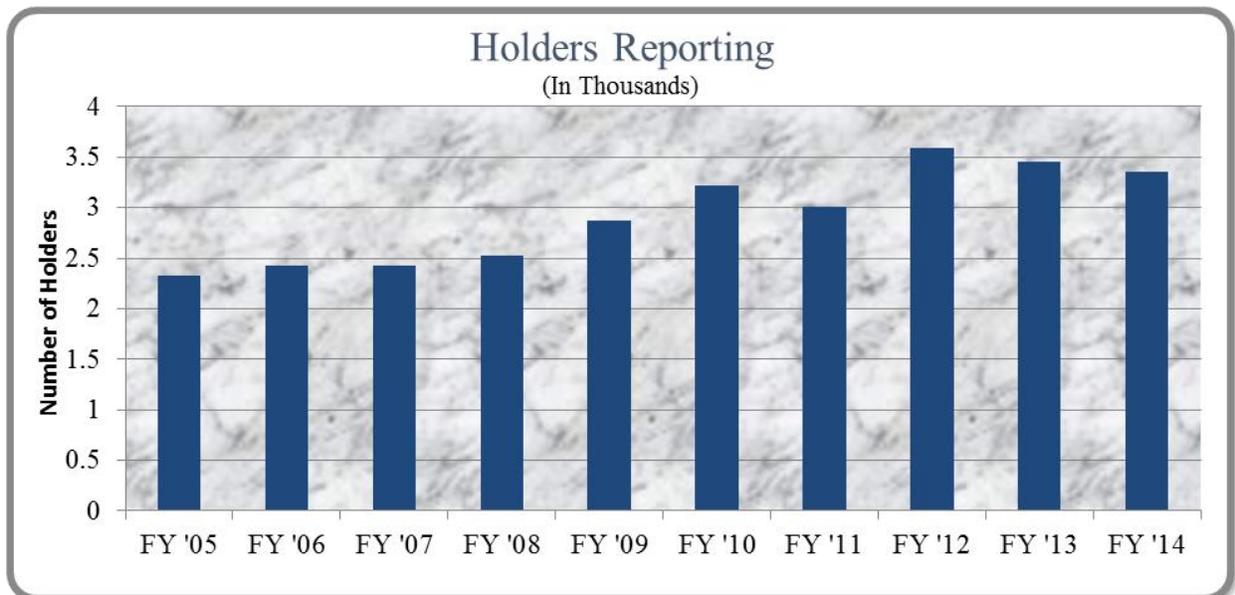
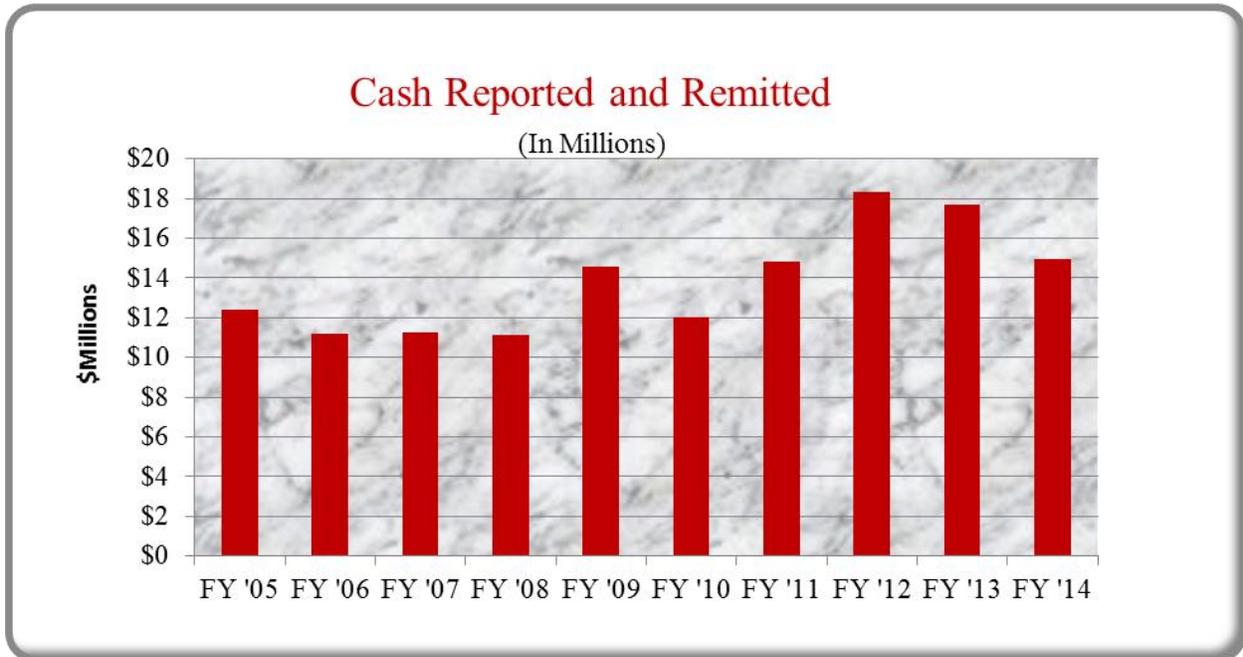
Diligent efforts are made to ensure that the property owners are notified that their property has been reported and remitted to the Division. An annual advertisement listing all owner names reported and their last known address is published in a newspaper with state-wide circulation. Additionally, a mailing in the form of a postcard notification is sent to the last known address of the reported owner. Further, the Division participates in MissingMoney.com, a multi-state database of unclaimed property owner information, and also maintains a page on the State Treasury website, affording ready access to any citizen inquiring about a lost or abandoned account.

