

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**



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To The Fiscal Committee Of The General Court:

We have audited the financial statements of the New Hampshire State Treasury as of and for the fiscal year ended June 30, 2023 and have issued our report thereon dated September 3, 2024.

This financial audit report presents information related to our audit in two sections; a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the New Hampshire State Treasury for the fiscal year ended June 30, 2023 and contains our Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*, and related audit findings. The current status of prior audit findings, beginning on page 9, provides a summary of the status of observations presented in the New Hampshire State Treasury Financial Audit Report for the fiscal year ended June 30, 2013.

The financial section of this report, with the exception of the independent auditor's report on the New Hampshire State Treasury's financial statements, was prepared by the management of the New Hampshire State Treasury, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the independent auditor's report, the financial section of the report includes the financial statements and notes to the financial statements.

This report can be accessed in its entirety on-line at:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

Office of Legislative Budget Assistant

Office of Legislative Budget Assistant

September 3, 2024

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**STATE OF NEW HAMPSHIRE
STATE TREASURY
FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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ABBREVIATIONS USED

ACFR	Annual Comprehensive Financial Report
DAS	Department of Administrative Services
NH FIRST	New Hampshire State Government Accounting and Financial Reporting System
Treasury	New Hampshire State Treasury
TSA	Federal Treasury-State Agreement



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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Hampshire State Treasury which comprise the Statement of Revenues and Expenditures – General Fund, Education Trust Fund, and Capital Projects Fund; Balance Sheet – Non-Major Governmental Funds; Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds; Statement of Fiduciary Net Position; and Statement of Changes in Fiduciary Net Position as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the New Hampshire State Treasury's financial statements, and have issued our report thereon dated September 3, 2024. Our report on the financial statements was modified as the Statement of Revenues and Expenditures – General Fund, Education Trust Fund, and Capital Projects Fund does not purport to and does not constitute a complete financial presentation of the New Hampshire State Treasury in the General Fund, Education Trust Fund, and Capital Projects Fund in conformity with accounting principles generally accepted in the United States of America.

Report On Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the New Hampshire State Treasury's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the New Hampshire State Treasury's internal control. Accordingly, we do not express an opinion on the effectiveness of the New Hampshire State Treasury's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Observations No. 1 through No. 3, that we consider to be significant deficiencies.

Report On Compliance And Other Matters

As part of obtaining reasonable assurance about whether the New Hampshire State Treasury's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

New Hampshire State Treasury's Responses To Findings

Government Auditing Standards require the auditor to perform limited procedures on the New Hampshire State Treasury's responses to findings identified in our audit and described in the accompanying observations. The New Hampshire State Treasury's responses to the findings identified in our audit are included with each reported finding. The New Hampshire State Treasury's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the New Hampshire State Treasury's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Hampshire State Treasury's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Office of Legislative Budget Assistant

September 3, 2024

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

RECOMMENDATION SUMMARY

Observation Number	Page	Legislative Action May Be Required	Recommendations	Agency Response
1	4	No	Continue to improve record keeping for dedicated accounts and prioritize migrating the accounts to the NH FIRST state accounting system.	Concur
2	5	No	Work with the vendor to ensure that the new debt management system will be supported, is continuously updated, and meets current security requirements. Reporting should be automated and allow for revisions to debt payment schedules over the life of a bond.	Concur
3	6	No	Document responsibilities of key employees that are critical to Treasury operations, including the role of Chief Deputy Treasurer and other key positions. The documentation of job responsibilities should be sufficiently detailed to provide for reasonable continuity of operations in the event of unplanned employee turnover. The established policies and procedures should be formally reviewed and approved by the appropriate level of management, made available to all necessary staff, and periodically reviewed for necessary revision.	Concur

INTERNAL CONTROL COMMENTS
SIGNIFICANT DEFICIENCIES

Observation No. 1

Internal Controls Over Dedicated Accounts Should Be Improved

The New Hampshire State Treasury (Treasury) accounts for the financial activity of many Non-Major Governmental and Fiduciary Funds, also known as dedicated accounts, outside of the NH FIRST state accounting system on Excel spreadsheets. Accounting for this activity on Excel spreadsheets increases both the risk of human error and susceptibility to fraud. Spreadsheets do not allow for the more robust controls embedded into general ledger accounting systems.

As of June 30, 2023, the total balance of the 29 dedicated accounts maintained by Treasury was \$61 million, which was primarily accounted for outside of NH FIRST. Treasury utilizes NH FIRST as a mechanism to make disbursements from two of the accounts, which allows for improved control over the administration of the accounts, including enhanced review and approval controls, and helps ensure an adequate segregation of duties.

As part of its risk assessment, Treasury identified risks related to the accounting for dedicated accounts outside of NH FIRST, and reported that migrating the accounting for these accounts to NH FIRST is a priority.

A similar comment was noted in our 2013 financial audit of the State Treasury.

Recommendation:

Treasury should continue to improve record keeping for its dedicated accounts. Treasury should prioritize migrating the accounts to the NH FIRST state accounting system.

