

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

**AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1995**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

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**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

INTRODUCTION

ORGANIZATION

The Department of Revenue Administration, (DRA), was reorganized under the terms of RSA 21-J, effective July 1, 1985. DRA operates under the executive direction of the Commissioner who is appointed by the governor, with the consent of council, to serve a four year term. DRA is responsible for coordinating the collection of state taxes, providing the governor and General Court with information for public policy decisions and for establishing a uniform system of financial accounting and reporting for the state's political subdivisions.

DRA is organized into an administrative unit and six divisions. The administrative unit is supervised by the assistant commissioner who is nominated by the Commissioner for appointment by the governor, with the consent of council, to a four year term. The administrative unit is responsible for the administrative functions of DRA and for providing assistance to the Commissioner in short and long term planning activities. The divisions are described briefly below. An organizational chart of the department showing the divisions and numbers of employees per division is shown on the next page.

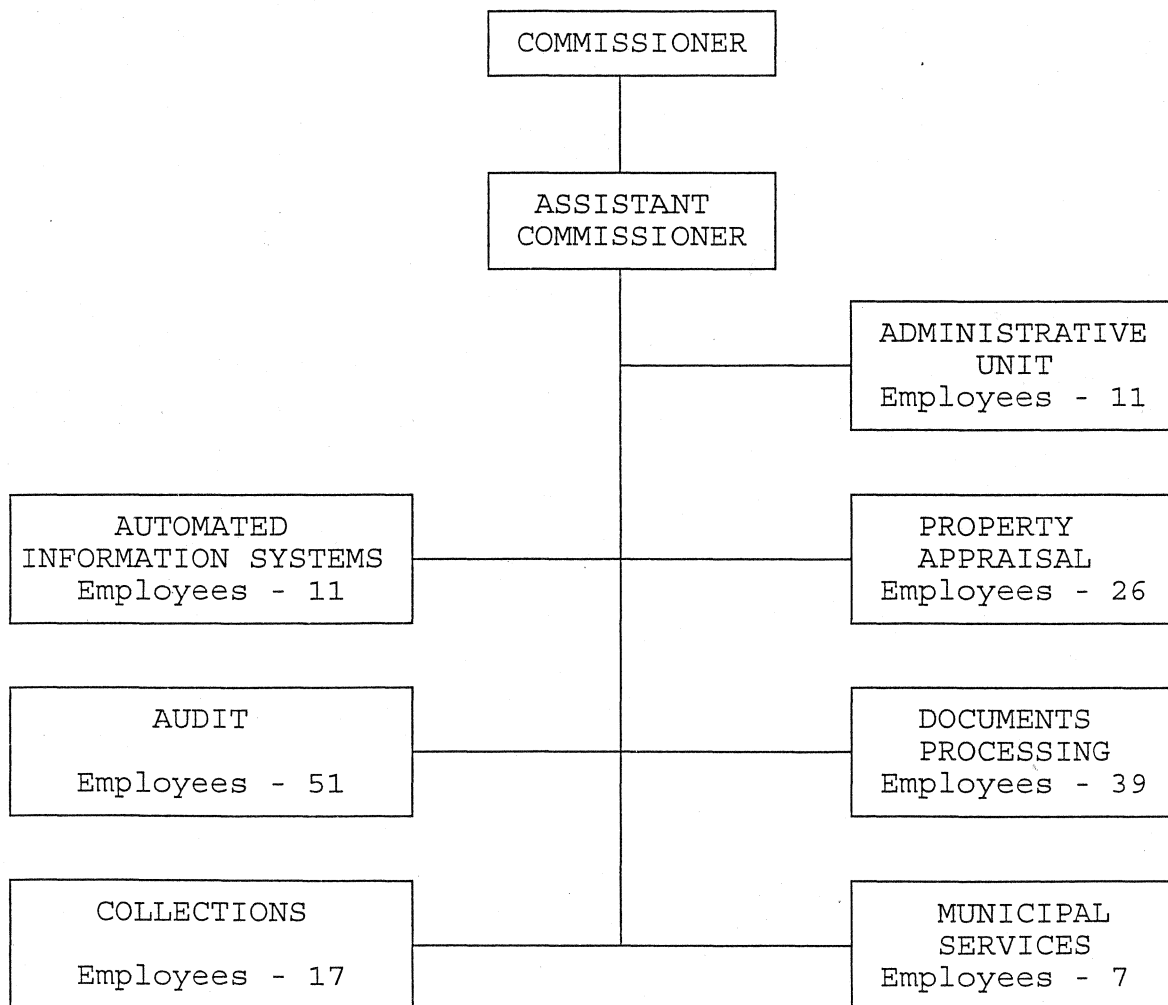
- Division of Automated Information Systems is responsible for developing and implementing an automated information management system that will provide data for revenue forecasting, audits of tax returns and development of fiscal notes and data that is useful to the governor and General Court for public policy decisions.
- Division of Audits is responsible for classifying all tax returns received in order to determine which to audit. The Division conducts audits to encourage voluntary compliance with state tax laws.
- Division of Collections is responsible for collecting all outstanding taxes owed to the state and for securing all delinquent tax returns required to be filed with the state.
- Division of Property Appraisal assists municipalities in property appraisals and valuations and is responsible for the annual equalization survey.
- Documents Processing Division is responsible for processing all the tax documents filed with DRA.

