

**STATE OF NEW HAMPSHIRE  
BOARD OF TAX AND LAND APPEALS**

**FINANCIAL AND COMPLIANCE  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008**

**STATE OF NEW HAMPSHIRE  
BOARD OF TAX AND LAND APPEALS**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INTRODUCTORY SECTION</b>	
Reporting Entity And Scope .....	1
Organization.....	1
Responsibilities .....	1
Funding .....	1
Prior Audit .....	2
Audit Objectives And Scope.....	2
 <b>CONSTRUCTIVE SERVICE COMMENTS SECTION</b>	
<b>Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters .....</b>	<b>3</b>
 <i>Internal Control Comments</i>	
<i>Significant Deficiencies</i>	
1. Communications With State Central Service Agencies Should Be Improved .....	5
2. Banking Activity Should Be Reviewed With State Treasury And Documented.....	6
3. Bank Account Reconciliation Procedures Must Be Improved .....	7
4. Policies And Procedures Should Address Outstanding Checks .....	8
5. Procedures For Determining Costs To Administer Eminent Domain Proceedings Should Be Formalized.....	9
6. Accountability Over Revenue And Receipts Should Be Established Upon Receipt.....	10
7. Inefficient And Redundant Procedures Should Be Discontinued.....	11
 <i>Compliance Comments</i>	
8. Inconsistency In Statutes Should Be Resolved.....	13
9. Biennial Report Should Be Filed .....	13
10. Procedure Should Be Established To Remind Board Of Statement Of Financial Interests Filing Requirement.....	14
 <b>FINANCIAL SECTION</b>	
<b>Independent Auditor’s Report.....</b>	<b>15</b>
 <b>Financial Statements</b>	
<i>Governmental Fund Financial Statement</i>	
Statement Of Revenues And Expenditures - General Fund.....	17
<i>Fiduciary Fund Financial Statement</i>	
Statement Of Changes In Assets And Liabilities - Eminent Domain Escrow Account .....	18
Notes To The Financial Statements .....	19
 <b>Supplementary Information</b>	
Budget To Actual Schedule - General Fund .....	24
Note To The Budget To Actual Schedule - General Fund.....	25

This report can be accessed in its entirety on-line at [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html)

**THIS PAGE INTENTIONALLY LEFT BLANK**

**STATE OF NEW HAMPSHIRE  
BOARD OF TAX AND LAND APPEALS**

**Reporting Entity And Scope**

The reporting entity of this audit and audit report is the New Hampshire Board of Tax and Land Appeals. The scope of this audit and audit report includes the financial activity of the Board of Tax and Land Appeals reported in the State's General and Agency Funds for the fiscal year ended June 30, 2008. Unless otherwise indicated, reference to the Board or auditee refers to the Board of Tax and Land Appeals.

**Organization**

The Board of Tax and Land Appeals is established in RSA 71-B:1. The Board is composed of four members who "shall be learned and experienced in questions of taxation or of real estate valuation and appraisal or of both." In accordance with RSA 71-B:2 the members of the Board are appointed by the New Hampshire Supreme Court and commissioned by the Governor for a five year term.

RSA 71-B:14 provides the Board shall have upon its staff two review appraisers who shall be competent to review the value of property for tax and eminent domain purposes and such clerical and technical staff as may be necessary within the limits of appropriations.

At June 30, 2008, in addition to the four Board members, there were seven fulltime-classified employees at the Board of Tax and Land Appeals.

**Responsibilities**

RSA 71-B:5 establishes the duties of the Board to have the power and authority to hear and determine:

- All matters involving questions of taxation properly brought before it. In determining matters before it, the Board may institute its own investigation, or hold hearings, or take other actions.
- Appeals by municipalities relating to the equalized valuation of property as determined by the Commissioner of Revenue Administration. The Board's decision on such appeal is final pending a decision by the New Hampshire Supreme Court.
- All matters relating to the condemnation of property for public uses and the assessment of damages therefore as provided in RSA 498-A.
- All matters relating to orders for reassessment properly brought pursuant to RSA 71-B:16.

**Funding**

The financial activity of the Board of Tax and Land Appeals is accounted for in the General and Agency Funds of the State of New Hampshire. A summary of the Board's General Fund

revenues and expenditures for the fiscal year ended June 30, 2008 is shown in the following schedule.

