



The State of New Hampshire
Annual Report
of the
State Treasury

As of and for the
FISCAL YEAR ENDED JUNE 30, 2017

William F. Dwyer
State Treasurer

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Cover Photos: *Clockwise from top-left:* Lupine, Lancaster, NH, Courtesy Tabatha Young. Black Bears, Farmington, NH, Courtesy Anonymous. Lake Winnepesaukee, Gilford, NH, Courtesy Debra Fraser. Greeley Pond - Lincoln, NH, Courtesy Melissa VanSickle.

William F. Dwyer
STATE TREASURER



**THE STATE OF NEW HAMPSHIRE
STATE TREASURY**

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September 27, 2017

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, 2017.

The New Hampshire Treasury is charged with performing a variety of financial management tasks. Among those responsibilities, the Treasury oversees 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 institutional holders and returning to rightful owners all financial property that qualifies as abandoned property under the law. The Treasurer is also a member of numerous 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 completion of the State's 2017 Comprehensive Annual Financial Report.

The staff of the Treasury and I look forward to the opportunities ahead as we continually strive to enhance and securely deliver 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
State Treasurer



**STATE OF NEW HAMPSHIRE
SELECTED STATE OFFICIALS**

GOVERNOR

Christopher T. Sununu

EXECUTIVE COUNCIL

Joseph D. Kenney, District 1
Andru Volinsky, District 2
Russell E. Prescott, District 3
Christopher C. Pappas, District 4
David K. Wheeler, District 5

SECRETARY OF STATE

William M. Gardner

ATTORNEY GENERAL

Gordon MacDonald

COMMISSIONER OF ADMINISTRATIVE SERVICES

Charles M. Arlinghaus

STATE TREASURER

William F. Dwyer

OVERVIEW OF THE TREASURY

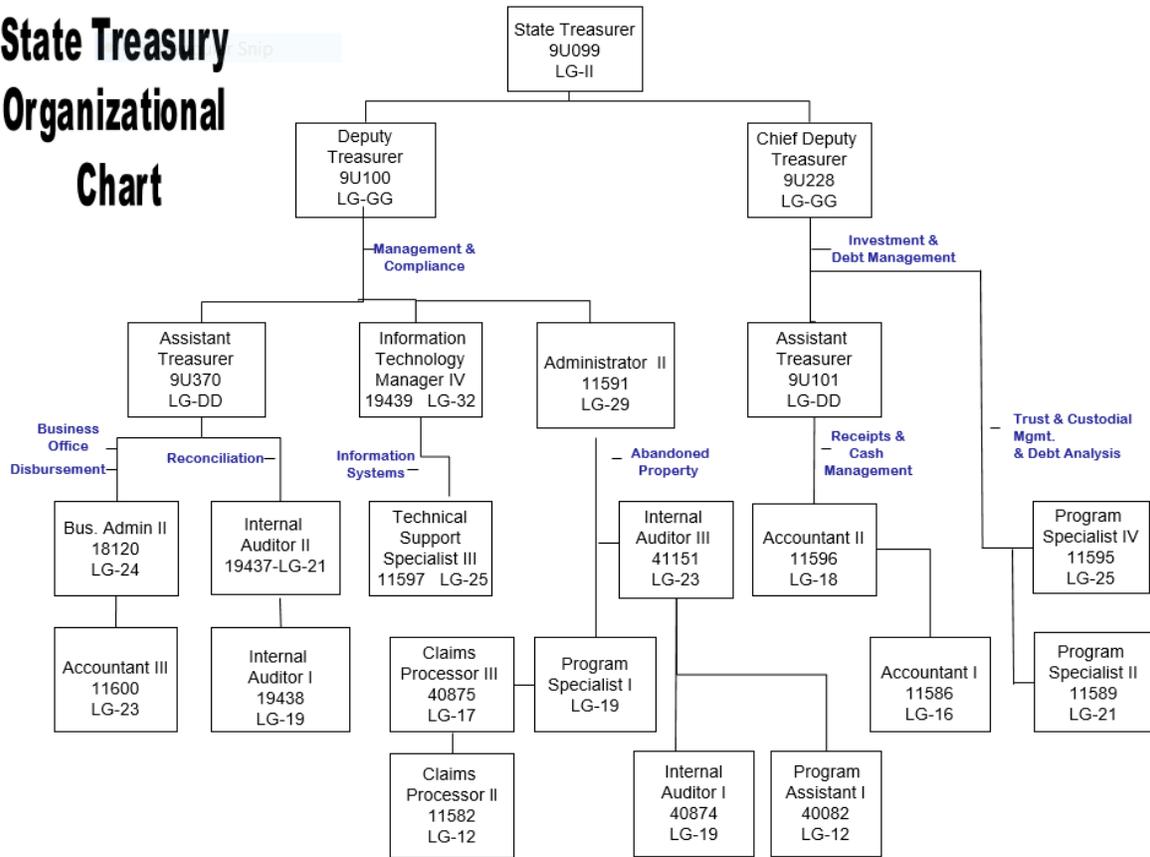
Part 2, Article 67 of the New Hampshire Constitution establishes the position of the Treasurer of the State of New Hampshire. In accordance with the Constitution, the State Treasurer is elected by a joint session of the Senate and the House of Representatives (the General Court). This election takes place on the first Wednesday of December following the biennial election when the newly elected General Court meets for organizational purposes. During a joint session of the newly-elected members of the legislature on Organization Day, Wednesday, December 7, 2016, William F. Dwyer was elected to a second term as State Treasurer effective January 4, 2017 through January 1, 2019.

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 numerous 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 Financing Committee (Chairman), the New Hampshire Public Deposit Investment Pool, and the New Hampshire College Tuition Savings Plan Advisory Commission (Trustee of the Plans). The State Treasurer is also the trustee of, or bears administrative responsibility for, many trust, custodial, escrow, and other funds.

The authorized staffing of the State Treasury for the 2018-2019 biennium is 22 positions, 5 unclassified and 17 classified, and, as of the close of fiscal year 2017, all positions except one were filled. The organizational chart below illustrates the authorized positions for each functional area as of June 30, 2017.