INTRODUCTION (Continued)

ORGANIZATION (Continued)

- Municipal Services Division is responsible for providing technical assistance to the political subdivisions of the state, assisting the Commissioner in his responsibility for setting municipal tax rates and for establishing a standard technical manual to guide municipalities in finance and budget matters.

DRA is located at 61 South Spring Street in Concord, NH. As of June 30, 1995 DRA employed a total of 164 permanent employees, 142 classified and 22 unclassified.



INTRODUCTION (Continued)

FUNDING

The Department of Revenue Administration is funded by appropriations in the General, Special and Capital Projects Funds. DRA's fiscal year 1995 spending authority was \$9,280,741, \$200 and \$499,789 in the General, Special and Capital Projects Funds, respectively. Actual expenditures for fiscal year 1995 were \$8,349,087, \$1,000 and \$313,998 respectively.

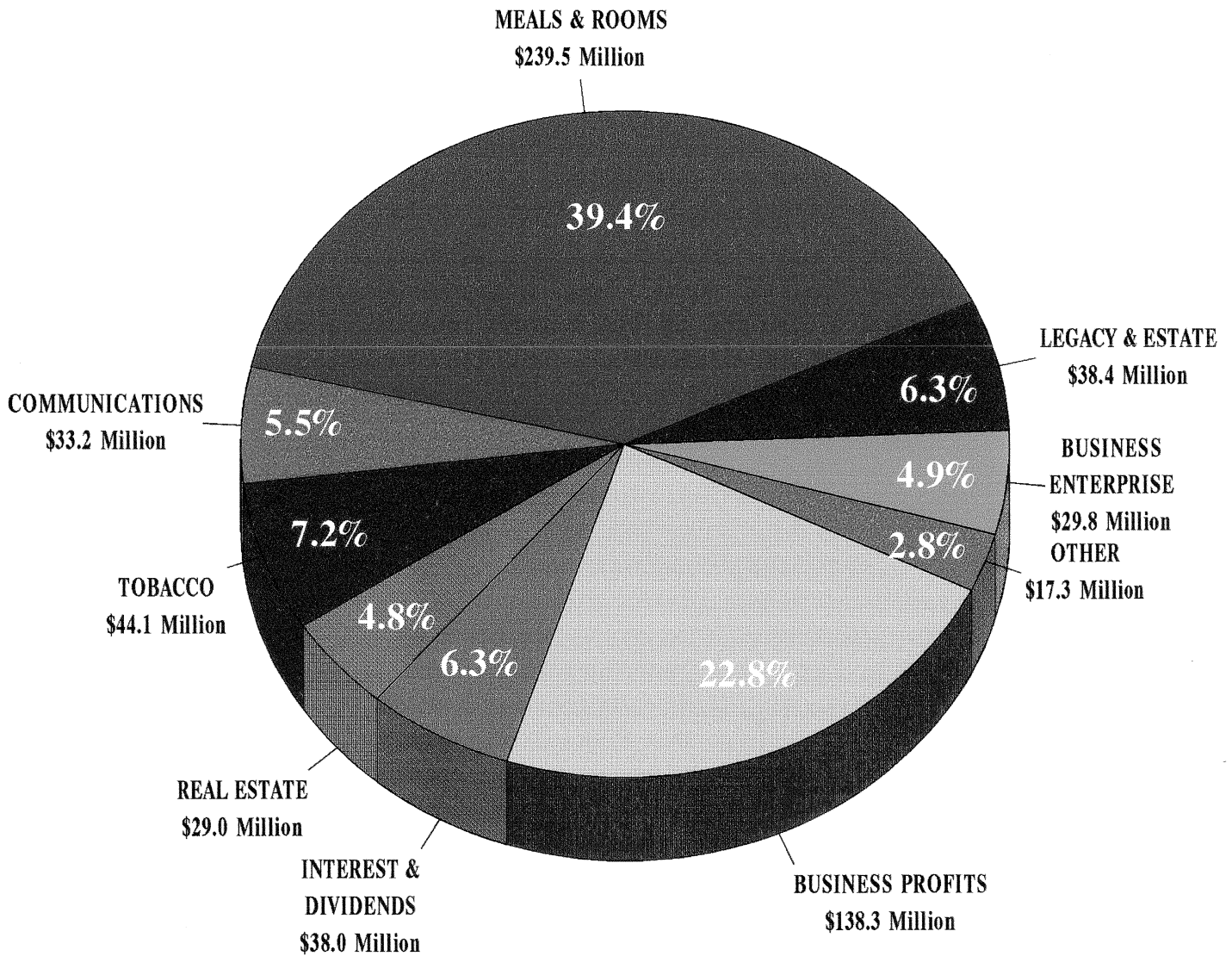
Estimated restricted revenue combined with balances forward and transfers resulted in anticipated fiscal year 1995 restricted revenue of \$837,436 and \$0 in the General and Special Funds respectively, while actual restricted revenue totalled \$767,883 and \$800 respectively. Fiscal year 1995 estimated and actual unrestricted revenue totalled \$571,121,500 and \$607,574,804. Unrestricted revenue by tax type is displayed, on the following page.

OTHER AUDITS

The most recent prior audit of the Department of Revenue Administration was for the year ended June 30, 1992. The appendix to this report on page thirty-one contains a summary of the current status of the observations contained in that prior audit report.

INTRODUCTION (Continued)

DEPARTMENT OF REVENUE ADMINISTRATION FISCAL YEAR 1995 UNRESTRICTED REVENUE



TOTAL UNRESTRICTED REVENUE = \$607,574,804

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

AUDIT OBJECTIVES AND SCOPE

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal control structure in place at the Department of Revenue Administration and tested the Department of Revenue Administration's compliance with certain provisions of applicable state laws and regulations. Major accounts or areas subject to our examination included, but were not limited to the following:

- Internal control structure