Auditee Response:

We concur. Accounting for trust, custodial, and other non-state funds (“off-book accounts”) in the State’s accounting system, NH FIRST, has been Treasury’s goal since the last financial audit report issued in 2014. Treasury began conversations with the Comptroller’s office soon after to develop a plan to fully migrate those off-book accounts to NH FIRST. However, the project was impacted by the issuance of an accounting standard in January 2017 and implementation of this standard was further delayed due to COVID-19 until 2021. GASB No. 84, Fiduciary Activities, redefined the criteria regarding identification of fiduciary funds for accounting and financial reporting purposes and, as a result, Treasury had to shift its resources and collaborated with the Comptroller’s office in determining the proper classification and reporting of these accounts.

Discussions to integrate the off-book accounts into NH FIRST have resumed. There are plans to utilize the new “Custodial Account Management” functionality within Infor CloudSuite to account for all the trust, custodial, and non-state funds. Treasury will continue to pursue this effort and

anticipates completing this work in conjunction with the Infor CloudSuite conversion in fiscal year 2026.

Observation No. 2

Debt Management System Should Be Maintained And Supported

The Debt Management System used by Treasury during fiscal year 2023 to track bond issuances and payments has limited functionality, is outdated, and has not been supported by the vendor in over two years.

Treasury uses its Debt Management System to create debt service schedules for State agencies, track when debt service payments are due, and provide year-end reporting for the State's Annual Comprehensive Financial Report (ACFR).

The system is accessed through one of four thumb drives. Because the system is no longer vendor-supported, if the thumb drives were to become lost or damaged, Treasury could become locked out of the system and potentially lose access to data. While Treasury reports that it would be able to recreate the debt schedules via Excel spreadsheets, this would most likely require significant time from senior personnel increasing risks associated with using manual spreadsheets, including the risk of human error.

The current Debt Management System is limited in functionality as it is unable to produce updated debt service schedules over the life of a bond, and limits Treasury's ability to manage outstanding bond obligations properly and efficiently. These system limitations required the use of spreadsheets to make updates to schedules which were not communicated and resulted in recurring overpayments by one State agency due to continued use of an outdated debt service schedule. The cumulative overpayments amounted to approximately \$500,000 during FY 2023. Treasury reported it was aware of the overpayments and plans to apply the overpayments as a credit to the agency. A new Debt Management System could help to prevent inaccurate payments, facilitate better communication of updated debt service schedules, and help streamline Treasury's processes.

In May of 2024, Treasury entered into a contract with a new vendor to provide cloud-based debt, lease, and subscription management software to replace the outdated system.

Recommendation:

Treasury should work with the vendor to ensure that the new Debt Management System will be supported, is continuously updated, and meets current security requirements. Reporting should be automated and allow for revisions to debt payment schedules over the life of a bond.

Auditee Response:

We concur. On May 1, 2024, the Governor and Executive Council approved a five-year contract for the use and support of a cloud-based, software as a service, debt management solution to assist the Treasury in the management of the State's outstanding debt.

Prior to this procurement, the Treasury faced several challenges. First, the legacy system was developed by a vendor that lacked continuity controls. Then, there was difficulty in finding a software that met Treasury's requirements. Fortunately, the new debt management solution, DebtBook, is a hosted application with comprehensive reporting and compliance functionality, developed exclusively for the public sector. Additionally, the significant investment in staffing and technology by this new partner, including robust ongoing training and support, will likely serve the Treasury well into the future.

Treasury anticipates that the implementation of this debt management software solution will not only eliminate the risks associated with having a vulnerable system but will enable the management of post debt issuance responsibilities, including compliance and reporting of bonds outstanding, in a more efficient manner.

Observation No. 3

Policies And Procedures Should Be Established

Treasury has not sufficiently documented the responsibilities of employees who hold key positions, including those of the Chief Deputy Treasurer. This lack of documentation could disrupt operations in the event of unexpected employee turnover or extended leave.

The Chief Deputy Treasurer's responsibilities include investment activities, managing various Non-Major Governmental and Fiduciary Funds (dedicated accounts), and debt management. Some functions are documented in statute, but many intricacies of the position rely on the employee's institutional knowledge resulting from years of experience in the position. The experience and understanding of Treasury's operations makes the Chief Deputy Treasurer critical to Treasury's continuity of operations. RSA 6:21, II states "...during the absence or disability of the treasurer, the chief deputy shall perform all duties of the office of treasurer." Treasury has no formal policies and procedures or other supporting descriptions related to several critical functions, including but not limited to:

- the issuance of bonds, including bond counsel and the process of working with external parties throughout the bond sale, generation and communication of payment schedules to agencies, and communication of revisions to payment schedules;
- accounting for dedicated accounts; and
- the process for year-end reporting of cash and debt for the State's Annual Comprehensive Financial Report schedules.

Maintaining current and detailed policies and procedures promotes continuity of operations and includes the documentation of key employee responsibilities to minimize business interruptions in the event of an unforeseen occurrence.

Recommendation:

Treasury should formally document responsibilities of key employees that are critical to Treasury operations, including the role of Chief Deputy Treasurer and other key positions. The documentation of job responsibilities should be sufficiently detailed to provide for reasonable continuity of operations in the event of unplanned employee turnover. The established policies and procedures should be formally reviewed and approved by the appropriate level of management, made available to all necessary staff, and periodically reviewed for necessary revision.

Auditee Response:

We concur. Treasury will formally document responsibilities of key employees, critical to Treasury operations.