In summary, the Division’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 provides an overview of the annual workflow.



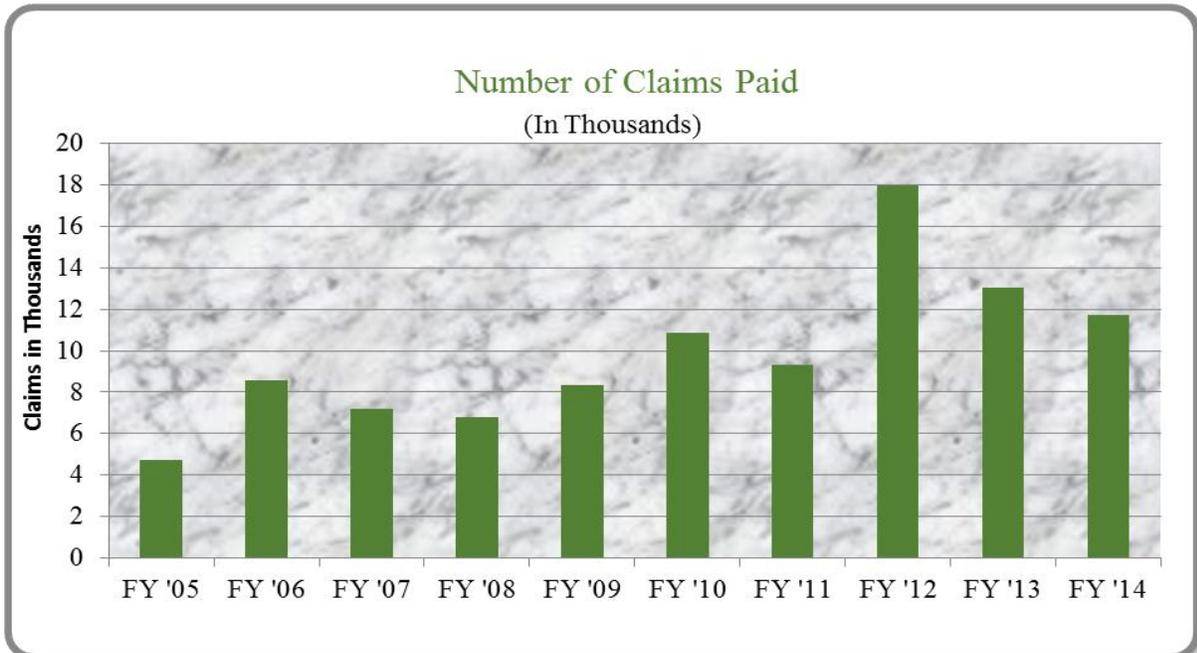
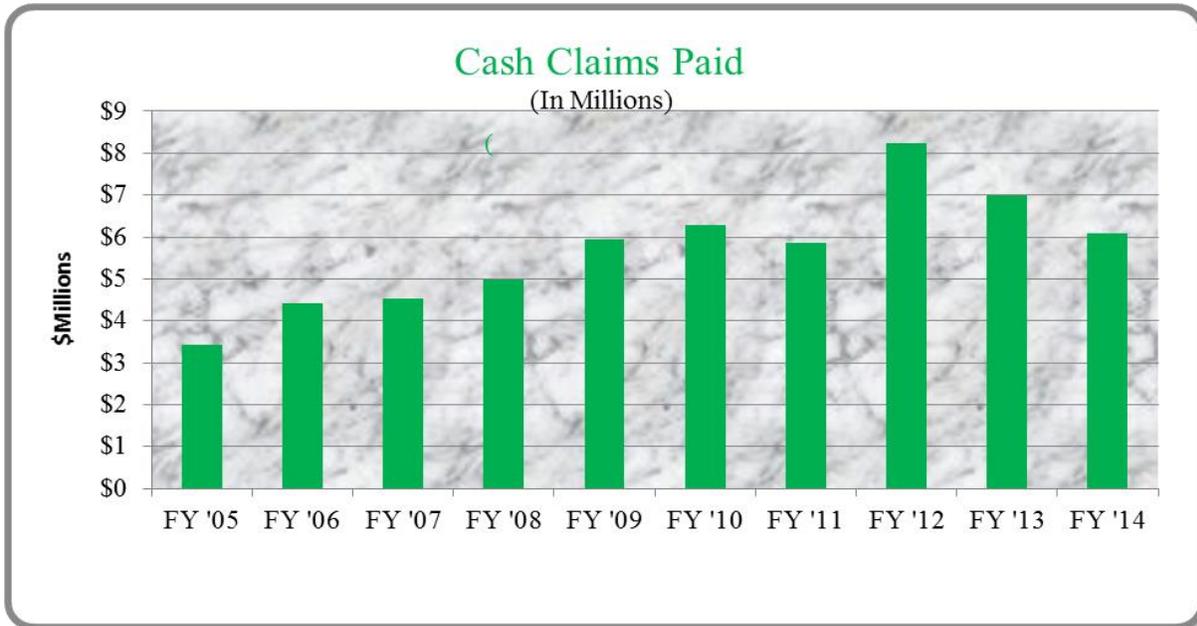
Holder Reporting and Remittances