- Appropriations and revenues
- Expenditures and encumbrances
- Equipment
- State compliance.

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

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AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS and the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY of the New Hampshire Department of Revenue Administration for the year ended June 30, 1995, and have issued our qualified report thereon dated December 1, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

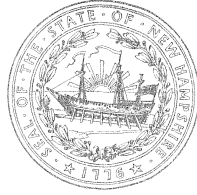
In planning and performing our audit of the financial statements of the New Hampshire Department of Revenue Administration, for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

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

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December 1, 1995



State of New Hampshire

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AUDITOR'S REPORT ON STATE COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS and the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY of the New Hampshire Department of Revenue Administration for the year ended June 30, 1995, and have issued our qualified report thereon dated December 1, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

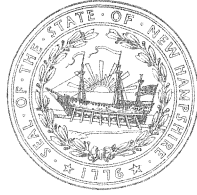
This report is intended for the information of the management of the New Hampshire Department of Revenue Administration and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter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

Office of Legislative Budget Assistant

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December 1, 1995

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AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS and the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY of the New Hampshire Department of Revenue Administration for the year ended June 30, 1995, and have issued our qualified report thereon dated December 1, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the New Hampshire Department of Revenue Administration for the year ended June 30, 1995 we noted certain issues related to the operation of the Department that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or regulations.