Treasury had previously identified the risks associated with relying on certain employees and has taken some steps to address some of the risks:

- Beginning in fiscal year 2024, organizational changes were made to assign certain day-to-day responsibilities of the Chief Deputy Treasurer, such as the direct supervision of two employees, to the Assistant Treasurer. This change has re-balanced some of the work and has enabled the opportunity for cross-training.*
- Treasury has hired third-party consultants to support the cash and investment management functions of which, previously, were functions that relied heavily on the Chief Deputy Treasurer.*
- Treasury information technology is now supported by the Department of Information Technology and Treasury is no longer relying on one information technology employee to support its operations.*

Treasury will continue to be mindful of this risk and will document responsibilities as recommended by the auditors. While this effort will be ongoing, we anticipate having this observation resolved by December 2024.

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CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of September 3, 2024, of the observations contained in the financial audit of the New Hampshire State Treasury for the fiscal year ended June 30, 2013. This report can be accessed at the Office of Legislative Budget Assistant website: www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx

	<u>Status</u>	
<i>Internal Control Comments</i>		
<i>Significant Deficiencies</i>		
<p>1. Improve Compliance With Federal Treasury-State Agreement <i>Work with the Department of Administrative Services (DAS) and other State agencies to provide a comprehensive and coordinated effort to reasonably bring State agencies into compliance with the Federal Treasury-State Agreement (TSA). As part of that effort, the Treasury should understand specific agency needs so that revisions can be incorporated in the annual TSA updates that respond to those needs. Ensure agencies are aware of relevant TSA provisions and are provided with the information necessary for compliance. Work with DAS to revise the State accounting system’s cash management routine, to align it with controlling provisions of the TSA.</i></p>	●	●
<p>2. Review And Improve Controls Over Information Technology Systems <i>Continue to review and improve controls over IT systems including monitoring and limiting employee access, monitoring the status of banking templates to ensure they remain accurate and current, resolve security concerns with IT system partners, and strengthen IT system backup and recovery controls.</i></p>	●	●
<p>3. Ensure Policies And Procedures For Posting Inter-Agency Transactions Are Appropriate For Treasury’s Purpose <i>Review the circumstances that allowed the error in debt service postings to go undetected and uncorrected. Strengthen internal controls accordingly and ensure that significant accounting postings are subject to an appropriate review and approval control.</i></p>	●	●
<p>4. Maintain Accurate Information On All State-Guaranteed Debt <i>Implement policies and procedures for maintaining accurate information on all debt the State guarantees, or for which it is contingently liable.</i></p>	●	●
<p>5. Finalize Capital Projects Lists Timely <i>Finalize capital projects lists timely to ensure that the allocation of bond proceeds, liabilities, and debt service is based on accurate information and is appropriately documented.</i></p>	●	●

	<u>Status</u>
<p>6. Notify Financial Institutions Timely Of Changes In Individuals Authorized To Initiate Transactions <i>Improve controls to ensure Treasury notifies financial institutions of changes in individuals authorized to initiate transactions affecting Treasury accounts in a timely manner.</i></p>	● ●
<p>7. Improve Segregation Of Duties For Trust And Agency Funds <i>Continue to improve the segregation of duties over trust and agency funds financial activity.</i></p>	● ●
<p>8. Improve Record-Keeping For Trust And Agency Accounts <i>Consider further steps to improve record-keeping for trust and agency accounts. Revisit whether the NH FIRST accounting system could be used to account for the activity in more or all of the accounts, and also provide an improved control framework. (See current Observation No. 1)</i></p>	○ ○
<p>9. Maintain Listing Of Authorized Initiators Of Trust And Agency Account Transactions <i>Request administrators of trust and agency accounts provide names of individuals authorized to initiate account transactions. Treasury should maintain and use that information to ensure that it only initiates transactions upon the request of authorized representatives of the account administrators.</i></p>	● ●
<p>10. Determine The Ownership And Disposition Of Account Balances <i>Coordinate with the trustees of the Department of Safety – Financial Responsibility Fund, Department of Labor – Crown Paper Workers Compensation Fund, and Laconia State School Trust Funds, and legal counsel, to determine the ownership and disposition of these balances.</i></p>	● ●
<p>11. Review Trust And Agency Financial Information In State ACFR For Proper Presentation <i>Establish policies and procedures for reviewing the trust and agency financial information included in the State’s ACFR to ensure the information for the accounts in Treasury’s custody is properly identified and reported.</i></p>	● ●

State Compliance Comments

<p>12. File Report Of Information Required By Statute <i>File reports of information required by RSA 6-B:2, VII and RSA 11:5-b, II. Consider whether filing a copy of the Treasurer’s Annual Report, which contains a schedule of Trust and Escrow [agency] Accounts Held by the State Treasurer would meet the requirements of RSA 11:5-b, II.</i></p>	● ●
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- Status**
13. **Create And Operate Accounts As Established And Described By Statute** ● ●
Create and operate accounts as established and described by statute. If Treasury determines the State would be better served if the accounts are not operated as intended by the statutes, Treasury should seek to have the statutes appropriately amended.