In fiscal year 2014, nearly 3,400 holders of property reported and remitted cash in excess of \$14.9 million and delivered over five million shares of stock and/or mutual funds to the state's custodial account. Over the past ten (10) fiscal years, the Division has taken in \$138,353,635 from holders of abandoned property, averaging approximately \$13.8 million annually.



Owner Claims Processed

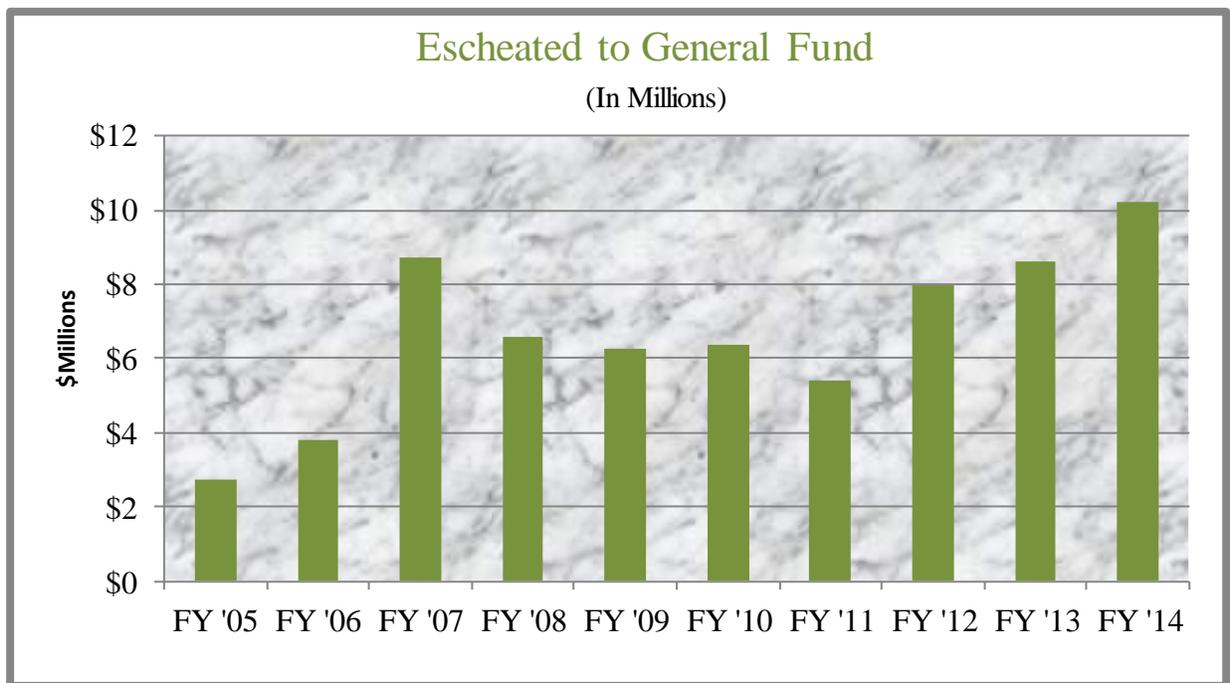
During fiscal year 2014, the Division returned over \$6 million dollars to citizens, representing 11,746 claims paid. The average claim paid was \$519 and the largest individual claim was \$164,569. In the past ten (10) fiscal years, \$56,752,118 has been returned to owners with an average of nearly \$5.7 million returned each year. A notable increase in the number of claims paid in fiscal year 2012 was largely due to additional processing of reciprocal claims paid to other states.



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

On a gross basis, the Division delivered nearly \$10.2 million to the General Fund during fiscal year 2014. RSA 471-C:30-31 provides for certain deductions from this gross amount for escheatment to New Hampshire counties and administrative expenses of the Division. Over the past ten (10) fiscal years, approximately \$67 million has been escheated to the General Fund, an average transfer of funds of nearly \$6.7 million each year. The increase in funds transferred at the close of fiscal year 2014 was due, in large part, to the enhanced reporting of life insurance death benefits in response to a national initiative to review the reporting histories of the largest life insurance companies in the U.S.

(The following graph excludes the impact of the liquidation of securities for fiscal years 2007 through 2014, discussed below.)