State Treasury Organizational Chart



As of June 30, 2017

CASH MANAGEMENT

The Treasury is responsible for a wide array of cash management activities pursuant 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 2017, the Treasury managed over \$6.6 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		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
BEGINNING BALANCE	1,062,264,819	980,587,282	960,997,986
TOTAL RECEIPTS	6,682,825,532	6,203,199,653	5,766,380,565
TOTAL DISBURSEMENTS	<u>(6,737,866,750)</u>	<u>(6,121,522,116)</u>	<u>(5,746,791,269)</u>
ENDING BALANCE	<u>\$1,007,223,601</u>	<u>\$1,062,264,819</u>	<u>\$980,587,282</u>

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, 2017, the fair market value of the forty-five (45) trust and agency funds was approximately \$314 million, with a maximum individual fund value of \$277 million and investment objectives ranging from short-term liquidity to maximum capital gain. During fiscal year 2017, no existing funds were liquidated, nor were any new accounts established. All accounts 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 2017, 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, 2017, total outstanding general obligation debt stood at \$806.1 million (unaudited). Approximately 70% of this debt will be repaid from unrestricted general fund revenue, while the remainder will be paid from a variety of dedicated user assessments, fines, and other revenues. During fiscal year 2017, the Treasury sold three different general obligation bond issues.

On July 14, 2016, as has been done several times in the past beginning in fiscal year 2010, Treasury sold \$3,900,000 of capital improvement general obligation bonds through a private placement with the New Hampshire Municipal Bond Bank (NHMBB). The NHMBB uses this issue as an

investment in its required debt service reserve fund, while the State benefits from the transaction as it issued these capital improvement bonds at 1.99%, a reduced cost of capital compared to that of a conventional “new money” issue.

On November 30, 2016 the Treasury issued \$63,430,000 in capital improvement bonds (the “Series B Bonds”), as well as \$50,930,000 in refunding bonds (the “Series A Bonds”) through competitive sales. The State has used the Series B new money proceeds (in addition to a sale premium totaling nearly \$7 million) to fund a total of \$70 million in a variety of capital projects in different stages of completion, authorized primarily in the 2013 and 2015 capital budgets. The Series B bonds generated an overall true interest cost of 2.80%, with annual maturities ranging from 2018 to 2036 and an average coupon of 4.075%. The Series A refunding bonds were issued to refinance \$53,775,000 of previously issued and outstanding general obligation bonds. This refunding transaction generated an overall true interest cost of 1.69%, with net present value savings of \$2,778,908 or \$3,119,594 on a nominal (cash) basis.

Turnpike System Revenue and Federal Highway Grant Anticipation Revenue Bonds

In addition to administering the issuance of general obligation debt, Treasury is responsible for issuing 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 called Federal Highway Grant Anticipation Revenue Vehicle Bonds (“GARVEE”). Turnpike System Revenue bonds are repaid solely from revenues (tolls) collected throughout the Turnpike System. No Turnpike System bonds were issued in fiscal year 2017. Total outstanding debt of the Turnpike System as of June 30, 2017 was \$380.9 million (unaudited).

Similarly, no GARVEE bonds were issued in fiscal year 2017. At June 30, 2017, the total amount of GARVEE Bonds outstanding was \$131.7 million (unaudited).

Transportation Infrastructure Finance and Innovation Act (TIFIA) Financing

In collaboration with the State’s Department of Transportation and pursuant to RSA 6:13-d, Treasury entered into a \$200 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan from the U.S. Department of Transportation in May 2016 to provide additional funding for the widening of Interstate 93 from Salem to Manchester. Borrowing under this federal program enabled the State to secure a significantly more favorable interest rate than conventional financing would have produced. Specifically, the financing agreement carries a rate of 1.09% for the term of the loan, with principal payments deferred until June 1, 2025 and a final maturity of June 1, 2034. Additionally, the loan is structured similar to a line of credit whereby drawdowns will be taken as construction funds are spent, thus minimizing interest expense on the entire \$200 million for the term of the loan. Drawdowns on the loan began in June 2016 and are currently expected to continue through October 2020 upon project completion. As of June 30, 2017, the balance drawn on the loan stood at \$45.1 million on an accrued, unaudited basis.

STATE GUARANTEED DEBT

The State is contingently liable for certain municipal government debt issues for water pollution control bonds, school building aid, 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 apply to either the total amount of the original guarantee or to the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, facilitating additional guarantees to be awarded as guaranteed debt is retired.
2. The statutory dollar limit may constitute a guarantee of either the total amount of principal and interest owed, or the total amount of principal only; in the latter case interest on the principal amount outstanding may also be guaranteed notwithstanding the principal guarantee limit.

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

As of June 30, 2017 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⁾	\$ 49.7 million
School Building Authority Bonds	\$ 95.0 million ⁽¹⁾⁽²⁾	\$ 65.8 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	\$115.0 million ⁽¹⁾	\$ 64.2 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.

Chapter 47, Laws of 2015, amended the enabling legislation of the Business Finance Authority (RSA 162) to increase the Authority's Unified Contingent Credit Limit from \$95 million to \$115 million. The legislation, which became effective May 21, 2015, established redevelopment districts in unincorporated places, provided for the assessment of parcels located within redevelopment districts, and authorized a state guarantee for such redevelopment bonds.

The State also bears a contingent obligation 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, the Bond Bank may request non-appropriated funds from the legislature in order to cover any shortfall. Although this exposure exists, the level of its risk is not easily quantifiable in considering the potential impact of such a default on the State's credit rating. Chapter 324, Laws of 2008, amended RSA 35-A:24 to include an intercept, or "offset", program such that in the event of 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.