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

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

Office of Legislative Budget Assistant

OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December 1, 1995

MANAGEMENT ISSUES

OBSERVATION NO. 1: PRIOR AUDIT OBSERVATIONS

Observation

- As we conducted the current audit we noted two issues that remained unresolved from the LBA's last audit of the Department for the year ended June 30, 1992. These two areas are discussed below.

Tax Notice System

The computerized tax information management system, TIMS, used by the Department, has the capability to identify tax deficiencies and to generate the tax notices that are mailed to taxpayers to notify them of deficiencies. When we audited the Department for fiscal year 1992 we noted in our report that the tax notice system on TIMS was not fully operational. This was still the case during fiscal year 1995. TIMS is identifying tax deficiencies and over 30,000 have been identified thus far, but the system is not generating the tax notices so they can be mailed. In addition, the Department is not sure that the tax notices identified by the system are correct so all must be manually reviewed to confirm their accuracy. Because the system is not fully functional, the Department has a manual system to identify, prepare and mail tax notices. This manual system could be eliminated and manhours saved if TIMS was producing accurate tax notices.

Matching Information With Other Tax Authorities

In our last audit we noted that since the mid eighties the Department had not matched data it received from other taxing authorities to its own in order to identify differences that, if pursued, might generate additional tax revenue. During fiscal year 1995 the Department started matching information on Interest and Dividends returns to similar information from the Internal Revenue Service. The Department estimates that initially the match will produce \$3 million annually. The Department expects that amount to drop as non-filing taxpayers are identified and that the match will generate \$1.5 million annually from taxpayers who move into and out of the state each year. That is significant income and should have been pursued earlier. The Department has not yet begun matching information for business profits/enterprise taxes so the potential there is unknown. It appears the State is losing additional revenue because the Department has not been pursuing these areas. When questioned as to the reason for the

OBSERVATION NO. 1: PRIOR AUDIT OBSERVATIONS (Continued)

Observation (Continued)

Matching Information With Other Tax Authorities (Continued)

delay, DRA cited lack of staff and inadequate physical facilities to house the necessary increase in staff.

Recommendation

- The Department should refine the TIMS tax notice system so it produces timely and accurate tax notices to taxpayers.

The tax information matching should be aggressively pursued since it appears to be a cost effective procedure to identify and collect taxes from taxpayers who are not paying their fair share.

Auditee Response

- The number one long term goal of the department since the last audit has been to fully implement the TIMS tax notice process. The number two goal was to cross match all taxes with available outside data bases such as IRS. During FY 1995 significant progress was made in reaching both goals, but the TN (Tax Notice) system did not go on-line until the beginning of FY 1996.

In every agency daily decisions are made on using available resources. For DRA, first priority is obviously getting the money received from taxpayers into the bank on the day received. Our audit personnel concentrate on the audits that yield the best return and collections personnel pursue the cases having the most chance of success. The first priority of the AIS (computer staff) is to support the operational needs of the divisions with new developments occurring as time permits. Two significant events transpired since the previous audit; the implementation of the Business Enterprise Tax (BET) and the flood of appeals on the Interest and Dividends Tax (I&D). Because of the scope of these projects, the TN system and IRS matching programs were delayed.

The TN system was ready to be implemented during FY 1995, but the staff asked that additional testing be conducted. A major concern was the possibility of incorrect tax notices being issued to taxpayers. It was the unanimous opinion of everyone that implementation be delayed until August 1995, to allow for more testing.

It is important to note that throughout this period TIMS has been properly identifying returns where tax notices were appropriate. The system needed to be completed to allow many mechanical steps that simplify and automate the process. During this period most of the identified TN's were manually processed.