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

State Treasury practices, with respect to liquidation of unclaimed securities, were modified in fiscal year 2007 in an effort to recover and deliver proceeds to owners' accounts and the General Fund on a timelier basis. Essentially, proceeds from liquidated securities are transferred in the same fiscal year they are sold, as opposed to being held for an additional period, as was past practice. The result of this change is an increase in recent year escheatment dollars, with significant proceeds being delivered to the General Fund in conjunction with, and in addition to, the annual escheatment dollars. Liquidation proceeds delivered to the General Fund during fiscal years 2007, 2008, 2009, 2010, 2011, 2012 and 2013 were \$16.1 million, \$2.9 million, \$6.3 million, \$1.2 million, \$3.1 million, \$3.0 million, and \$6.4 million respectively. In fiscal year 2014, \$9.1 million was similarly delivered.

COLLEGE SAVINGS PLANS

As the fiscal year closed, Treasury and the College Tuition Savings Plan Advisory Commission (“Advisory Commission”) had completed 16 years of administering the UNIQUE College Investing Plan and 12 years of administering the Fidelity Advisor 529 Plan, pursuant to RSA 195-H. Both plans are managed by Fidelity Investments, under contract to the State through calendar year-end 2018. The combined net assets for the two plans totaled over \$14 billion at the end of fiscal year 2014. The New Hampshire Plans ranked fourth of all state plans in the market value of net assets. Plan assets were held by 724,300 participants throughout the country. The average participant account balance as of the end of the fiscal year approximated \$24,140 in the UNIQUE Plan and \$21,760 in the FA 529 Plan, demonstrating that this is a college savings vehicle primarily for middle and lower income families.

Both plans are very flexible and withdrawals can be used for a wide array of qualified higher education expenses such as computers, 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, which 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. Participants in these Plans have a total of 63 investment portfolio options from which to choose, comprised of age-based, static investment, and individual fund portfolios representing both actively managed and index funds, as well as a series of nine multi-firm or “open architecture” portfolios that were introduced during the 2012 fiscal year. The portfolios are largely funds of funds and range from aggressive 100% equity funds to highly conservative money market funds. Changes to investment portfolios are continually reviewed in order to identify investment enhancements for Plan participants.

The New Hampshire Excellence in Higher Education Fund (the “Trust Fund”) was established pursuant to RSA 6:38 and is funded through an administrative fee generated by the two plans. The purpose of the Trust Fund is to provide scholarships to financially needy New Hampshire students attending New Hampshire postsecondary education institutions, under the direction of the Advisory Commission, and secondarily, to pay for costs incurred by the Advisory Commission in the administration of the Plans. Two scholarship programs, implemented in mid-2006, are:

1. UNIQUE Annual Allocation Program (“Annual Program”), which provides yearly scholarships to New Hampshire-resident students attending the University System of New Hampshire (“USNH”), the Community College System of New Hampshire (“CCSNH”), and eleven other eligible and participating New Hampshire postsecondary education institutions. During the 2013 legislative session, HB2 restored the UNIQUE Annual Awards program to its historical method of operation (Administrative Rule Csp 600) after the majority of fees that fund the scholarships had been re-directed to fund appropriations to USNH and CCSNH for the 2012-13 biennium. As a result, at the beginning of 2014 an Annual Program allocation of approximately \$1 million was distributed to participating institutions, both public and private, based on individual scholarship amounts originally approved by the Advisory Commission at \$300 each and subsequently increased to \$700 each. Additional

scholarship reimbursements to participating institutions were distributed at the end of fiscal 2014, resulting in a total distribution of over \$2.8 million in UNIQUE Annual Awards.

2. UNIQUE Endowment Allocation Program (“Endowment Program”), which provides monthly funding to restricted endowment funds established and managed by USNH, CCSNH, and eight other eligible, non-profit 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. Under the provisions of HB2 in 2013, the Endowment Program was also restored to its original method of operation (Administrative Rule Csp 700), with 80% of fees received being allocated to participating institutions on a monthly basis. As a result, over \$8.5 million in payments were made to participating institutions throughout fiscal year 2014.

Eligibility criteria for both scholarship programs were developed by the Advisory Commission, are established in administrative rules, and the eligibility criteria for the Annual Program scholarships are updated at least annually.

Since their inception, the Programs, administered by Treasury, have provided scholarship funding of nearly \$72 million through the end of fiscal year 2014 as follows (in thousands of dollars):

| | 2014 Fiscal <u>Year</u> | From <u>Inception</u> |
|-------------------|-------------------------------|--------------------------|
| Annual Program | \$2,841 | \$16,276 |
| Endowment Program | \$8,558 | \$55,705 |

As of the end of fiscal year 2014, the Trust Fund had a market value of \$3.42 million.