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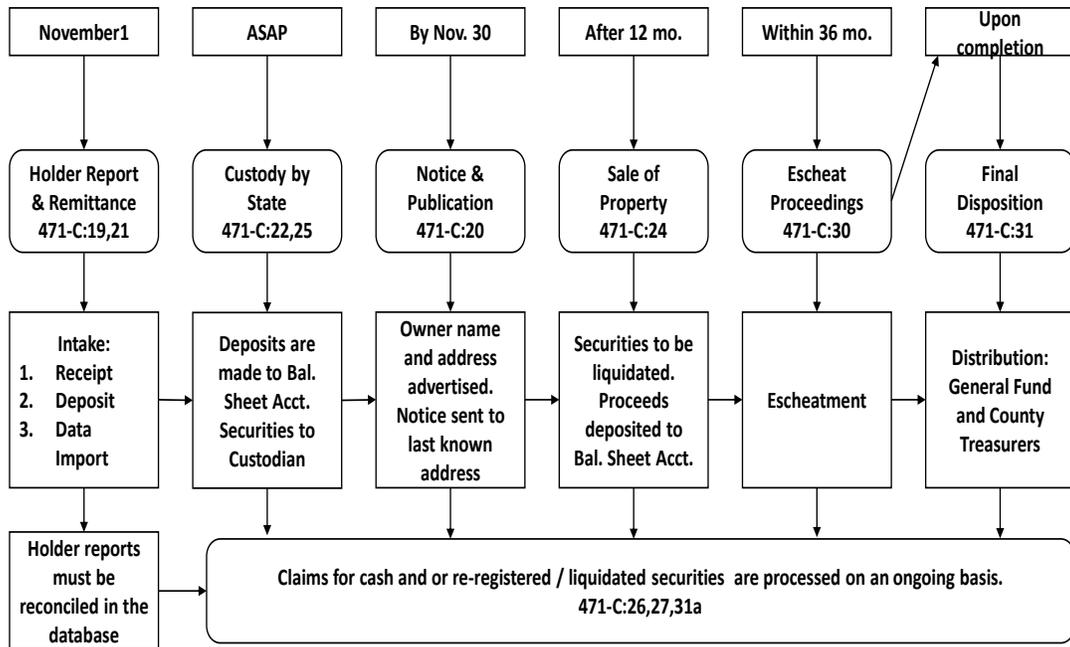
ABANDONED PROPERTY

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 institutional "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. Each October an annual advertisement listing all owner names reported to the Division in the past year, and their last known addresses, is published in two consecutive weeks in a newspaper with state-wide circulation, generally the NH Union Leader. Additionally, a mailing in the form of a postcard notification is sent to the last known address of the reported owner during August and September. 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.

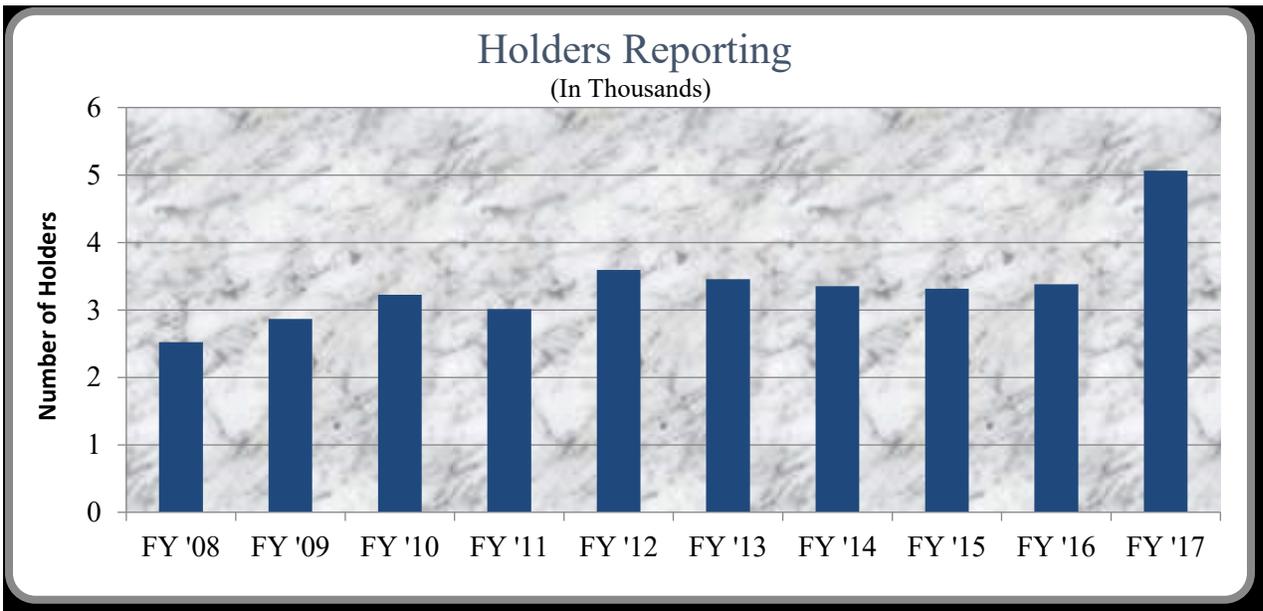
In summary, the Division's statutory obligation and annual production cycle requires receipt and deposit of unclaimed funds and shares; maintenance of a database of the properties; sending notice to, and advertisement of, the name and last known address of the reported owner; processing claims; and escheating unclaimed funds to the state's general fund. The general timeline that follows on page 8 provides an overview of the annual workflow.



Holder Reporting and Remittances

In fiscal year 2017, approximately 5,000 institutional holders of property reported and remitted cash in excess of \$15.6 million and delivered over seven 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 \$155,398,727 from holders of abandoned property, averaging approximately \$15.4 million annually.

The tables below depict since fiscal year 2008 the amount of cash reported and remitted by holders as well as the number of holders reporting and remitting unclaimed property to the Division. The large increase in the number of holders reporting in fiscal year 2017 is due to a new report import process for property received through the cooperative state reciprocal reporting process. Previously a reciprocal remit from a sister state would be counted as a single report and holder. The new process allows for the identification of the underlying holder as an entity compliant with its obligation to report property to the state of New Hampshire.