**Summary Of Revenues And Expenditures  
For The Fiscal Year Ended June 30, 2008**

	<u>General Fund</u>
Total Revenues	\$ 280,444
Total Expenditures	<u>992,722</u>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b><u>(712,278)</u></b>
 <b>Other Financing Sources (Uses)</b>	
Net General Fund	<u>712,278</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>712,278</u></b>
 <b>Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses</b>	
	<b><u><u>\$ -0-</u></u></b>

**Prior Audit**

There have been no recent previous financial and compliance audits of the Board of Tax and Land Appeals.

**Audit Objectives And Scope**

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statements of the Board of Tax and Land Appeals for the fiscal year ended June 30, 2008. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Board and tested its compliance with certain provisions of applicable State and federal laws, rules, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and Expenditures and
- Agency Funds.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, financial statements, and supplementary information are contained in the report that follows.

## **Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters**

*To The Fiscal Committee Of The General Court:*

We have audited the Statement of Revenues and Expenditures, General Fund, and the Statement of Changes in Assets and Liabilities, Eminent Domain Escrow Account, of the New Hampshire Board of Tax and Land Appeals (Board) for the fiscal year ended June 30, 2008 and have issued our report thereon dated December 5, 2008, which was qualified as the governmental fund financial statement does not constitute a complete financial presentation of the Board in the governmental fund. We conducted our audit in accordance with 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the

entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 7 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of the Board's compliance with certain provisions of laws, rules, regulations, and contracts, 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*. However, we noted immaterial instances of noncompliance which are described in Observations No. 8 through No. 10.

The Board's response is included with each observation in this report. We did not audit the Board's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Board of Tax and Land Appeals, others within the Board, and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

  
Office Of Legislative Budget Assistant

December 5, 2008

**Internal Control Comments**  
**Significant Deficiencies**

**Observation No. 1: Communications With State Central Service Agencies Should Be Improved**

*Observation:*

Prior to fiscal year 2008, the Board did not report its Eminent Domain Escrow Account (Account) to the Department of Administrative Services (DAS) for inclusion in the State's Comprehensive Annual Financial Report. In addition, it is unclear whether anyone in State government outside of the Board was aware that the Board was responsible for a multimillion-dollar cash account operating outside of the State's accounting and control system.

The Eminent Domain Escrow Account consists of a checking and a savings account maintained by the Board to hold and pay out amounts held in escrow related to contested eminent domain property takings. During fiscal year 2008, approximately \$8.5 million were deposited into the accounts and \$4 million were paid from the account. At June 30, 2008, the balance in the two accounts was approximately \$7.2 million.

While the Board obtained the assistance of the DAS and the State Treasury in designing and establishing a control structure when the Account was reorganized in 1996 and maintained regular contact with these two agencies through the Board's regular financial accounting, budgeting, and cash receipt activity, neither the DAS nor the State Treasury were aware of the extent of the financial activity processed through the Account. While no material weaknesses were noted in the Board's controls over the Account, as noted in Observations No. 2 through No. 4, significant deficiencies were noted in the Board's Account procedures that could benefit from the advice and counsel of these State agencies.

*Recommendation:*

The Board should improve its communication with State Central Service agencies.

The Board should again request the assistance of the DAS and State Treasury to review the Board's banking practices relative to the Account. With the assistance of the DAS and State Treasury, the Board should review whether the current Account, accounting, and structure is appropriate for the needs and objectives of the Board, DAS and State Treasury.

*Auditee Response:*

We concur. The Board is receptive and in fact has arranged a meeting in January 2009 to seek advice and input from Treasury and Administrative Services regarding these issues.

## **Observation No. 2: Banking Activity Should Be Reviewed With State Treasury And Documented**

### *Observation:*

The Board's relationship with the bank that provides banking and accounting services for the Board's Eminent Domain Escrow Account is not formally documented.

The Eminent Domain Escrow Account consists of a checking account and a savings account maintained by the Board to hold and pay out amounts held in escrow related to contested eminent domain property takings. During fiscal year 2008, approximately \$8.5 million were deposited into and \$4 million were paid from the accounts. At June 30, 2008, the balance in the two accounts was approximately \$7.2 million.

In addition to standard banking services, the bank provides the Board with regular detailed accounting of balances and earned interest by condemnee sub-account and also collateralizes the balances in condemnee sub-accounts in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage of \$100,000 per condemnee. These services are provided to the Board without additional charge in exchange for a reduction in the interest rate earned on the balance in the savings account.