<u>Status Key</u>	<u>Status</u>		<u>Count</u>
Resolved	●	●	12
Remediation In Process (Action beyond meeting and discussion)	●	○	0
Unresolved	○	○	1

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**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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FINANCIAL SECTION



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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Audit of the Financial Statements

Qualified Opinions

We have audited the financial statements of the New Hampshire State Treasury, which comprise the Statement of Revenues and Expenditures – General Fund, Education Trust Fund, and Capital Projects Fund, Balance Sheet – Non-Major Governmental Funds, Statement of Revenues and Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds, Statement of Fiduciary Net Position, and Statement of Changes in Fiduciary Net Position as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the New Hampshire State Treasury’s basic financial statements.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinions on the General Fund, Education Trust Fund, and Capital Projects Fund section of the auditor’s report, the accompany financial statements referred to above present fairly, in all material respects, the respective revenues and expenditures of the New Hampshire State Treasury’s portion of the State of New Hampshire’s General Fund, Education Trust Fund, and Capital Projects Fund, for the fiscal year ended June 30, 2023, and the respective financial position and change in financial position of the Non-Major Governmental Funds and Fiduciary Funds as of and for the fiscal year ended June 30, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinions on the General Fund, Capital Projects Fund, and Education Trust Fund

The Statement of Revenues and Expenditures – General Fund, Education Trust Fund, and Capital Projects Fund referred to above does not purport to, and does not, constitute a complete financial statement presentation of the New Hampshire State Treasury in the General Fund, Education Trust Fund, and Capital Projects Fund in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the New Hampshire State Treasury and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinions.

Emphasis of Matter – Reporting Entity

As discussed in Note 1, the Statement of Revenues and Expenditures – General Fund, Education Trust Fund, and Capital Projects Fund referred to above reports certain financial activity of the New Hampshire State Treasury. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire in the General Fund, Education Trust Fund, and Capital Projects Fund for the fiscal year ended June 30, 2023, in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information and the budget to actual schedules for the General Fund and Education Trust Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the New Hampshire State Treasury's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Hampshire State Treasury's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the New Hampshire State Treasury's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2024 on our consideration of the New Hampshire State Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the New Hampshire State

Treasury's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Hampshire State Treasury's internal control over financial reporting and compliance.

Office of Legislative Budget Assistant

Office of Legislative Budget Assistant

September 3, 2024

**State of New Hampshire State Treasury
Statement of Revenues and Expenditures – General Fund, Education Trust Fund, and Capital Projects Fund
For the Fiscal Year Ended June 30, 2023**

	General Fund	Education Trust Fund	Capital Projects Fund
Revenues			
Unrestricted			
Interest	\$ 58,729,185	\$ 2,038,885	\$ -0-
Escheatment Revenue	16,624,067	-0-	-0-
Other Revenue	27,635	-0-	-0-
Total Unrestricted	75,380,887	2,038,885	-0-
Restricted			
Meals and Rooms Municipal Revenue	121,024,935	-0-	-0-
School Building Aid Debt Repayment	7,028,512	-0-	-0-
NH Housing Finance Authority	5,000,000	-0-	-0-
Abandoned Property Operations	1,713,813	-0-	-0-
Bonds Interest Subsidy	1,131,716	-0-	-0-
Land Conservation Grants (LCHIP)	3,390,057	-0-	-0-
Debt Repayment Other Agencies	3,349,669	-0-	-0-
Community College Debt Repayment	1,712,459	-0-	-0-
Governor's Scholarship Fund	398,078	-0-	-0-
Interagency Transfers	128,628	-0-	-0-
Federal Funds	3,444	-0-	-0-
Total Restricted	144,881,311	-0-	-0-
Total Revenues	220,262,198	2,038,885	-0-
Expenditures			
Meals and Rooms Tax Distribution	121,024,935	-0-	-0-
Municipal Aid	26,979,699	-0-	-0-
Debt Service	83,575,766	-0-	-0-
Land Conservation Grants (LCHIP)	8,908,007	-0-	-0-
NH Housing Finance Authority	8,000,000	-0-	-0-
Escheated Property	2,951,855	-0-	-0-
Governor's Scholarship Fund	2,372,159	-0-	-0-
Abandoned Property Operations	1,688,250	-0-	-0-
Treasury Operations	1,368,594	-0-	-0-
Other Grants	1,400,000	-0-	-0-
Cost of Issuing Bonds	-0-	-0-	374,568
Total Expenditures	258,269,265	-0-	374,568
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(38,007,067)	2,038,885	(374,568)
Other Financing Sources (Uses)			
Transfers from Other State Agencies	64,781	-0-	-0-
Premium on Bonds	-0-	-0-	374,568
Net Appropriations (Note 3)	113,387,954	-0-	-0-
Total Other Financing Sources (Uses)	113,452,735	-0-	374,568
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	\$ 75,445,668	\$ 2,038,885	\$ -0-

The notes to the financial statements are an integral part of this statement.