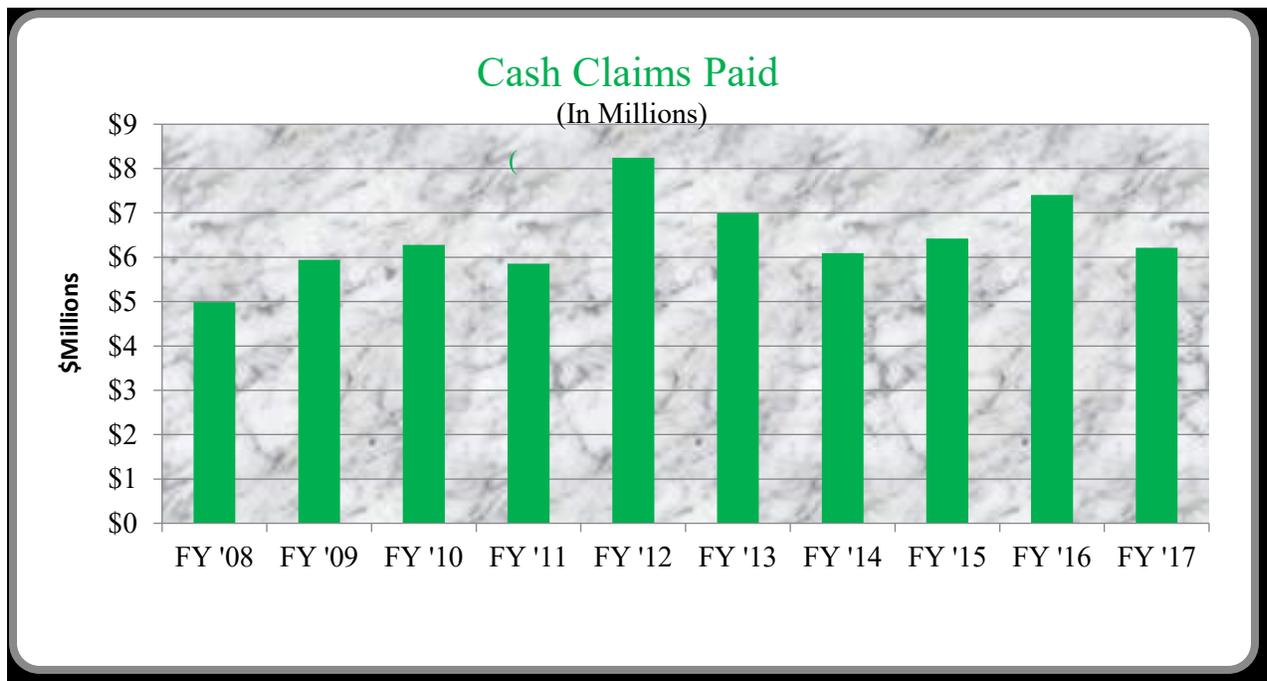


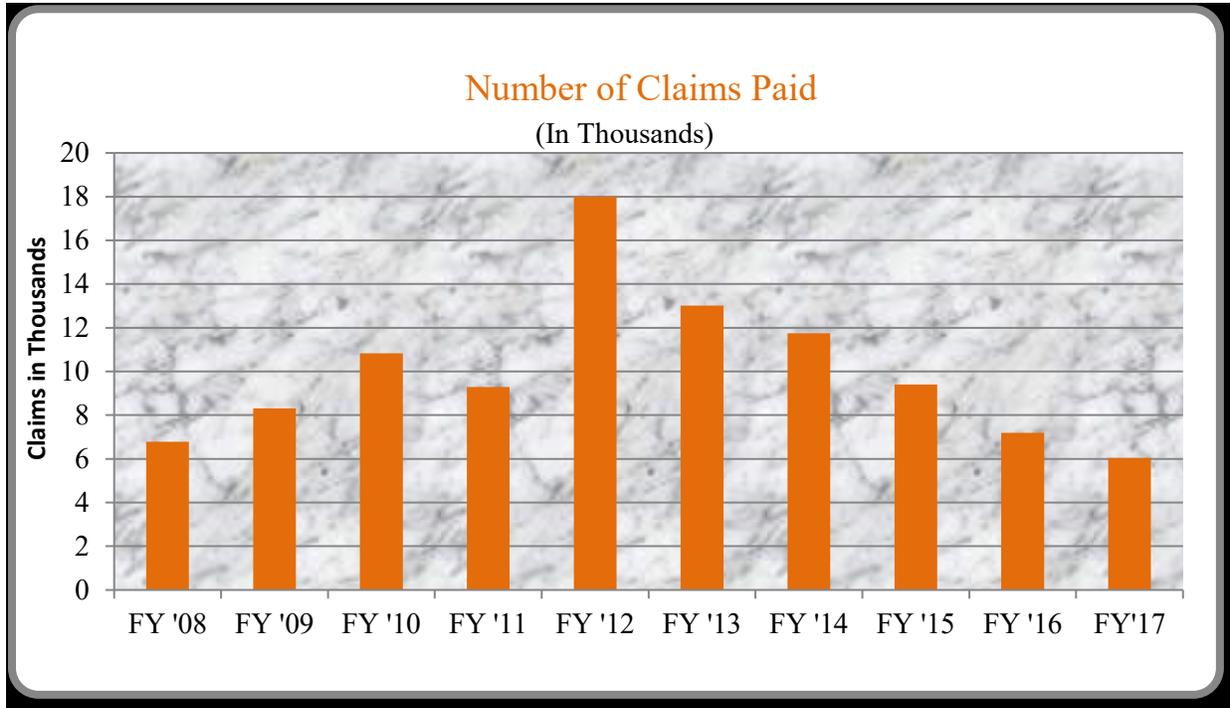
Owner Claims Processed

During fiscal year 2017, the Division returned over \$6.2 million dollars to citizens, representing 6,033 claims paid. The reduction in the number of total claims paid beginning in fiscal year 2016 is not reflective of diminished returns of unclaimed property; rather this decline is the result of the

Division’s January 2015 conversion to a highly efficient operating system which enables the payment of all properties recovered by one individual via a single claim. Prior to this conversion, a separate claim had to be processed for each asset returned. This enhancement to the claims process is only one example of how the new automated system has streamlined business operations and improved the Division’s customer response time.

The reduction in the number of claims paid continues to generate an increase in the size of the average claim paid. For comparison, in fiscal year 2015 the average claim size was \$683, while the average claim size in fiscal year 2017 rose to \$1,029. The largest individual claim in fiscal year 2017 totaled \$632,368. Over the past ten (10) fiscal years, \$64,434,958 has been returned to owners, an average of over \$6.4 million returned each year. The 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.