The Board has not formally documented its banking and accounting services agreement in a contract or other comprehensive writing. While the Board indicated that the State Treasury was involved years ago in setting up the accounts with a local bank, the bank has since been absorbed by a larger institution and when asked during the audit, the State Treasury was unaware of the particulars of the Board's banking relationship, including the level of activity in the accounts.

### *Recommendation:*

The Board should document its banking agreements to ensure that each party to the agreement has an understanding of their respective rights and responsibilities.

The Board should review its Eminent Domain Escrow Account banking activity with the State Treasury to ensure that the Board's banking activity is efficient and effective and best serves the needs of the State, Board, condemnees, and condemnors.

The Board should regularly review its banking agreements with the State Treasury to ensure that the agreements remain current with the needs of the State and Board.

### *Auditee Response:*

We concur. The major contours of the banking arrangements with Merrimack County Savings Bank, the successor to Bow Mills Bank, are documented and benefit the State. In particular, Merrimack County Savings Bank continues to provide a host of services at no net cost to the Board or State. The Board intends to more formally document these banking arrangements and will request input from Treasury and Administrative Services to that end.

*State Treasury Response:*

We concur. The Treasury has contacted the Board of Tax and Land Appeals in an effort to better understand the purposes and business needs of the Eminent Domain Escrow Account. In a separate but related initiative, the Treasury recently contacted all State agencies that have bank accounts with the State's three largest banking partners that are not in the custody of the Treasurer. The purpose of this ongoing effort is to identify the business needs and associated risks with these accounts.

**Observation No. 3: Bank Account Reconciliation Procedures Must Be Improved**

*Observation:*

The account reconciliation procedures used by the Board to ensure that its Eminent Domain Escrow Account records agree to the bank's account records are not sufficient to allow reasonable assurance that errors or frauds that may occur would be detected and corrected in a timely manner.

The Board maintains two demand accounts at a local bank to hold money on behalf of condemnees in contested eminent domain proceedings. The Board holds the money in a pooled savings account until a condemnee formally requests the money at which point the money is transferred to a checking account for disbursement. At June 30, 2008, the bank balance in the two accounts was approximately \$7.2 million.

The Board's reconciliation process for these accounts involves tracing and agreeing the Board's record of account activity (e.g., deposits, transfers, and payments) to the monthly bank statements. The Board's reconciliation process does not include a review of the account balances or bank activity that may not be reflected on the Board's records, such as account fees, rebates, or any unauthorized or unanticipated account activity.

*Recommendation:*

The Board must implement a full reconciliation process for the Eminent Domain Escrow Account. The reconciliations must include a review and comparison of all balances and activity in the savings and checking accounts recorded by both the Board and the bank. The Board should consider conferring with the State Treasury on appropriate account reconciliation procedures.

*Auditee Response:*

We concur. The Board has already added additional procedures to reconcile the activities in the savings and checking accounts.

#### **Observation No. 4: Policies And Procedures Should Address Outstanding Checks**

*Observation:*

The Board does not monitor for and respond to old outstanding checks to promote the timely clearance of payments from the Eminent Domain Escrow Account (Account).

The Board disburses money from the Account upon the request of a condemnee. Checks are sent certified mail to the first named payee. During fiscal year 2008, the Board disbursed a total of \$4,117,672 from the Account in 76 checks based upon requests from condemnees.

While the Board keeps a list of outstanding checks, the Board does not follow up on uncashed checks regardless of how much time a check remains outstanding. The Board typically does not contact payees of outstanding checks to determine their intentions for checks that remain uncashed. At June 30, 2008, twelve checks were on the Board's outstanding check list. Six of those checks totaling \$39,178 were issued in calendar year 2004 or prior, including a \$38,633 check issued in December 2004 and a \$540 check issued in April 2001. The remaining four checks totaled less than \$5. According to the Board, its bank honors checks drawn from this account regardless of issue date.

The Board does not submit old outstanding checks to the State's Abandoned Property program. Five out of the 12 outstanding checks at June 30, 2008 were greater than five years old and met the reporting provisions in the State's Abandoned Property program.

*Recommendation:*

The Board should establish policies and procedures addressing outstanding checks. The Board should consider consulting with the State Treasury to ensure the policies and procedures are responsive to the Board's and State's needs.