OBSERVATION NO. 1: PRIOR AUDIT OBSERVATIONS (Continued)

Auditee Response (Continued)

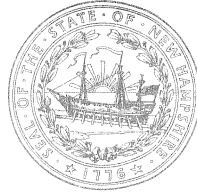
The department agrees that manually processing of TN's is not efficient and that more revenue would have been raised if department employees had been devoted to other tasks. The legislature is aware, and has been supportive, of the need for improved space for the department. In a perfect world we would have contracted someone to finish these systems earlier.

Unfortunately, there was no space available to DRA for additional personnel and in a tight budget period priorities were set. We would have preferred to expand the cross-matching programs but responding to correspondence and following up on initial contacts is labor intensive.

The department is now generating TIMS tax notices and the I&D matching program is well established. We are currently working with the Personnel Division to reorganize several positions to provide for a single individual who will be responsible for keeping these programs going throughout the year.

The department is committed to employing whatever resources are provided in the most cost efficient way with the goal of maximizing revenue while meeting its mission of "equity and justice for all."

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INDEPENDENT AUDITOR'S REPORT

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS and the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY of the New Hampshire Department of Revenue Administration for the year ended June 30, 1995. The financial statements are the responsibility of the management of the New Hampshire Department of Revenue Administration. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully discussed in NOTE 1, the financial statements referred to in the first paragraph are not intended to present the financial position of the New Hampshire Department of Revenue Administration.

In our opinion, except for the matter discussed in the previous paragraph, the financial statements present fairly, in all material respects, certain financial activity of the New Hampshire Department of Revenue Administration for the year ended June 30, 1995 in conformity with generally accepted accounting principles.

As discussed in Note 4 to the financial statements, the New Hampshire Department of Revenue Administration is a defendant in a lawsuit regarding the apportionment formula of the business profits tax. The New Hampshire

Department of Revenue Administration is contesting the lawsuit. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result from the litigation has been made in the accompanying financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Schedules of Budgetary Components - General and Special Funds are presented on pages twenty-eight and twenty-nine for the purpose of additional analysis and are not a required part of the financial statements of the New Hampshire Department of Revenue Administration. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 1995 on our consideration of the New Hampshire Department of Revenue Administration's internal control structure and a report dated December 1, 1995 on its compliance with laws and regulations.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December 1, 1995

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
GENERAL AND SPECIAL FUNDS
FOR THE YEAR ENDED JUNE 30, 1995**

	GENERAL FUND		FAVORABLE/ (UNFAVORABLE) VARIANCE
	BUDGET	ACTUAL	
<u>UNRESTRICTED REVENUE</u>			
Meals and Rooms Tax	\$ 220,950,000	\$ 239,530,512	\$ 18,580,512
Business Profits Tax	118,300,000	138,348,268	20,048,268
Tobacco Tax	45,000,000	44,064,921	(935,079)
Interest and Dividends Tax	39,800,000	37,969,983	(1,830,017)
Communication Services Tax	33,000,000	33,211,616	211,616
Business Enterprise Tax	27,100,000	29,763,861	2,663,861
Legacy and Estate Taxes	34,996,000	38,403,178	3,407,178
Real Property Transfer Tax	32,000,000	28,970,720	(3,029,280)
Electric Franchise Tax	10,800,000	9,415,182	(1,384,818)
Nuclear Tax	8,700,000	7,658,332	(1,041,668)
Other	475,500	238,231	(237,269)
TOTAL	<u>\$ 571,121,500</u>	<u>\$ 607,574,804</u>	<u>\$ 36,453,304</u>
<u>RESTRICTED REVENUE</u>			
Property Appraisal	\$ 837,436	\$ 748,988	\$(88,448)
Other	-0-	18,895	18,895
TOTAL	<u>\$ 837,436</u>	<u>\$ 767,883</u>	<u>\$(69,553)</u>
<u>EXPENDITURES</u>			
Salaries and Benefits	\$ 7,098,121	\$ 6,704,420	\$ 393,701
Reimbursement of Lost			
Land Taxes	816,728	816,366	362
Current Expenses	470,129	423,702	46,427
Other	565,677	226,142	339,535
Travel	330,086	178,457	151,629
TOTAL	<u>\$ 9,280,741</u>	<u>\$ 8,349,087</u>	<u>\$ 931,654</u>