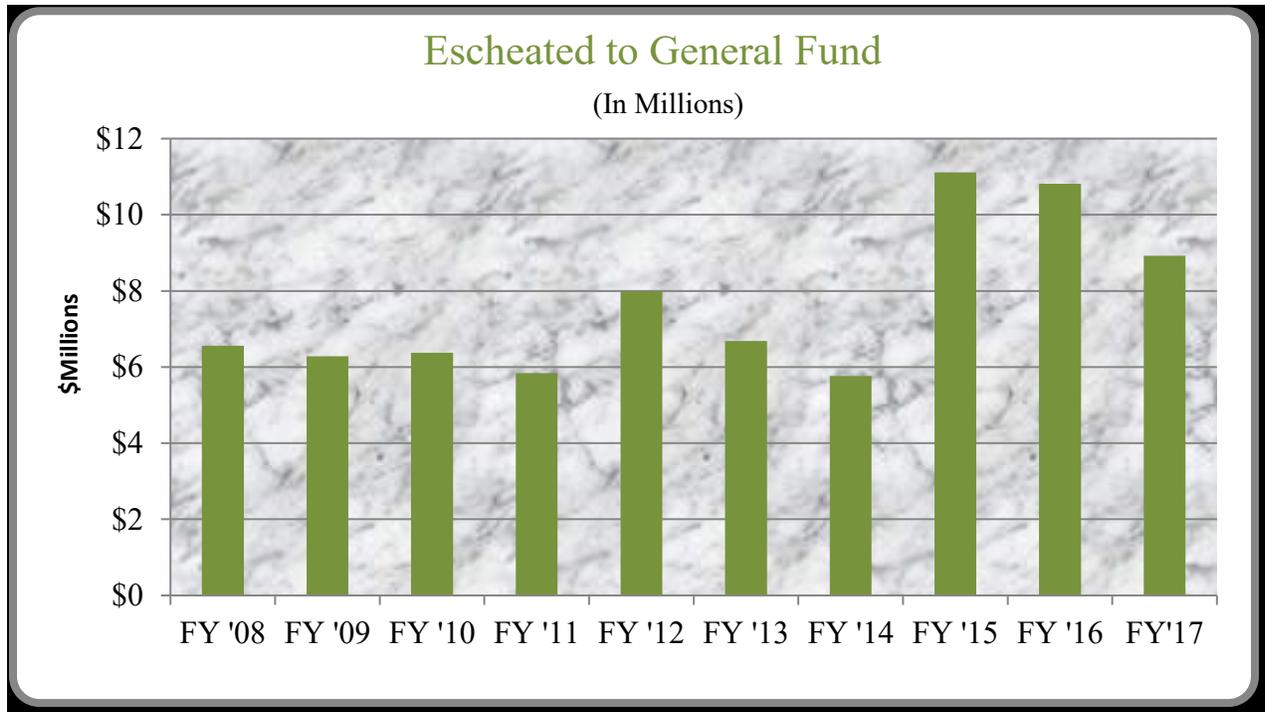




Non-Securities Escheatment (NH RSA Chapter 471-C:30-31)

On a net basis, the Division delivered nearly \$8.9 million to the General Fund during fiscal year 2017. RSA 471-C:30-31 provides for certain deductions from the gross amount available for transfer to the General Fund based on further escheatment to New Hampshire counties as well as the payment of administrative expenses of the Division. Over the past ten (10) fiscal years the net transfer to the General Fund is approximately \$76.5 million, an average net transfer of funds of \$7.65 million annually.

(The following graph excludes the impact of the liquidation of securities for fiscal years 2008 through 2016, which is summarized below the graph.)



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

State Treasury practices with respect to the 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 to the General Fund 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 net escheatment dollars. Liquidation proceeds delivered to the General Fund during fiscal years 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 were \$2.9 million, \$6.3 million, \$1.2 million, \$3.1 million, \$3.0 million, \$6.4 million, \$9.1 million, \$3.6 million and \$5.4 million respectively. In fiscal year 2017, \$3.9 million was similarly delivered.

COLLEGE SAVINGS PLANS

As the fiscal year closed, Treasury and the New Hampshire College Tuition Savings Plan Advisory Commission ("Advisory Commission") had completed 19 years of administering the UNIQUE College Investing Plan and 15 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 assets under management for the two plans totaled \$16.4 billion at the end of fiscal year 2017. The combined New Hampshire Plans ranked fourth among all state plans in the market value of assets. Plan assets were held by nearly 865,000 participants throughout the US and its territories. The average participant account balance as of the end of the

fiscal year was \$24,495 in the UNIQUE Plan and \$24,778 in the FA 529 Plan, highlighting that this is a college savings vehicle primarily used by 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. Participants in these Plans have a total of 63 investment portfolio options from which to choose, comprised of age-based target, static allocation 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. 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 ensure enhanced investment performance for Plan participants.

The New Hampshire Excellence in Higher Education Endowment Trust Fund (the “Trust Fund”) was established pursuant to RSA 6:38 and is funded through a monthly investment management assessment generated by the two plans. The purpose of the Trust Fund is to provide scholarships to financially disadvantaged New Hampshire students attending New Hampshire postsecondary education institutions, under the governance of the Advisory Commission. The Trust Fund also covers all costs associated with 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 nine other eligible and participating New Hampshire postsecondary education institutions, pursuant to Administrative Rule Csp 600. In July 2016, an initial allocation of approximately \$1 million was distributed to participating institutions, both public and private, based on individual scholarship amounts of \$700 each for full time-students (\$350 for part-time). Additional scholarship reimbursements of nearly \$1.4 million were distributed to participating institutions at the end of fiscal 2017, resulting in a total distribution of nearly \$2.4 million in UNIQUE Annual Awards for the year.
2. UNIQUE Endowment Allocation Program (“Endowment Program”), which provides monthly funding to restricted endowment funds maintained and managed by USNH, CCSNH, and eight other eligible, non-profit New Hampshire postsecondary education institutions, pursuant to Administrative Rule Csp 700. With these institutions providing scholarships from the earnings of these growing endowment funds, it is intended that future UNIQUE scholarships will be available to New Hampshire students in perpetuity. Under the Endowment Program, 80% of the monthly revenue share from Fidelity is allocated to participating institutions. As a result, over \$10.6

million in payments were distributed to participating institutions throughout fiscal year 2017.

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

Since their inception, the scholarship programs have distributed over \$110 million of scholarship funding through the end of fiscal year 2017 as follows (in thousands of dollars):

	2017 Fiscal Year	From Inception
Annual Program	\$2,421	\$24,198
Endowment Program	<u>\$10,618</u>	<u>\$86,589</u>
TOTAL	\$13,039	\$110,787

As of the end of fiscal year 2017, the Trust Fund had a market value of nearly \$2.5 million.

SEABROOK NUCLEAR DECOMMISSIONING

As of June 30, 2017, the Seabrook Decommissioning Trust Fund held market-value assets of \$697.3 million, reflecting an after-tax gain of 13.6% for the year. This outcome was primarily due to very strong equity performance during the fiscal year. The decommissioning 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 applicable 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. Trust fund proceeds may 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 68% equities, 27% fixed income, and 5% alternative investments (direct lending). In addition, \$32.8 million was held in separate escrow accounts on behalf of the owners at June 30, 2017. Escrow holdings primarily consist of cash and cash equivalents, with the State 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) and is presently Committee Chair, 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 commenced during prior fiscal years and are ongoing. As a service provider to other State agencies, these important changes could not have taken place without the full and dedicated 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 New Hampshire was one of the first states to join with Verus Financial, LLC, to undertake this review process. As this initiative evolved, most other states also joined. These efforts continued in fiscal year 2017.