Board policies and procedures should address monitoring for, and responding to, old outstanding checks. Payees of checks that do not clear the bank in a reasonable period of time should be contacted to determine the payees' intentions, including determination of whether checks have become lost or misplaced. The Board should report old outstanding checks to the State's Abandoned Property program if efforts to resolve clearance of the checks fail to clear the checks in the time allowed by the Abandoned Property statutes.

*Auditee Response:*

We concur. The Board will pursue, with the advice of Treasury, a procedure to address the concerns raised in the Observation so these checks are either cashed or the funds are abandoned. The Board intends to seek clarification from Treasury regarding how this issue of outstanding old checks should work within the State's established Abandoned Property program.

## **Observation No. 5: Procedures For Determining Costs To Administer Eminent Domain Proceedings Should Be Formalized**

### *Observation:*

The Board is inconsistent in its methods to recover its costs, including salaries and benefits, attributable to administering eminent domain proceedings. Currently, the Board directly accumulates costs to recover from municipalities and estimates the amounts to recover from the State Department of Transportation (DOT) related to eminent domain cases.

In determining the costs to recover from municipalities bringing contested eminent domain actions, the Board determines and recovers actual costs incurred. Board members and employees track the time spent on all activities (e.g. phone calls, travel, hearings, and deliberations) related to the municipal property taking. In addition, the Board also tracks all other direct expenses related to those cases (e.g. postage, copies, and travel). Once the case has been decided and closed, the Board presents a detail bill enumerating all the costs incurred to the specific municipality for reimbursement in accordance with RSA 498-A:21.

In determining the costs to recover from the DOT for contested eminent domain actions, the Board recovers an estimate of actual costs incurred. During the biennial budget process, Board employees estimate the percentage of time they typically spend on all eminent domain cases. This estimate is based on employee perception of their prior year activities without establishing and documenting the reasonableness of this estimate. The estimated percentage is applied against total salaries to arrive at an average allocation percentage that is applied to all Board expenditures. This estimated total cost of providing contested eminent domain services, less any amounts recovered from municipalities, is recovered from the DOT. Because the employee estimates are based on employee perception of activity and not on a study or analysis of time spent on eminent domain cases, this method of cost allocation likely does not reflect actual efforts spent by the Board on DOT related cases during the fiscal year. The Board reported that due to the volume of DOT eminent domain cases, tracking direct expenses would be too complicated and time consuming.

### *Recommendation:*

The Board should review its procedures for allocating costs related to eminent domain proceedings to provide reasonable assurance that the process used by the Board results in an accurate and supported allocation of costs in compliance with all relevant statutes.

Estimates of employee activity levels should be supported by time sheets, activity reports, work studies, or other generally recognized and supportable determinations of employee efforts.

The Board should review the statutes related to cost allocation to make sure that its allocation methods are statutorily compliant. If the Board determines compliance with the statutes is not feasible or in the best interest of the State and Board, the Board should request that the statutes be revised.

*Auditee Response:*

We concur in part. The Board's two procedures for accounting and allocating costs related to eminent domain proceedings for municipal takings and estimating general fund/highway fund allocations are designed to be cost effective relative to the volume of activity and the goal of the estimate. Doing detailed expense accounting for DOT allocations would not be cost effective for the general purpose of budgeting general fund/highway fund allocation. In other words, if every staff and Board member had to perform a detailed accounting of their time and activities, it would be an undue burden on the Board's limited staff and budget. Due to the very few municipal takings, the more detailed accounting of the Board's time on those eminent domain filings is not burdensome and provides an understandable basis for billing municipalities.

We recognize these two procedures are facially inconsistent, but viewed within the context of the purpose of each exercise they are cost effective and are adequate for the level of accuracy necessary for each purpose.

The Board has a bill before the legislature to delete the conflicting provisions of RSA 6:12, I(b)(8) based on the statutory history of amendments to RSA 498-A:16-a, as explained in Observation No. 8.

**Observation No. 6: Accountability Over Revenue And Receipts Should Be Established Upon Receipt**

*Observation:*

The Board could process fee revenues and other receipts in a more timely and controlled manner without incurring significant additional burden.

During fiscal year 2008, the Board collected approximately \$53,000 in filing and other fees and \$8.5 million in escrow money held on behalf of condemnees in contested eminent domain cases.