SEABROOK NUCLEAR DECOMMISSIONING

As of June 30, 2014, the Seabrook Decommissioning Trust fund had assets with a market value of \$587.3 million, an after-tax gain of 16.8% for the fiscal year due to improving investment market returns during the 2014 fiscal year. The trust represents the cumulative contributions made by the owners of the Seabrook Nuclear Power Station for the cost of future decommissioning, combined with the investment earnings on the trust balance, net of appropriate taxes and qualified 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 can be invested in a mix of equities (stocks), fixed income securities (bonds), direct lending portfolios, and cash equivalents. The allocation of fund holdings at the end of the fiscal year was nearly 69% equities, 27% fixed income, and 4% alternative investments (direct lending). In addition, almost \$30.7 million was held in separate escrow accounts on behalf of the owners at June 30, 2014. Escrow holdings

primarily consist of cash and cash equivalents, with the Treasurer and Deputy State Treasurer having signatory authority, but not custody of the funds.

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 trust by Bank of New York Mellon on behalf of the owners of the Seabrook Nuclear Power Plant for the sole purpose of funding decommissioning costs when the plant ceases operations. Although the Treasurer serves on the Nuclear Decommissioning Financing Committee (pursuant to RSA 162-F), approves the Trust's Investment Guidelines (pursuant to the Master Trust Agreement), and fulfills certain other administrative roles, the State Treasury provides no direct financial management or custodial services to the Trust.

TREASURY ACCOMPLISHMENTS AND INITIATIVES

Treasury achieved several milestones 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 collaboration of Treasury staff, a variety of State agencies, the Legislature, and private sector financial services firms.

Abandoned Property, Holder Compliance, and Future Initiatives

Treasury remains at the forefront of the national initiative to review the reporting history of the nation's life insurance providers. This effort is focused on determining whether the insurance companies are in full compliance with abandoned property reporting requirements with regard to benefits generated by life insurance policies. In 2011 the New Hampshire Treasury was one of the first states to join with Verus Financial, LLC, to commence this review process. As this process evolved, most other states also joined in this initiative. Through the close of fiscal year 2014, the state of New Hampshire has received more than \$11.3 million (\$2.6 million of which was received in fiscal year 2014) in life insurance benefit proceeds. Through increased reunification efforts, Treasury is hopeful that the majority of this property will be returned to the New Hampshire citizens who were the intended recipients of these policy benefits.

As we transition to fiscal year 2015, the Division remains focused on additional operational initiatives to move the Abandoned Property Program forward. The Division has recently contracted with Kelmar Associates, LLC for the development and implementation of a new, state-of-the-art, automated abandoned property operations database platform. This system will serve the Division's information technology needs well into the next decade, while allowing for the enhancement of all operational areas.

The Division remains steadfast in its commitment to implementing educational outreach seminars with both abandoned property holders and owners. In fiscal year 2014, the Division reinstated these holder and owner outreach efforts for the first time in recent memory. The Treasury will expand these efforts in fiscal year 2015 and ensuing years. The overarching goal

of all of these undertakings is to reunite New Hampshire citizens with their unclaimed or abandoned property.

Capital Project

As part of an effort to provide transparency and better internal controls, Treasury staff worked toward incorporating capital projects data into the statewide financial system. The data set contains 468 capital projects which were active from July 1, 2009 to June 30, 2014. Each capital project is also accompanied by several essential data elements, listed below. Altogether, this data set, along with its elements, is fed into reporting software which produces valuable calculations such as “bondable expense” and “authorized unissued”.

Capital Project Data Elements

- Chapter Law
- Appropriation
- Authorization
- Unique ID
- Expense Allocation
- Class
- Agency
- Accounting Unit
- Funding Source
- IFS data
- Expense
- Bond Issue