Through the close of fiscal year 2017, the state of New Hampshire has received a total of more than \$17.7 million in life insurance benefit proceeds, with \$1.2 million received in fiscal year 2017. Through increased reunification efforts, Treasury strives to ensure that this property will be returned to the New Hampshire citizens who were the intended recipients of these policy benefits.

The Division began the transition to a significant staff reorganization in fiscal year 2017. Although staffing levels have remained constant, a reemphasis on owner outreach and holder education efforts was launched. The Division appointed both a Claims/Owner Reunification Coordinator and a Director of Reporting and Compliance. These two experienced professionals will lead the mission to reunite even more New Hampshire citizens with their unclaimed or abandoned property in the upcoming years.

Moving forward to fiscal year 2018, and leveraging the enhancements of the new operating system transitioned to in 2015, the Division will begin to implement both direct electronic holder reporting and online electronic claims initiation and processing initiatives.

Analysis of Banking Balances, Products, and Processes

Treasury analyzes its relationships with banking vendors and the impact they have on statewide cash operations. This analysis is conducted in several ways and accounts for the deployment of balances held, institutional banking products utilized, and processes followed.

On a daily basis, Treasury performs an analysis of General Fund balances held. The result of this analysis is the administration of balances held in a manner that complies with Treasury's ["Cash and Investment Guidelines for Operating Funds"](#). While ensuring safety and liquidity, balances

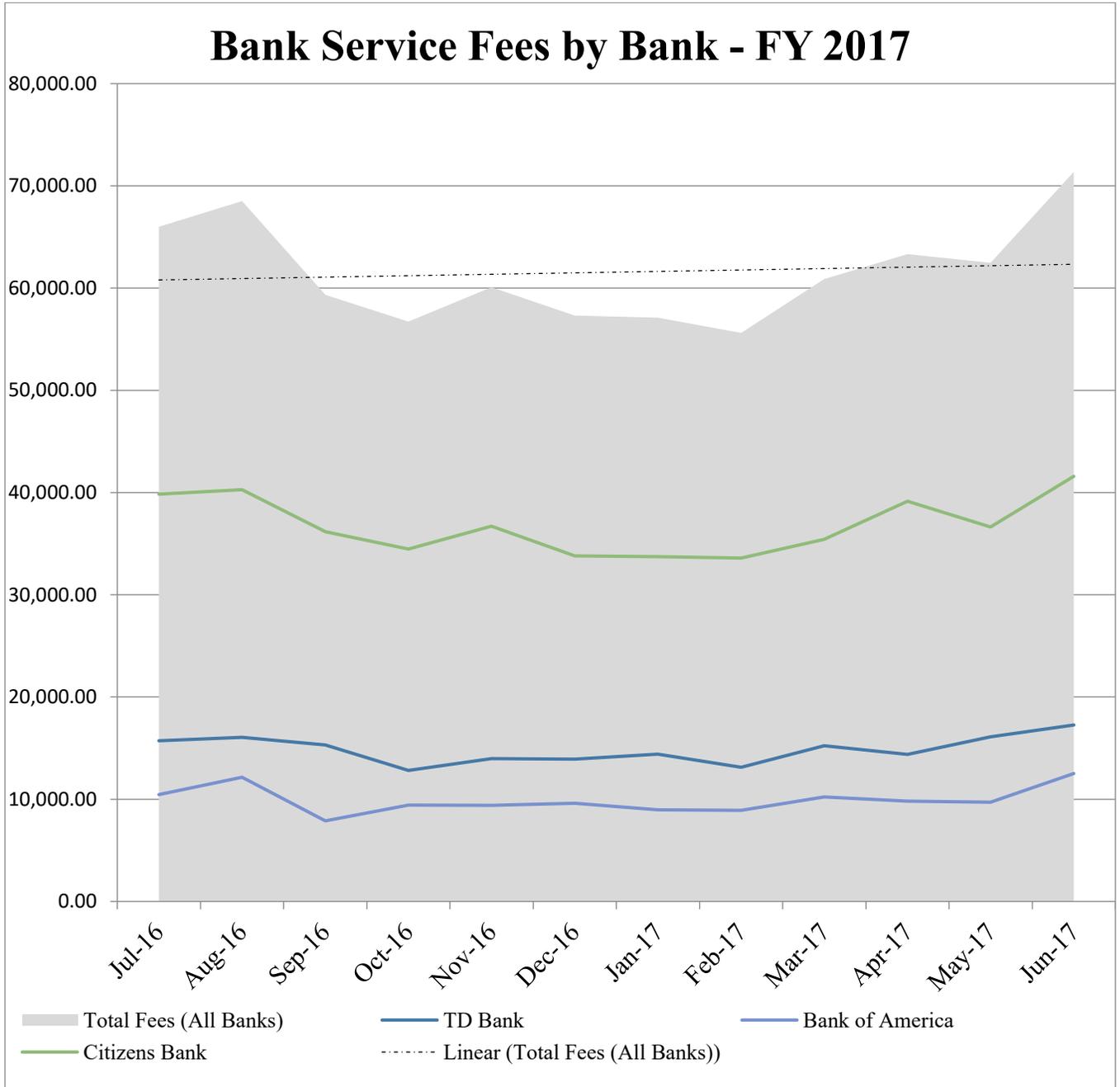
are strategically maintained to optimize the rate of return. These efforts resulted in net General Fund interest income totaling \$1.8 million in fiscal year 2017. This amount is net of the cost of institutional financial services provided by banking vendors. Achieving this outcome results from not only optimizing returns, but also systematically analyzing services and the associated fees incurred for the banking services utilized by Treasury.