The Board generally receives fees and other revenues through the postal mail in the form of checks. Eminent domain escrow amounts are generally hand delivered to the Board by the Department of Justice in the form of State issued checks. The mail is initially received and processed by the Executive Secretary who records all correspondence in a mail log. Abatement applications and fees are forwarded to the Administrative Secretary who docketes the application and forwards the checks and a copy of the docketing system receipt to the Program Assistant II who restrictively endorses the checks, prepares an initial record of receipt, Form A-15, attaches a photocopy of the check to the A-15, and processes a bank deposit. Escrow amounts and related correspondence are forwarded to the Supervisor III who docketes the eminent domain filing, prepares a receipt document, logs the receipt into a ledger book, and prepares a deposit. Allowing the checks to pass unrecorded and unendorsed among several employees prior to control processes being invoked delays the establishment of accountability and the deposit of these receipts.

Information in the Board's docketing system is also not subsequently compared to deposit amounts to ensure that all fees and other receipts collected by the Board and recorded in the docketing system have been deposited in the bank.

*Recommendation:*

The Board should establish accountability controls over fee revenues and other receipts immediately upon acceptance of the receipts.

Checks and other receipts should not be transferred between employees prior to the initial recording of the acceptance of the receipts and the restrictive endorsement of all checks.

The Board should determine whether information captured by the mail log can be expanded to include a recording of checks or other payments that may accompany the mail. If the mail log cannot be utilized to initially record the acceptance of checks and other receipts, the Executive Secretary should prepare an initial recording of the checks and other receipts (Form A-15 or equivalent) prior to forwarding the checks and other receipts for deposit. Checks should not unnecessarily be forwarded with the applications and other correspondence to employees that further process and utilize those documents. An initial recording of eminent domain checks either through the mail log process or by an A-15 equivalent should also be prepared to control their timely processing and deposit.

Information in the initial recording of receipts, the docketing system, and the bank deposits should be periodically compared to ensure all fees and other receipts collected by the Board have been properly applied and deposited.

*Auditee Response:*

We concur. The Board will address the concerns raised in the Observation, subject to the limitations imposed by the Board's limited staff and the office layout and the need to process the filings efficiently and expeditiously. In particular, RSA 498-A:5, I requires the Board's clerk to review the sufficiency of the Declaration of Taking before accepting it and the accompanying deposit.

**Observation No. 7: Inefficient And Redundant Procedures Should Be Discontinued**

*Observation:*

Elements of the Board's control activities include what appear to be unnecessary activities. The performance of unnecessary activities is inefficient and raises the risk that undue reliance will be placed on those unnecessary activities, and other activities that could increase the Board's controls may not be performed due to lack of time.

- The Board records all expenditures in a manual ledger. The Board reports this ledger is maintained primarily to track expenditures incurred to date and remaining appropriations

available in each expenditure class and as a backup in case the State's accounting system (NHIFS) becomes unavailable. As all of this information is available on a daily basis from NHIFS and as NHIFS availability has been proven reliable, the completion and maintenance of this manual ledger appears to be wasted effort.

- The Board photocopies all checks it receives. Copies of the checks are retained in case future reference is needed. The photocopying of checks is generally regarded as an unnecessary effort, an avoidable operating cost, and an increased risk that account information contained on checks may become accessible for misuse.

*Recommendation:*

The Board should discontinue performing activities that are redundant or ineffective or otherwise do not meet an operational or other control purpose.

- The Board should discontinue its completion of its manual expenditure ledger.
- The Board should discontinue its routine copying of checks. Checks should only be copied when there is an existing business need to do so.

*Auditee Response:*

We concur in part. The Board finds the maintenance of the manual ledger is not inefficient or redundant due to the relatively small number of transactions for the Board. We find its readily accessible, detailed information is helpful for current and historical budget analyses. The Board will be reviewing the necessity for copying its checks as part of its procedure for processing its revenue and receipts. See Observation No. 6.

## Compliance Comments

### **Observation No. 8: Inconsistency In Statutes Should Be Resolved**

#### *Observation:*

There are conflicting statutes directing the deposit of eminent domain filing fees.

- RSA 498-A:16-a directs the deposit of eminent domain filings fees to the General Fund.
- RSA 6:12, I, (b) (8), directs the deposit of 90% of the eminent domain filing fees to the Highway Fund.