The accompanying notes are an integral

SPECIAL FUND			COMBINED TOTAL (MEMO ONLY)		
BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE
\$ -0-	\$ -0-	\$ -0-	\$220,950,000	\$239,530,512	\$18,580,512
-0-	-0-	-0-	118,300,000	138,348,268	20,048,268
-0-	-0-	-0-	45,000,000	44,064,921	(935,079)
-0-	-0-	-0-	39,800,000	37,969,983	(1,830,017)
-0-	-0-	-0-	33,000,000	33,211,616	211,616
-0-	-0-	-0-	27,100,000	29,763,861	2,663,861
-0-	-0-	-0-	34,996,000	38,403,178	3,407,178
-0-	-0-	-0-	32,000,000	28,970,720	(3,029,280)
-0-	-0-	-0-	10,800,000	9,415,182	(1,384,818)
-0-	-0-	-0-	8,700,000	7,658,332	(1,041,668)
-0-	-0-	-0-	475,500	238,231	(237,269)
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$571,121,500</u>	<u>\$607,574,804</u>	<u>\$36,453,304</u>
\$ -0-	\$ -0-	\$ -0-	\$ 837,436	\$ 748,988	\$ (88,448)
-0-	800	800	-0-	19,695	19,695
<u>\$ -0-</u>	<u>\$ 800</u>	<u>\$ 800</u>	<u>\$ 837,436</u>	<u>\$ 768,683</u>	<u>\$ (68,753)</u>
\$ -0-	\$ -0-	\$ -0-	\$ 7,098,121	\$ 6,704,420	\$ 393,701
-0-	-0-	-0-	816,728	816,366	362
-0-	-0-	-0-	470,129	423,702	46,427
200	1,000	(800)	565,877	227,142	338,735
-0-	-0-	-0-	330,086	178,457	151,629
<u>\$ 200</u>	<u>\$ 1,000</u>	<u>\$ (800)</u>	<u>\$ 9,280,941</u>	<u>\$ 8,350,087</u>	<u>\$ 930,854</u>

part of these financial statements

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

**STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1995**

Balance Forward July 1, 1994	\$ 499,789
 <u>APPROPRIATIONS AND REVENUE</u>	
Appropriations	-0-
Less: Anticipated restricted revenue from sources other than the General Fund	<u>-0-</u>
Net Appropriations	-0-
 Actual restricted revenue from sources other than the General Fund	 -0-
Net transfers In/Out	<u>-0-</u>
 TOTAL AVAILABLE	 \$ 499,789
 <u>EXPENDITURES</u>	
Computer Assisted Mass Appraisal	313,998
Funds (lapsed to)/drawn from the General Fund	<u>-0-</u>
 Balance to be carried forward	 185,791
Less: Unliquidated Encumbrances	<u>146,550</u>
Available Balance June 30, 1995	<u>\$ 39,241</u>

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Department of Revenue Administration (DRA) is an organization of the primary government of the State of New Hampshire. The financial activity of DRA is accounted for in the General, Special, and Capital Projects Funds of the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. DRA, as an organization of the primary government, accounts for only a portion of the General, Special and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to DRA cannot be determined. Accordingly, the accompanying financial statements are not intended to show the position of DRA in the General, Special, and Capital Projects Funds and the change in fund balances are not reported on the accompanying financial statements.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial Statement

The financial statements of DRA have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fund Accounting

The State of New Hampshire and DRA use funds and account groups to report on financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUND TYPES

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Special Fund

The State allocates to the Special Fund expenditures and revenues of programs which, by statute, operate primarily from specific program revenues, such as user fees or federal grants-in-aid. The unexpended balances of appropriations for programs that lapse are transferred to the General Fund.