**State of New Hampshire
State Treasury
Balance Sheet – Non-Major Governmental Funds
June 30, 2023
(Expressed in Thousands)**

	<u>Permanent Funds</u>				<u>Total Non-Major Governmental Funds</u>	
	<u>Other Governmental Funds</u>	<u>New Hampshire Hospital</u>	<u>Land Conservation Endowment</u>	<u>Other Permanent</u>		<u>Total Permanent</u>
<u>Assets</u>						
Investments (Notes 1 and 2)	\$ 12,595	\$ 7,586	\$ 4,848	\$ 14,465	\$ 26,899	\$ 39,494
Total Assets	12,595	7,586	4,848	14,465	26,899	39,494
<u>Liabilities</u>						
Total Liabilities	-0-	-0-	-0-	-0-	-0-	-0-
<u>Fund Balances</u>						
Nonspendable:						
Permanent Fund Principal	-0-	458	2,668	9,782	12,908	12,908
Restricted	12,595	7,128	2,180	4,683	13,991	26,586
Total Fund Balances (Deficit)	12,595	7,586	4,848	14,465	26,899	39,494
Total Liabilities And Fund Balances	\$ 12,595	\$ 7,586	\$ 4,848	\$ 14,465	\$ 26,899	\$ 39,494

The notes to the financial statements are an integral part of this statement.

State of New Hampshire
State Treasury
Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2023
(Expressed in Thousands)

	<u>Permanent Funds</u>					Total Non-Major Governmental Funds
	Other Governmental Funds	New Hampshire Hospital	Land Conservation Endowment	Other Permanent	Total Permanent	
<u>Revenues</u>						
Interest and Dividends	\$ 591	\$ 162	\$ 120	\$ 333	\$ 615	\$ 1,206
Miscellaneous	18,314	569	346	1,244	2,159	20,473
Total Revenues	18,905	731	466	1,577	2,774	21,679
<u>Expenditures</u>						
Benefits	17,000	525	5	516	1,046	18,046
Other	342	29	20	59	108	450
Total Expenditures	17,342	554	25	575	1,154	18,496
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	1,563	177	441	1,002	1,620	3,183
Fund Balances (Deficits) - July 1	11,032	7,409	4,407	13,463	25,279	36,311
Fund Balances (Deficits) - June 30	\$ 12,595	\$ 7,586	\$ 4,848	\$ 14,465	\$ 26,899	\$ 39,494

The notes to the financial statements are an integral part of this statement.

**State of New Hampshire
State Treasury
Statement of Fiduciary Net Position
Custodial and Private Purpose Trust Funds
June 30, 2023
(Expressed in Thousands)**

	Private Purpose Trust Funds					Total Private Purpose Trust Funds
	Custodial Funds	College Savings	Benjamin Thompson	Electrical Assistance Program	Other Private Purpose	
Assets						
Cash and Cash Equivalents (Notes 1 and 2)	\$ 180	\$ -0-	\$ -0-	\$ 134	\$ 30	\$ 164
Investments (Notes 1 and 2)	545	16,953	2,592	-0-	1,150	20,695
Total Assets	725	16,953	2,592	134	1,180	20,859
Liabilities						
Total Liabilities	-0-	-0-	-0-	-0-	-0-	-0-
Net Position						
Restricted for:						
Individuals, organizations, and other governments	725	16,953	2,592	134	1,180	20,859
Total Net Position	\$ 725	\$ 16,953	\$ 2,592	\$ 134	\$ 1,180	\$ 20,859

The notes to the financial statements are an integral part of this statement.

**State of New Hampshire
State Treasury
Statement of Changes in Fiduciary Net Position
Custodial and Private Purpose Trust Funds
For the Fiscal Year Ended June 30, 2023
(Expressed in Thousands)**

	Private Purpose Trust Funds					Total Private Purpose Trust Funds
	Custodial Funds	College Savings	Benjamin Thompson	Electrical Assistance Program	Other Private Purpose	
Additions						
Contributions:						
From Participants	\$ -0-	\$ 17,004	\$ -0-	\$ 786	\$ -0-	\$ 17,790
Interest Income	14	545	77	30	35	\$ 687
Other	125	87	160	-0-	43	290
Total Additions	139	17,636	237	816	78	18,767
Deductions						
Benefits/Distributions to Participants	14	10,875	32	4,421	19	15,347
Other	10	459	29	-0-	5	493
Total Deductions	24	11,334	61	4,421	24	15,840
Change in Net Position	115	6,302	176	(3,605)	54	2,927
Net Position Held In Trust For Benefits And Other Purposes						
Net Position - July 1	610	10,651	2,416	3,739	1,126	17,932
Net Position - June 30	\$ 725	\$ 16,953	\$ 2,592	\$ 134	\$ 1,180	\$ 20,859

The notes to the financial statements are an integral part of this statement.

**State of New Hampshire
State Treasury
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the New Hampshire State Treasury (State Treasury or Treasury) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The financial activity of the Treasury is accounted for and reported in the State's General Fund, Education Trust Fund, Capital Projects Fund, Permanent Funds, Other Governmental Funds, Private Purpose Trust Funds, and Custodial Funds in the State's Annual Comprehensive Financial Report (ACFR). Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances are reported by fund for the State as a whole in the ACFR. The Treasury, as an organization of the primary government, accounts for only a portion of the General Fund, Education Trust Fund, and Capital Projects Fund and those assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances as reported in the ACFR that are attributable to the Treasury cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General Fund, Education Trust Fund, and Capital Projects Fund financial statement is not intended to show and does not report the financial position or fund balances of the Treasury in those respective funds.