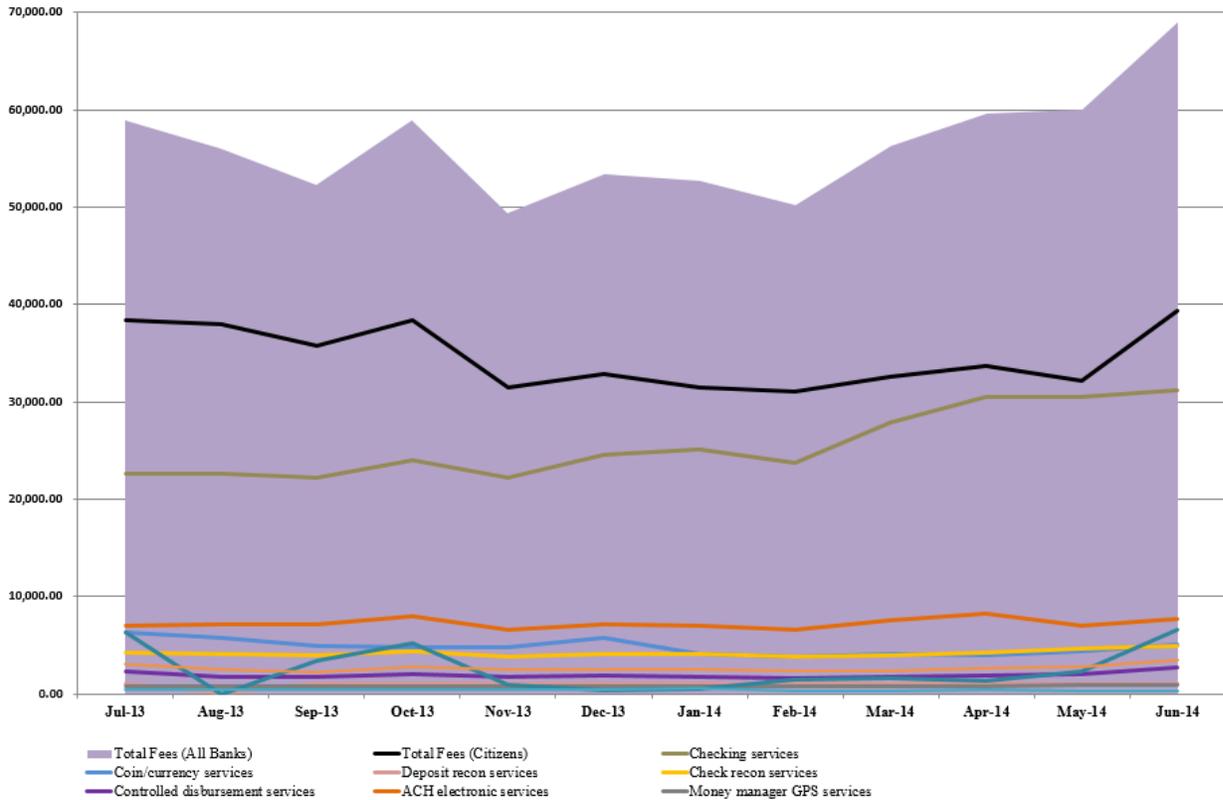
These data elements have been successfully loaded into the statewide financial system’s development area for testing. Initial reports have generated promising results.

Banking Processes & Products

During fiscal year 2013, interest earned at depository institutions had reached incomparable lows. In order to optimize the balances maintained with Treasury’s banking vendors, Treasury had transitioned from a compensating balance arrangement to a hard dollar arrangement. This transition affords Treasury the latitude to deploy balances to the most advantageous account or investment product. As a result of rigorous monthly analysis of bank service statements and trends, Treasury was able to strategically target the balances maintained as either deposits with its bank vendors or investments with financial institution vendors.

Treasury continues to work with its banking vendors to both enhance the operational efficiency of certain banking applications utilized and to design or improve specific business continuity processes that will facilitate banking operations in the event of an interruption in normal service delivery.

Bank Service Fees - FY 2014



Lean Initiative

“Lean refers to a collection of principles and methods that focus on the identification and elimination of non-value added activity (waste) involved in producing a product or delivering a service to customers”.*

Nearly all of Treasury’s employees (including Abandoned Property) have been involved in the Lean process improvement effort. Furthermore, Treasury has enlisted one of its employees as the Lean Coordinator for the agency. All employees are encouraged to submit new Lean ideas. Collectively, Treasury demonstrates a Lean culture and continues to be fully engaged in the Lean process improvement initiative while striving to maintain strong internal controls.

During fiscal year 2013, a Lean process improvement project was chartered to identify potential inefficiencies between Treasury’s Abandoned Property Unit and the Business Office. Although this project determined that there were no inefficiencies between the two functional areas,

* James Womack, Daniel Jones, and Daniel Roos coined the term “Lean” in their 1990 book *The Machine that Changed the World* to describe the manufacturing paradigm.

valuable outputs had been produced: an accurate value stream map and catalogue of Unclaimed Property Management System permissions. These outputs are valuable for maintaining and strengthening internal controls, integrating additional narrative into existing procedures, and increasing transparency.

Legislative Activity

Treasury continued to work with legislators seeking to introduce new legislation or amend existing statutes. During the 2014 legislative session, Treasury worked with many of the legislative committees and study committees providing research and testimony, and also responded to numerous fiscal note requests on a variety of issues. Significant efforts during this session were focused on a variety of budget-related issues.

Physical Office Security Enhancements

Treasury management continues to monitor the physical security of the Treasury office spaces during all hours. All off-hours entry to Treasury requires access through doors which utilize electronic key cards. Such access has 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 continue to be reviewed on a weekly basis. Additional physical security enhancements have been identified and will be implemented as resources permit.

Treasury Policy Development & Compliance

To enhance professionalism, strengthen personal ethics and to develop teamwork, Treasury adheres to a formal Code of Conduct policy and a Fraud Policy and Procedure which are applicable to, and will be signed off by, each staff member annually. A comprehensive Fraud Risk Assessment is ongoing and will continue into fiscal year 2015 in order to improve the safeguards over State cash and investments. The assessment monitors Treasury's role in the overall internal control process of the State, reviewing confidential data flowing into and out of Treasury to other agencies or to banking partners, as well as analyzing detailed processes and procedures internal to Treasury. Additional fraud risk assessments and the implementation of recommendations for data security improvements will continue as budgeted resources permit.