Capital Projects Fund

The Capital Projects Fund accounts for certain capital improvement appropriations that are, or will be, primarily funded by the issuance of state bonds or notes or by the application of certain restricted revenues.

ACCOUNT GROUPS

General Fixed Assets

General fixed assets acquired by DRA for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of the fiscal year ended June 30, 1995, DRA has recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at their fair market value at the time donated.

C. BASIS OF ACCOUNTING

The State of New Hampshire accounts for its financial transactions relating to the General, Special and Capital Projects Funds on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "Measurable" means the amount of the transaction can be determined and "available" means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY DATA

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature as provided by RSA 9:8. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government; part III consists of draft appropriation bills for the appropriations made in the proposed budget. The operation of DRA is budgeted in the General and Special Funds.

The New Hampshire biennial budget is composed of the initial operating budget and supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council, annual session laws, and existing statutes which require appropriations under certain circumstances. As shown on the Schedules of Budgetary Components - General Fund and Special Fund on pages twenty-eight and twenty-nine, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, transfers and lapses. A COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS is presented as part of DRA's financial statements.

RSA 9:3-a requires the Governor to submit a capital budget to the Legislature in each odd-numbered year. The enacted capital budget authorizes appropriations that are usually intended to be expended over several years. The Capital Projects Fund is shown on a separate STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY.

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure and liability are recorded. DRA's unliquidated encumbrance balance for the General Fund at June 30, 1995 was \$122,478.

E. FIXED ASSETS - GENERAL

General fixed assets are not capitalized in the funds used to acquire them. Instead, capital acquisition costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their fair

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FIXED ASSETS - GENERAL (Continued)

market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated.

F. INTERFUND AND INTRAFUND TRANSACTIONS

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in state-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department. DRA had no rental or user fees charged to it by the Department of Administrative Services during fiscal year 1995.

NOTE 2 -- GENERAL FIXED ASSETS ACCOUNT GROUP

Equipment

The following is a schedule of equipment balances and activity, as reported by DRA, in the General Fixed Assets Account Group for the fiscal year ended June 30, 1995:

Balance 7/01/94	Additions	Deletions	Balance 6/30/95
\$1,839,699	\$257,645	\$46,355	\$2,050,989

Changes in DRA's equipment balances are reported to the Department of Administrative Services, Bureau of Purchase and Property at the end of each fiscal year for inclusion in the State's Comprehensive Annual Financial Report.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 3 -- EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

DRA as an organization of state government participates in the New Hampshire Retirement System (the Plan). The Plan is a contributory defined benefit plan and covers (substantially) all full-time employees of DRA. The Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated (RSA), Chapter 100-A established the Plan and the contribution requirements.

The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of employees and teachers. Group II consists of fire fighters and police officers. All employees of DRA who are members of the Plan are members of Group I.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is $1/60$ (1.67%) of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65 the yearly pension amount is recalculated at $1/66$ (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years of creditable service who are between age 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 1995, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of DRA's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years by the Plan's actuary.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 3 -- EMPLOYEE BENEFIT PLANS (Continued)

New Hampshire Retirement System, (Continued)

DRA's payments for normal contribution costs for the fiscal year ended June 30, 1995 amounted to 2.65% of the covered payroll. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, pension benefit obligation and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

DRA as an organization of state government offers their employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

Postemployment Health Care Benefits

In addition to the benefits described above, the State provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by state statute.

During the fiscal year ended June 30, 1995, the cost of health insurance premiums for their retired employees and spouses was paid on a pay-as-you-go basis. The cost of the health insurance for retired employees and spouses is a budgeted amount and is paid from an appropriation to the New Hampshire Retirement System and is not a part of DRA's financial statement.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 4 -- LITIGATION

DRA is a defendant in a lawsuit that challenges, under the federal commerce clause, the statute for New Hampshire's method of including certain foreign income in the apportionment formula of the business profits tax. Cross-motions for summary judgement are pending. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result from the litigation has been made in the financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1995**