B. FINANCIAL STATEMENT PRESENTATION

The State of New Hampshire and the Treasury use funds to report on their financial position and results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Treasury reports its financial activity in the funds descriptions below:

Major Governmental Funds

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to the other funds are charged to the General Fund.

Education Trust Fund: The Education Trust Fund was created in accordance with Chapter 17:41, Laws of 1999. The Fund is non-lapsing and is used to distribute adequate education grants to school districts.

Non-Major Governmental Funds

Capital Projects Fund: The Capital Projects Fund is used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of State bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

Permanent Funds: Permanent Funds consist of several accounts that report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry. They include: New Hampshire Hospital Trust Fund, Land Conservation Endowment Fund, Special Teachers Compensation Fund, Connecticut Lake Fund, and Community Conservation Endowment Funds.

Other Governmental Funds: Other Governmental Funds are used to account for certain program funds maintained by agencies that are limited in use for particular purposes. They include: New Hampshire Veteran's Home, Lifetime License Fund, New Hampshire Student Loan Repayment Program/Joint Underwriters Association Escrow Account, Special Fund for Second Injuries, Special Fund for Active Cases, Tip-Top House Fund, and Safety Road Toll Fund.

Fiduciary Funds

Private Purpose Trust Funds: Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. They include: College Savings Fund, Japanese Charitable Trust Fund, New Hampshire Youth Development Center Fund, Electrical Assistance Program Utility Fund, Crown Paper Workers Compensation Fund, Laconia State School and Training Center Fund, Harriet Huntress Fund, Hattie Livesey Fund, John Nesmith Fund, Benjamin Thompson Fund, Matthew Elliot Trust Fund, and Guy Thompson Memorial Fund.

Custodial Funds: Custodial Funds report resources identified as a fiduciary activity which are not held in a trust or equivalent arrangement. They include: Financial Responsibility Fund, New Hampshire Veterans Home Member Fund, The Prelude Institute Fund, Trivium Institute for Leader Development Fund, and Concord Hospital Surgical Technical Program.

C. REPORTING PERIOD

The State's and the Treasury's fiscal year is the 12 months ended June 30. The accompanying financial statements of the State Treasury are presented as of and for the fiscal year ended June 30, 2023.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current

period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available.

Expenditures generally are recorded when a liability is incurred, except for principal and interest on general long-term liabilities, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recorded when earned and deductions are recorded when a liability is incurred, regardless of the timing of related cash flows.

E. CASH EQUIVALENTS AND INVESTMENTS

For the purposes of the Balance Sheet – Non-Major Governmental Funds and the Statement of Fiduciary Net Position, cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the Treasury and are valued at cost, which approximates fair value, or net asset value. Cash equivalents include certain money market and demand deposit accounts and certificates of deposit with original maturity dates less than 90 days.

Investments are reported at fair value. In determining fair value, the State utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. If an investment is in an active market where quoted prices exist, the market price of an identical security is used to report fair value. Corporate fixed income securities and certain U.S. government securities utilize pricing that may involve estimation using similar securities or trade dates. As these investments are generally not traded in an active market, fair value measurements are determined using market data and matrix pricing. Fair values for shares in registered mutual funds and exchange-traded funds are based on published share prices. Money market mutual funds are generally reported at net asset value (NAV) reported by the fund managers and assessed as reasonable by the State, which is used as a practical expedient to estimate the fair value.

F. RECEIVABLES

In the governmental fund financial statements, receivables are primarily revenue accruals that are received by the Treasury within 60 days after year-end.

G. BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

In the governmental fund financial statements, bond discounts, premiums, and issuance costs are recognized in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources in the State Annual Comprehensive Financial Report.

Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

H. REVENUES AND EXPENDITURES

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “unrestricted” (general purpose) or “restricted”. Unrestricted revenues are credited directly to the General Fund or other fund balance upon recording in the State’s accounting system. Pursuant to the State’s operating budget, unrestricted revenues collected by an agency are not used as a direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency’s authorization to expend funds.

Restricted revenues are either by State law or by outside restriction (e.g. federal grants), available only for specified purposes and are credited to the agency’s accounting unit to which the restricted revenue is budgeted upon recording in the State’s accounting system. Restricted revenues recorded by an agency are direct sources of funding for budgeted agency operations (appropriations).

Unused restricted revenues at year end are either lapsed or generally recorded as committed or assigned fund balance. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the State’s general policy to use restricted resources first. In the governmental funds, when expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State’s general policy to spend committed resources first followed by assigned and unassigned resources, respectively.

Other Financing Sources – these additions to resources in the governmental fund financial statements result from financing provided by net appropriations and bond proceeds or premium on bonds in the Capital Projects Fund.

In the governmental fund financial statements, expenditures are reported by function.

I. BUDGET CONTROL AND REPORTING

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor’s program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental funds, with the exception of the Capital Projects Fund and certain proprietary funds.

The Capital Projects Fund budget represents individual projects that extend over several fiscal years.

In addition to the enacted biennial operating budget, state departments may submit to the Legislature and Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally at the expenditure class level within each accounting unit within each department.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will generally lapse to assigned or unassigned fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as restricted, committed, or assigned fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The State pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions.