Prior to amendment by Chapter 408 Laws of 1989, RSA 498-A:16-a also provided for a 90% Highway Fund 10% General Fund fee split. It is unclear whether RSA 6:12, I, (b) (8), is relevant to the Board's current operations or is an uncorrected vestige of the law that was amended in 1989. Prior to becoming aware of the provisions of RSA 6:12, I, (b) (8) part way through fiscal year 2008, the Board deposited 100% of the eminent domain filing fees to the General Fund.

#### *Recommendation:*

The Board should review the statutory history of RSA 498-A:16-a and RSA 6:12, I, (b) (8) to determine the applicable disposition of eminent domain fee revenue. Based on the results of that review, the Board should request an amendment to statute to eliminate the inconsistency between the two statutes.

#### *Auditee Response:*

We concur. The Board has a bill before the legislature to delete the conflicting provisions of RSA 6:12, I(b)(8) based on the statutory history of amendments to RSA 498-A:16-a.

### **Observation No. 9: Biennial Report Should Be Filed**

#### *Observation:*

The Board did not meet the requirements in RSA 20:6 and RSA 20:7 for filing a biennial report.

RSA 20:7 requires specific agencies to file annual reports and all other agencies and institutions of the State to file biennial reports. As an unspecified organization, the statute required the Board to file a report for the biennium ending June 30, 2007 by October 1, 2008.

According to RSA 20:6, reports required by RSA 20:7 are to be submitted to the Governor and Council and also filed in the State agencies and institutions as public documents.

According to the Board, it was unaware of the statutory reporting requirements.

*Recommendation:*

The Board should comply with the reporting requirements in RSA 20:6 and RSA 20:7.

The Board should communicate with the Department of Administrative Services to ensure it prepares and submits a biennial report in compliance with the statute and the guidelines of the Governor and Council.

*Auditee Response:*

We concur. The Board will confer further with Administrative Services as to how to properly comply with the Board's responsibility under RSA 20:6 and 20:7.

**Observation No. 10: Procedure Should Be Established To Remind Board Of Statement Of Financial Interests Filing Requirement**

*Observation:*

Board members did not file 2008 Statements of Financial Interests timely. According to the Board, an oversight resulted in the failure to file the statutorily required statements.

Per RSA 15-A:3, "The following persons shall file a statement of financial interests as required by this chapter: ...III. Every person appointed by the governor, governor and council, president of the senate, or the speaker of the house of representatives to any board, commission, committee, board of directors, authority, or equivalent state entity whether regulatory, advisory, or administrative in nature. IV. All agency heads." The Board reports Board members have filed statements in the past as agency heads.

Per RSA 15-A:6, "All persons subject to this chapter shall file a statement of financial interests annually no later than the third Friday in January."

*Recommendation:*

The Board should establish procedures to annually remind Board members of their statutory responsibility to submit a Statement of Financial Interests to the Secretary of State.

*Auditee Response:*

We concur. The Board has recently filed the required reports for 2008. In the past the Board has consistently filed the reports on a timely basis.

## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying Statement of Revenues and Expenditures, General Fund, and Statement of Changes in Assets and Liabilities, Eminent Domain Escrow Account, of the New Hampshire Board of Tax and Land Appeals (Board) for the fiscal year ended June 30, 2008. These financial statements are the responsibility of the management of the Board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

As discussed in Note 1, the financial statements of the Board are intended to present certain financial activity of only that portion of the State of New Hampshire that is attributable to the transactions of the Board. The Statement of Revenues and Expenditures, General Fund, does not purport to and do not constitute a complete financial presentation of either the Board or the State of New Hampshire in the governmental fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Board for the fiscal year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the Statement of Revenues and Expenditures, General Fund, and the Statement of Changes in Assets and Liabilities, Eminent Domain Escrow Account, of the Board. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements. In our opinion, the supplementary information is fairly stated, 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 5, 2008 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

December 5, 2008

**STATE OF NEW HAMPSHIRE  
BOARD OF TAX AND LAND APPEALS**

**STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Revenues**

**Unrestricted Revenues**

Appeals For Abatement	\$ 48,320
Assessments	3,190
Miscellaneous	<u>1,186</u>

**Total Unrestricted Revenues** 52,696

**Restricted Revenues**

Transfer From Department Of Transportation	<u>227,748</u>
--	----------------

**Total Restricted Revenues** 227,748

**Total Revenues** **280,444**

**Expenditures**

Salaries And Benefits	846,057
Transfers To General Services	56,670
Current Expenses	34,437
Transfers To Office Of Information Technology	32,842
Maintenance Other Than Buildings And Grounds	5,819
Consultants	5,524
Equipment	4,898
Travel	2,844
Rents/Leases Other Than State	2,508
Other	<u>1,123</u>