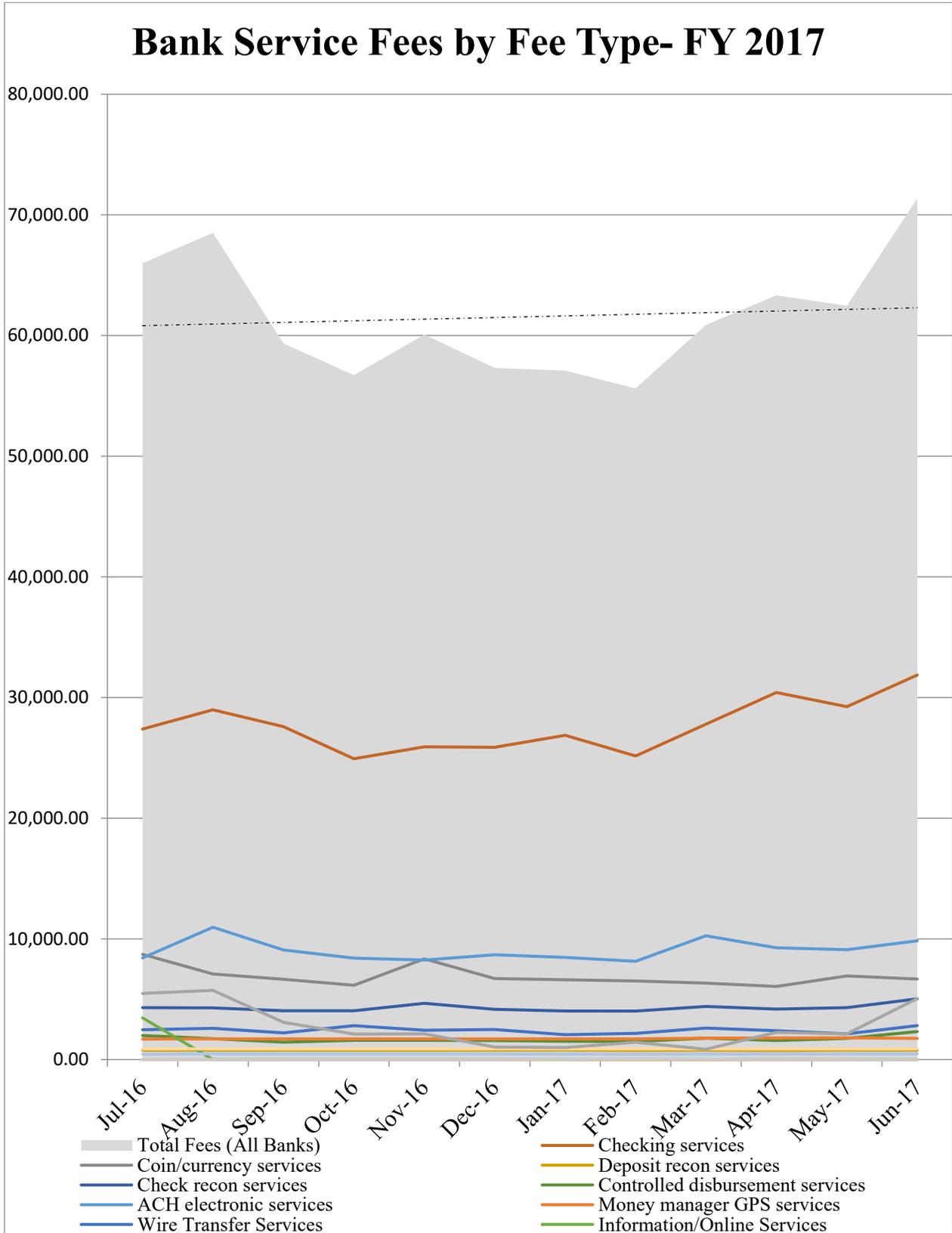
On a monthly basis, Treasury rigorously analyzes bank service statements to identify overall price and volume changes. This effort has successfully identified opportunities to improve efficiency or the presence of any inconsistencies in pricing. Opportunities to improve efficiency are often discussed during regularly scheduled meetings between Treasury and its banking vendors. Inconsistencies in pricing or volume are brought to the attention of each bank's client relationship manager as they are identified.

The analysis of bank products utilized by individual agencies or State enterprises is performed on a rolling basis and results from either Treasury's outreach to agencies or in response to an agency's request. This analysis consistently integrates the specific bank, accounts, products, and processes utilized by the agency or entity in conjunction with the overall banking relationship the Treasury maintains with that financial institution.

Treasury collaborates with its banking vendors to not only enhance operational efficiencies generated by the use of banking products, but also to ensure specific business continuity processes that will enable secure and efficient banking operations in the event of a disruption in normal service delivery.

In conclusion, the consistent and thorough analysis of balances, products, and processes was not only sustained in fiscal year 2017, but is also an ongoing initiative that spans fiscal years. These continued efforts will therefore be reported each fiscal year, as banking products and processes continue to evolve along with the needs of the State and its agencies.





LEAN Initiative

Collectively, Treasury demonstrates a LEAN culture, practices continuous process improvement, and strives to strengthen internal controls. Through Treasury's membership in the "State LEAN Network Executive Committee", support of statewide process improvement efforts continued throughout fiscal year 2017.

Contracting

At the June 7, 2017 meeting of the Executive Council ([item #60](#)), Treasury received approval to enter into a new 5-year contract with Public Resources Advisory Group, which has served as New Hampshire's financial advisor since the 1980's. This procurement was competitively bid, with three firms submitting proposals to provide these services. The contract is effective July 1, 2017 and includes one 2-year option in 2022 at the discretion of the State Treasury subject to Executive Council approval.

In fiscal year 2018, Treasury anticipates entering into a new contract for bond paying agent, trustee, and arbitrage rebate compliance services and collaborating with the NH College Tuition Savings Plan Advisory Commission regarding the December 31, 2018 expiration of the current college savings program administration contract with Fidelity.

Legislative Activity

Treasury continued to work with legislators seeking to introduce new legislation or amend existing statutes. During the 2017 legislative session, Treasury worked with several legislative committees and study committees by providing research and testimony, including information pertaining to the 2018-19 biennial budget, and also submitted fiscal notes in response to numerous legislative service requests on a variety of policy issues.

Treasury Policy Development & Compliance

To enhance professionalism, strengthen personal ethics, and promote 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 and ongoing Fraud Risk Assessment is routinely administered, which includes monitoring Treasury's role in the overall internal control environment and processes of the State and 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. The comprehensive Fraud Risk Assessment was enhanced in fiscal year 2017 with the implementation of an improved risk assessment matrix and such efforts will continue in fiscal year 2018 in order to strengthen safeguards over State cash and investments, as well as all other aspects of Treasury operations.