The table below presents the legal restrictions for cash, cash equivalents, and investments as reflected in the financial statements (expressed in thousands):

Statement Name	Fund Type	Unrestricted		Restricted		Total
		Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments	
Per Balance Sheet	Other Governmental Funds				\$ 12,595	\$ 12,595
	Permanent Funds		\$ 12,908		13,991	26,899
Per Statement of Fiduciary Net Position	Private Purpose Trust Funds	\$ 164	20,695			20,859
	Custodial Funds	180	545			725
	Total per Financial Statements	\$ 344	\$ 34,148	\$ -	\$ 26,586	\$ 61,078

Deposits:

The following statutory requirements and State Treasury policies have been adopted to minimize the risk associated with deposits:

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the State’s deposits may not be recovered. Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

All deposits at FDIC-insured depository institutions (including noninterest bearing accounts) are insured by the FDIC up to the standard maximum amount of \$250,000 for each deposit insurance ownership category.

All commercial paper must be from issuers having the highest short-term rating category (A-1/P-1, or its equivalent) from one or more nationally recognized rating agencies. Certificates of deposit must be with a state or federally chartered banking institution with a branch in New Hampshire.

Whereas all payments made to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

The table below details the State Treasury’s bank balances exposed to custodial credit risk as of June 30, 2023 (expressed in thousands):

Investment Type	Fiduciary Activities		
	Insured	Collateral & held in State's name	Uncollateralized
Demand Deposits/Money Market	\$ -	\$ 150	\$ 94
Certificate of Deposit	284	-	
Total	\$ 284	\$ 150	\$ 94

Investments:

The State Treasury is responsible for managing certain State cash and investments in accordance with policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in RSA 6:8 and 383-B:3-303. Additionally, investment guidelines exist for operating funds as well as trust and custodial accounts. All investments are denominated in U.S. dollars.

Fair Value Hierarchy of Investments: In accordance with GASB Statement No. 72, except for investments measured using net asset value (NAV) as practical expedient to estimate fair value, the State categorizes the fair value measurements of its investments within the fair value hierarchy established by U.S. GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into the following levels:

- Level 1 inputs reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the State has the ability to access at the measurement date. Most of the State’s directly held marketable equity securities would be examples of Level 1 investments.

- Level 2 inputs are other than quoted prices that are observable for assets or liabilities either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities, as well as holdings in U.S. government obligations, corporate bonds, and commercial paper, are categorized in Level 2.
- Level 3 inputs are significant unobservable inputs. The State Treasury held no Level 3 investments as of June 30, 2023.

The fair value hierarchy gives the highest priority to Level 1 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. If an investment is held directly by the State and an active market with quoted prices exists, such as for domestic equity securities, registered mutual funds and exchanged traded funds, those securities are classified in Level 1. Corporate fixed income securities and certain governmental securities utilize pricing that may involve estimation using market data and matrix pricing.

Investments in money market mutual funds are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the State's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. At June 30, 2023, the State had no plans or intentions to sell investments at amounts different from NAV. NAVs determined by fund managers generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Because of the inherent uncertainties of valuation, the estimated fair values used in NAV calculations may differ significantly from values that would have been used had a ready market existed, and the differences could be material.

The following table summarizes the State Treasury's investments and cash equivalents, by type, as of June 30, 2023 (expressed in thousands):

	Investments Classified in the			Total
	Fair Value Hierarchy			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)		
<i>Investments Measured at Fair Value:</i>				
U.S. Government Obligations		\$ 898	\$	898
Equity Securities	\$ 6,155			6,155
Corporate Bonds		1,683		1,683
<i>Total Investments Measured at Fair Value</i>	6,155	2,581		8,736
<i>Investments Measured at the Net Asset Value (NAV):</i>				
Money Market Mutual Funds				9,815
Equity Open Ended Mutual Funds				21,118
Fixed Income Open Ended Mutual Funds				20,881
<i>Total Investments Measured at the Net Asset Value (NAV)</i>				51,814
<i>Investments and Cash Equivalents not Measured at Fair Value:</i>				
Investment CDs Greater than 90 days; Repurchase Agreement				89
Cash and Cash Equivalents				439
<i>Total Investments and Cash Equivalents not Measured at Fair Value</i>				528
Grand Total	\$ 6,155	\$ 2,581	\$	\$ 61,078

Note to the table above: Rates range from 0.0% to 5.95% and maturities from fiscal year 2024 to 2029.

Equity Securities and Mutual Funds:

The State’s policy relative to operating funds and mitigation of concentration and credit risk does not permit investing in equity securities. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices. All equity mutual funds are open ended and not exposed to custodial credit risk.

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligations. Money market funds to be considered and utilized are those funds invested in the U.S. Treasury, agency, and other securities commonly referred to as being “within first tier categories” and/or which have the highest rating available from at least one nationally recognized rating agency.

Debt Securities: The State also invests in several types of debt securities including corporate and municipal bonds, and securities issued by the U.S. Treasury and government agencies, fixed income open ended mutual funds, and commercial paper.