	Operating Budget	Supplemental Appropriation Warrants	Balances Brought Forward	Transfers IN/ (OUT)	(Lapses)	Budget
<u>UNRESTRICTED REVENUE</u>						
Meals and Rooms Tax	\$220,950,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$220,950,000
Business Profits Tax	118,300,000	-0-	-0-	-0-	-0-	118,300,000
Tobacco Tax	45,000,000	-0-	-0-	-0-	-0-	45,000,000
Interest and Dividends Tax	39,800,000	-0-	-0-	-0-	-0-	39,800,000
Communication Services Tax	33,000,000	-0-	-0-	-0-	-0-	33,000,000
Business Enterprise Tax	27,100,000	-0-	-0-	-0-	-0-	27,100,000
Legacy and Estate Taxes	34,996,000	-0-	-0-	-0-	-0-	34,996,000
Real Property Transfer Tax	32,000,000	-0-	-0-	-0-	-0-	32,000,000
Electric Franchise Tax	10,800,000	-0-	-0-	-0-	-0-	10,800,000
Nuclear Tax	8,700,000	-0-	-0-	-0-	-0-	8,700,000
Other	475,500	-0-	-0-	-0-	-0-	475,500
TOTAL	<u>\$571,121,500</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$571,121,500</u>
<u>RESTRICTED REVENUE</u>						
Property Appraisal	\$ 797,391	\$ 56,281	\$ -0-	\$ -0-	\$(16,236)	\$ 837,436
Other	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	<u>\$ 797,391</u>	<u>\$ 56,281</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$(16,236)</u>	<u>\$ 837,436</u>
<u>EXPENDITURES</u>						
Salaries and Benefits	\$ 7,509,846	\$(540)	\$ -0-	\$(411,185)	\$ -0-	\$ 7,098,121
Reimbursement of Lost Land Taxes	816,728	-0-	-0-	-0-	-0-	816,728
Current Expenses	468,504	-0-	13,625	(12,000)	-0-	470,129
Other	441,116	(296,317)	453,978	12,000	(45,100)	565,677
Travel	348,298	(22,786)	4,574	-0-	-0-	330,086
TOTAL	<u>\$ 9,584,492</u>	<u>\$(319,643)</u>	<u>\$472,177</u>	<u>\$(411,185)</u>	<u>\$(45,100)</u>	<u>\$ 9,280,741</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF REVENUE ADMINISTRATION**

**SCHEDULE OF BUDGETARY COMPONENTS
SPECIAL FUND
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Transfers IN/(OUT)</u>	<u>(Lapses)</u>	<u>Budget</u>
<u>RESTRICTED REVENUE</u>						
Property Appraisal	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>EXPENDITURES</u>						
Salaries and Benefits	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Reimbursement of Lost Land Taxes	-0-	-0-	-0-	-0-	-0-	-0-
Current Expenses	-0-	-0-	-0-	-0-	-0-	-0-
Other	-0-	-0-	200	-0-	-0-	200
Travel	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 200</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 200</u>

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APPENDIX - STATUS OF PRIOR AUDIT REPORT OBSERVATIONS

The following is a summary of the status, as of December 1, 1995, of the reportable conditions contained in the report on the examination of the Department of Revenue Administration for the year ended June 30, 1992. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, N.H. 03301.

<u>INTERNAL CONTROL</u>	<u>STATUS</u>
1. Tax Information Management System (see current year Observation No. 1)	● ○ ○
2. Business Recovery Plan - Facility	● ● ●
3. Accounts Receivable Understatement	● ● ●
4. Collection Division	● ● ●
5. Segregation of Duties	● ● ●
6. Tax Notices (see current year Observation No. 1)	○ ○ ○
7. Real Estate Transfer Tax Stamps	● ● ●
8. Equipment	● ● ●
9. Tobacco Tax Analysis Report	● ● ●
 <u>STATE COMPLIANCE</u>	
10. Standard Technical Assistance Manual	● ● ●

STATUS KEY

Fully resolved	● ● ●
Substantially resolved	● ● ○
Partially resolved	● ○ ○
Unresolved	○ ○ ○

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