Treasury Participation in Statewide Initiatives

Treasury assisted the Department of Administrative Services in the implementation of a new statewide human resources and payroll system, which took place in February 2013. This implementation is Phase II of the state's ERP system, NH First. Phase I of NH First, which included a statewide financial and budget system, was implemented in July of 2009. As a central service agency, Treasury plays an important role in the state employee payroll disbursement process, including management of employee payroll direct deposit and responsibility for payment file transmissions to the bank.

Treasury also collaborated with Administrative Services and the Department of Health and Human Services to assist with the integration of New Hampshire's Provider Payment (Medicaid) system into the state's financial system, NH First. The first payments to Medicaid providers from the NH First financial system were issued in April 2013. Treasury assisted with all disbursement-related functions associated with Medicaid payment processing, including payment file transmissions, training personnel in the use of Treasury on-line banking systems, and collaboration with the bank for all ACH and check payments.

Treasury Dashboard

In May 2014, the Treasury launched the periodic distribution of Dashboard Reports to members of the Legislature and also posted these reports to the State Treasury website (<http://www.nh.gov/treasury/Divisions/DocsForms/Dashboard.htm>). During legislative sessions, typically from December through June, the State Treasury Dashboard will be updated on a Friday bi-weekly basis. During the remainder of the year, the Dashboard will be updated on the second Friday of each month.

A summary of the metrics presented in the Dashboard:

- **Liquidity Update** is the amount of combined operating cash available to the State Treasury, not including investments such as CD's or Government Agency-type holdings
- **Abandoned Property Claims Update** is an indication of how "caught up" the Division is in terms of processing claims received. At a maximum, the Division is statutorily allowed up to 90 days from the date the claim is filed to provide written notice to a claimant regarding the status of the claim. During certain high volume times during the year, generally August through November, the Division might fall behind by 60-90 days in processing claims.
- **State GO Credit Rating** summarizes the current credit rating and outlook that each of the three major rating agencies has assigned to State of NH General Obligation ("GO") bonds. In order to provide a more complete context, the report also includes summary-level data highlighting where the State ranks in relation to other states that issue GO bonds.
- **Bonds Outstanding** is a snapshot of how much and what major types of bonds were outstanding as of the end of the previous fiscal year. That date is used because it allows the reader to verify the information against the State's most recent Comprehensive Annual Financial Report.
- **New Money GO Bond Issue Results** is a record of what it cost the State on an "all-in" basis to issue GO bonds for the ten most recent issues. The graph provides a visualization of the condition of the municipal finance and interest rate markets that prevailed at the time of each issue. For example, the most costly recent GO bond issue occurred in November 2008 during the start of the capital market upheaval that triggered the Great Recession. The final box in the lower right is a simple average of the State's "cost of funds" for the ten previous GO issues.

**TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1)
FISCAL YEAR 2014**

| Fund Name | July 1, 2013 Beginning Market Value | Dividends & Interest Earned | Net Transactions During Year | Net Change in Market Value | June 30, 2014 Ending Market Value |
|--|--|--------------------------------------|---------------------------------------|-------------------------------------|--|
| <u>Health & Human Services</u> | | | | | |
| - Laconia State School | 154,358 | 135 | 0 | 0 | 154,493 |
| - New Hampshire Hospital | 6,173,495 | 130,343 | 231,361 | 365,039 | 6,900,238 |
| - Youth Development Center | 35,299 | 30 | (700) | 0 | 34,629 |
| - Matthew Elliott Memorial Trust Fund | 4,674 | 4 | 0 | 0 | 4,678 |
| - Viddell Healthcare Bedford- Operating Account | 0 | 29 | 226,701 | 0 | 226,730 |
| - Viddell Healthcare Bedford- Resident Trust Account | 0 | 2 | 34,905 | 0 | 34,907 |
| <u>New Hampshire Veterans' Home</u> | | | | | |
| - Benefit Fund | 651,397 | 12,581 | 20,457 | 61,607 | 746,042 |
| - Members' Administrative Account | 422,269 | 389 | 88,223 | 0 | 510,881 |
| - Guy Thompson Account | 15,012 | 13 | (19) | 0 | 15,006 |
| <u>Department of Education</u> | | | | | |
| - John Nesmith | 361,494 | 7,120 | 12,181 | 36,216 | 417,011 |
| - Special Teachers Competence | 203,240 | 3,747 | (1,429) | 20,040 | 225,599 |
| - Hattie Livesey | 19,982 | 367 | 0 | 2,780 | 23,128 |
| - Harriet Huntress | 39,393 | 796 | 1,278 | 3,886 | 45,352 |
| <u>University of New Hampshire</u> | | | | | |
| - Sam Whidden Trust | 191,703 | 4,805 | 8,006 | 31,379 | 235,893 |
| - Ben Thompson Trust | 1,776,122 | 50,780 | 133,132 | 80,682 | 2,040,717 |
| <u>Department of Fish & Game</u> | | | | | |
| - Lifetime License Fund | 1,459,329 | 1,274 | (76,875) | 0 | 1,383,729 |
| <u>Dept of Resources and Economic Development</u> | | | | | |
| - Caroline A. Fox Fund | 174,974 | 176 | 60,532 | 0 | 235,682 |
| - Tip-Top House Fund | 24,177 | 21 | 0 | 0 | 24,198 |
| <u>Department of Labor</u> | | | | | |
| - Special Fund for Active Cases | 22,334 | 0 | (18,555) | 0 | 3,778 |
| - Special Fund For Second Injuries | 2,471,173 | 4,235 | 784,757 | 0 | 3,260,165 |
| - Crown Paper Workers Compensation | 15,263 | 2 | 0 | 0 | 15,264 |
| <u>Department of Safety</u> | | | | | |
| - Financial Responsibility | 120,915 | 125 | 20,249 | 0 | 141,289 |
| - Road Toll Bonds | 464,809 | 335 | (189,262) | 0 | 275,882 |
| - NH Disaster Relief Fund 2011 | 120,941 | 23 | (120,963) | (1) | 0 |
| - VOIP Escrow | 229,990 | 221 | (225,542) | 0 | 4,668 |
| <u>Department of Environmental Services</u> | | | | | |
| - Connecticut-Coos | 1,729,217 | 1,510 | 0 | 0 | 1,730,727 |
| - Piscataquog | 23,924 | 21 | 0 | 0 | 23,945 |
| - Winnepesaukee | 44,624 | 35 | (25,000) | 0 | 19,658 |
| - Mascoma | 42,757 | 37 | 0 | 0 | 42,794 |
| - Squam Lake | 89,145 | 78 | 0 | 0 | 89,223 |
| - Newfound | 80,400 | 70 | 0 | 0 | 80,470 |
| - Sugar River | 12,590 | 11 | 0 | 0 | 12,601 |

**TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1 Cont.)
FISCAL YEAR 2014**

| Fund Name | July 1, 2013 Beginning Market Value | Dividends & Interest Earned | Net Transactions During Year | Net Change in Market Value | June 30, 2014 Ending Market Value |
|---|--|--------------------------------------|---------------------------------------|-------------------------------------|--|
| <u>Racing & Gaming</u> | | | | | |
| -Pari-Mutuel Commission Licensee Escrow | 300,541 | 262 | (739) | 0 | 300,064 |
| -State of NH Racing - Torguson Group NH LLC | 25,478 | 12 | (25,490) | 0 | 0 |
| -State of NH Racing - Casablanca | 25,065 | 22 | (82) | 0 | 25,005 |
| <u>NH Higher Education</u> | | | | | |
| -NH Higher Ed-National Seminars Group | 25,037 | 22 | 0 | 0 | 25,059 |
| <u>Public Utilities Commission</u> | | | | | |
| -Electric Assistance Program | 2,451,409 | 308 | 327,265 | 0 | 2,778,981 |
| <u>Liquor Commission</u> | | | | | |
| - NHSLC Warehouse Services RFP Escrow | 100,015 | 19 | (100,035) | 0 | 0 |
| <u>Treasury Department</u> | | | | | |
| - Japanese Charitable Fund | 96,008 | 2,492 | 1,656 | 8,776 | 108,932 |
| - Foreign Escheated Estates | 0 | 0 | 0 | 0 | 0 |
| - College Savings Plan Trust | 3,166,281 | 70,421 | 159,564 | 20,479 | 3,416,744 |
| <u>Office of Energy and Planning</u> | | | | | |
| - Land Conservation Monitoring Endowment | 3,164,654 | 52,978 | 117,394 | 272,358 | 3,607,385 |
| <u>Other</u> | | | | | |
| - Community Conservation Endowment | 2,661,769 | 41,870 | 167,329 | 252,794 | 3,123,762 |
| - Conn Lakes Headwaters Tract Monitoring Endowment ⁽¹⁾ | 1,504,934 | 23,121 | 40,825 | 149,753 | 1,718,632 |
| - Conn Lakes Headwaters Natural Areas Stewardship ⁽¹⁾ | 1,469,980 | 22,622 | 115,996 | 92,656 | 1,701,253 |
| - Conn Lakes Headwaters Tract Road Maintenance | 1,479,067 | 23,057 | 48,478 | 160,978 | 1,711,581 |
| Total Trust & Escrow Accounts | \$33,645,237 | \$456,520 | \$1,815,599 | \$1,559,421 | 37,476,776 |

| | | | | | |
|---|--------------|-----------|---------------|-----------|------------|
| - Unclaimed and Abandoned Property ⁽²⁾ | \$18,550,540 | \$526,536 | (\$2,557,985) | \$932,857 | 17,451,948 |
|---|--------------|-----------|---------------|-----------|------------|

Columns may not foot due to rounding.

(1) Beginning Market Values include associated money market account balances not reflected in the 2013 Annual Report.

(2) This includes only the securities held by ACS Unclaimed Property Clearinghouse. Amounts are not reported as Trust and Agency funds. Bureau of Financial Reporting makes adjustment at end of year to include the market value as an asset and liability of the General Fund.