Credit risk is the risk that the issuer will not fulfill its obligations. The State invests in only investment grade securities. Obligations of the U.S. government or obligations backed by the U.S. government are not considered to have a credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. Fixed income mutual funds which consist of shares of funds which hold diversified portfolios of fixed income securities for operating purposes are limited to those with average maturity not to exceed three years. Trust and custodial funds manage and monitor interest rate risk primarily through a weighted average maturity (WAM) approach. The State’s WAM is dollar-weighted average in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objectives and defined in the investment guidelines associated with those funds.

The *custodial credit risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, an investor will not be able to recover the value of investments that are in the possession of an outside party. Open ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The State’s selection criteria are aimed at investing only in high quality institutions where default is extremely unlikely.

Concentration risk is the risk of loss attributed to the magnitude of the State’s investment in a single issuer. The State’s policy relative to operating funds includes certain limits intended for the mitigation of concentration of credit risk. This risk is applicable to the State’s investments in corporate bonds which are held in certain trust and custodial accounts. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices.

The State’s exposed risks at June 30, 2023 are noted below:

Credit Risk and Interest Rate Risk (expressed in thousands)						
Type	Governmental Type			Fiduciary		
	Credit Risk		Interest Rate Risk	Credit Risk		Interest Rate Risk
	Investment Grade	Unrated	WAM in Years	Investment Grade	Unrated	WAM in Years
Corporate Bonds	\$ 1,683		3.3			
U.S. Government Obligations Held in Permanent Funds	\$ 898		2.6			
Fixed Income Open Ended Mutual Funds		\$ 8,391	7.8	\$12,489		11.1

3. NET APPROPRIATIONS

Net appropriations reflect appropriations for expenditures in excess of restricted revenues.

4. RISK MANAGEMENT AND INSURANCE

The State and State Treasury are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. As a general operating rule, the State self-insures against all damages, losses, and expenses except to the extent that provisions of law require the purchase of commercial insurance. In addition, the State may elect to purchase commercial insurance if a risk assessment indicates it would be economical and beneficial to the State or the general public. There are approximately 25 such commercial insurance programs in effect. These include, but are not exclusive to, state owned real property insurance, fleet automobile liability, watercraft insurance, foster parent liability, ski area liability for Cannon Mountain, and a fidelity and faithful performance bond. In general, claims settled in the past three years under the insurance programs have not exceeded commercial insurance coverage. As of June 30, 2023, there are currently no claims that are expected to reach the policy coverage limits. The State's exposure per claimant is limited by law to a total of \$475 thousand under RSA 541-B:14 and the State's current fleet policy coverage is \$250 thousand per claimant.

5. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System ("NHRS") established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. NHRS covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. NHRS is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is $1/60$ (1.667%) of average final compensation multiplied by years of creditable service ($1/66$ of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at $1/66$ (1.515%) of AFC multiplied by years of creditable service.

Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service

is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by $\frac{1}{4}$ of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011 who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and group II police officers contributed 11.55% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 13.75% of gross payroll for Group I members, 29.78% of gross payroll for Group II firefighter members, and 30.67% of gross payroll for Group II police officer members.

The State Treasury's required and actual contributions for the period ended June 30, 2023 were \$216,000 which included an amount for other postemployment benefits of \$12,000.

OTHER POSTEMPLOYMENT BENEFITS

The State also participates in two other postemployment benefit (OPEB) plans, a funded plan administered by NHRS, hereafter referred to as the Trusted OPEB Plan, and a nonfunded plan,

hereafter referred to as the Non Trusted OPEB Plan. The actuarial liabilities and expenses of the OPEB plans do not flow to the State Treasury's agency level financial statements.

General Information about the Trusted OPEB Plan

Plan Description: Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS administers a cost-sharing multiple employer defined benefit postemployment medical subsidy healthcare plan designated in statute by membership type. This plan has been previously defined as the Trusted OPEB plan but is also commonly referred to as "medical subsidy plan". The membership groups are Group II Police Officers and Firefighters and Group I State Employees. NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>.

Benefits Provided: The Trusted OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employers of its members, or their insurance administrator, toward the cost of health insurance for a qualified retiree, spouse, and certifiably dependent children with a disability who is living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving Trusted OPEB Plan benefits differ for Group I and Group II members. Eligibility for the medical subsidy payment is determined by the relevant RSA's, however, the medical subsidy plan is closed to new entrants. The State is a recipient of these medical subsidy payments on behalf of its former employees.

Contributions: Pursuant to RSA 100-A:16, III, and the biennial actuarial valuation, funding for the medical subsidy payment is via the employer contribution rates set forth by NHRS. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed .78% of gross payroll for Group I members, 3.21% of gross payroll for Group II firefighter members, and 3.21% of gross payroll for Group II police officer members. Employees are not required to contribute to the Trusted OPEB Plan.

The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the medical subsidy plan. Employer contributions made by the State to NHRS for the medical subsidy component amounted to \$12,000.

General Information about the Non Trusted OPEB Plan

Plan Description: RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses through a single employer (primary government with component units) defined postemployment benefit plan, previously defined as the Non Trusted OPEB Plan. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather

than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of state service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health fund, which is the state's self-insurance internal service fund for active state employees and retirees. The Fund covers the cost of medical and prescription drug claims by charging actuarially developed working rates to self-funded State agencies for participating employees, retirees, and eligible spouses. The remainder of the Plan's cost is paid by the General Fund. As the State Treasury is not self-funded, there are no contributions to report.

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