Remediation of Observations from 2014 LBA Financial Audit

On June 16, 2014 Governor Hassan issued Executive Order 2014-03, which in effect requires State agencies to report on their progress in responding to audits of the Legislative Budget Assistant on a semi-annual basis. In an LBA financial audit dated March 11, 2014, thirteen observations were identified and reported to the Legislative Fiscal Committee. On August 12, 2014 (within 60 days of the Executive Order, as required) Treasury filed its initial remediation plan and has since filed updated status reports regarding its remediation efforts semiannually, as summarized in the table below. These reports, including the original LBA audit report, can be accessed on the Transparent NH website at <http://www.nh.gov/transparentnh/audit/index.htm>, listed under “Department of Treasury”, or on the Treasury website at <http://www.nh.gov/treasury/forms-publications/index.htm#audit>. A summary of Treasury’s progress in resolving audit observations follows:

Observations	1	2	3	4	5	6	7	8	9	10	11	12	13
03-21-15	P	P	R	R	P	R	U	U	R	U	R	R	U
09-21-15	P	P	R	R	S	R	P	U	R	P	R	R	P
03-21-16	S	S	R	R	S	R	P	U	R	S	R	R	S
09-21-16	R	R	R	R	S	R	P	U	R	S	R	R	R
03-21-17	R	R	R	R	S	R	P	U	R	S	R	R	R
09-21-17	R	R	R	R	S	R	P	U	R	S	R	R	R

R – Resolved S – Substantially Resolved P – Partially Resolved U – Unresolved

Treasury remains committed to fully resolving all audit findings and includes in its updated status reports an estimated target date for the final remediation of all findings not yet fully resolved.

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TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1)					
FISCAL YEAR 2017					
	July 1, 2016	Dividends	Net	Net	June 30, 2017
	Beginning	&	Transactions	Change	Ending
	Market	Interest	During	in Market	Market
Fund Name	Value	Earned	Year	Value	Value
Department of Education					
- Harriet Huntress	49,909	833	1,015	3,512	55,268
- Hattie Livesey	25,488	411	544	1,929	28,372
- John Nesmith	446,508	7,329	6,086	31,383	491,305
- Special Teachers Competence	199,862	4,030	(1,523)	9,555	211,924
Department of Environmental Services					
- Connecticut-Coos	2,138,936	10,460	342	0	2,149,739
- Mascoma	42,968	210	7	0	43,185
- Newfound	80,796	395	13	0	81,204
- Piscataquog	18,020	71	(5,497)	0	12,593
- Squam Lake	89,584	438	14	0	90,037
- Sugar River	12,652	62	2	0	12,716
- Winnepesaukee	19,738	97	3	0	19,838
- State of New Hampshire Drinking Water and Groundw	276,457,245	1,162,018	0	0	277,619,263
Department of Fish & Game					
- Lifetime License Fund	1,608,642	8,112	67,185	0	1,683,940
Health & Human Services					
- Laconia State School	155,118	759	25	0	155,902
- Matthew Elliott Memorial Trust Fund	4,697	23	1	0	4,721
- New Hampshire Hospital	7,124,036	161,896	54,197	114,724	7,454,853
- NH DHHS DCYF As Guardian for 01	1,538	8	0	0	1,546
- NH DHHS DCYF As Guardian for 02	32,119	157	5	0	32,281
- NHSLRP/JUA Escrow Account	1,604,737	6,631	(254,574)	0	1,356,795
- Youth Development Center	34,769	170	(79)	0	34,860
Department of Labor					
- Crown Paper Workers Compensation	15,267	2	0	0	15,269
- Special Fund for Active Cases	25,456	0	(206)	0	25,249
- Special Fund For Second Injuries	1,850,158	16,606	(576,149)	0	1,290,615
Dept of Resources and Economic Development					
- Caroline A. Fox Fund	167,484	968	56,645	0	225,098
- Tip-Top House Fund	24,296	104	(3,863)	0	20,537
Department of Safety					
- Financial Responsibility	160,571	822	4,794	0	166,187
- Road Toll Bonds	85,142	416	14	0	85,572
New Hampshire Veterans' Home					
- Benefit Fund	632,146	11,683	(93,580)	1,878	552,128
- Guy Thompson Account	15,036	74	2	0	15,112
- Members' Administrative Account	538,416	2,512	46	0	540,974

TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1 CONT.)					
FISCAL YEAR 2017					
	July 1, 2016	Dividends	Net	Net	June 30, 2017
	Beginning	&	Transactions	Change	Ending
Fund Name	Market	Interest	During	in Market	Market
	Value	Earned	Year	Value	Value
<u>NH Higher Education</u>					
-NH Higher Ed- Concord Hospital Surgical Technology Pr	10,004	49	(3)	0	10,051
-NH Higher Ed- John Mason Institute	12,036	59	(34)	0	12,061
-NH Higher Ed- Stonemakers Corporation	100,296	489	(280)	0	100,505
<u>Office of Energy and Planning</u>					
- Land Conservation Monitoring Endowment	3,409,343	61,668	16,671	186,314	3,673,995
<u>Public Utilities Commission</u>					
-Electric Assistance Program	918,058	150	661,601	0	1,579,809
<u>Racing & Gaming</u>					
-NH Lottery Commission Licensee Escrow	325,672	1,195	(301,741)	0	25,126
-State of NH Racing - Casablanca	25,052	122	(48)	0	25,126
<u>Treasury Department</u>					
- Japanese Charitable Fund	112,588	2,358	2,063	9,076	126,086
- College Savings Plan Trust	2,466,858	53,905	(17,576)	(24,685)	2,478,502
- Foreign Escheated Estates	0	0	0	0	0
<u>University of New Hampshire</u>					
- Benjamin Thompson Trust	1,985,428	33,737	(53,119)	231,081	2,197,128
<u>Other</u>					
- Community Conservation Endowment	3,184,298	56,319	346,868	281,032	3,868,518
- Conn Lakes Headwaters Natural Areas Stewardship	1,717,425	29,150	67,780	135,028	1,949,382
- Conn Lakes Headwaters Tract Monitoring Endowment	1,693,849	28,803	38,635	153,059	1,914,346
- Conn Lakes Headwaters Tract Road Maintenance	1,704,326	29,206	51,083	156,078	1,940,693
Total Trust & Escrow Accounts	\$311,326,568	\$1,694,505	\$67,371	\$1,289,965	314,378,408
- Unclaimed and Abandoned Property ⁽¹⁾	18,267,431	816,055	1,011,622	(816,053)	19,279,054
(1) This includes only the securities held by Conduent State and Local Solutions. Columns may not add due to rounding.					