**Total Expenditures** **992,722**

**Excess (Deficiency) Of Revenues**

**Over (Under) Expenditures** **(712,278)**

**Other Financing Sources (Uses)**

Net General Fund	<u>712,278</u>
------------------	----------------

**Total Other Financing Sources (Uses)** **712,278**

**Excess (Deficiency) Of Revenues And**

**Other Financing Sources Over (Under)**

**Expenditures And Other Financing Uses** **\$ -0-**

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
BOARD OF TAX AND LAND APPEALS**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
EMINENT DOMAIN ESCROW ACCOUNT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<b>ASSETS</b>				
Cash (Note 2)	\$ 2,745,332	\$ 8,509,466	\$4,117,672	\$7,137,126
<b>LIABILITIES</b>				
Custodial Funds Payable	\$ 2,745,332	\$ 8,509,466	\$4,117,672	\$7,137,126

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
BOARD OF TAX AND LAND APPEALS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

The Board of Tax and Land Appeals (Board) is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Board.

The financial activity of the Board is accounted for and reported in the General and Fiduciary Funds in 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. The Board, as a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Board cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures, General Fund, is not intended to show the financial position or change in fund balance of the Board of Tax and Land Appeals in the General Fund.

**B. Financial Statement Presentation**

The State of New Hampshire and the Board use funds to report on their financial position and the 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 Board reports its financial activity in the funds described below:

Governmental Fund Types:

*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 other funds are charged to the General Fund.

Fiduciary Fund Types:

*Agency Funds:* Agency funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

### **C. 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 the liabilities of the current period. For this purpose, except for federal grants, the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

### **D. Budget Control And Reporting**

#### *General Budget Policies*

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 that 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 and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR. Fiduciary Funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require approval of the Joint Legislative Fiscal Committee and the Governor and Council.

Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. 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 Joint Legislative 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 lapse at year-end to undesignated fund balance unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of 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.

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. The Board's unliquidated encumbrance balance in the General Fund at June 30, 2008 was \$534.

A Budget To Actual Schedule, General Fund, is included as supplementary information.

## **NOTE 2 – AGENCY FUND CASH**

### **Agency Fund - Eminent Domain Escrow Account**

The Board maintains two demand deposit accounts (a savings and a checking account) for eminent domain deposits. The Board maintains these accounts in an agency capacity to secure the proceeds on behalf of condemnees (property owners) from the contested taking of property. Amounts held in the accounts on behalf of the condemnees remain in the accounts until requested by the condemnees. The Board deposits the cash in the savings account and transfers amounts to the checking account for distribution to condemnees. The bank provides the Board with accounting and reporting of balances by condemnee. The amount reported as "Cash" on the Statement of Changes in Assets and Liabilities, Eminent Domain Escrow Account, reports the carrying amounts of cash and activity in the savings and checking accounts during the fiscal year ended June 30, 2008.

### **Deposits**

The Board, through an informal agreement, requires its bank to collateralize funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits, with securities held by the bank's agent for the benefit of the Board. At June 30, 2008, collateral consisted primarily of Federal Home Loan Bank securities. The collateralization of balances in excess of the FDIC insurance is provided to the Board without additional charge in exchange for a reduction in the interest rate earned on the balance in the savings account.

Custodial credit risk, the risk that in the event of a bank failure the State's deposits may not be recovered, is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Board does utilize such arrangements where prudent and cost effective. In addition, ongoing reviews with officials of the depository institution are used to allow for frequent monitoring of custodial credit risk. The following table details the Board's bank balances at June 30, 2008 exposed to custodial credit risk.

<u>Account Type</u>	<u>Bank Balance</u>	<u>Insured</u>	<u>Collateralized</u>	<u>Uncollateralized</u>
<b>Demand Deposits</b>				
Savings Account	\$ 7,137,126	\$ 1,605,465	\$ 5,500,000	\$ 31,661
Checking Account	98,621	98,621	-0-	-0-
<b>Total</b>	<u>\$ 7,235,747</u>	<u>\$ 1,704,086</u>	<u>\$ 5,500,000</u>	<u>\$ 31,661</u>

At June 30, 2008, the Board's carrying amount for the cash balance in the Eminent Domain Escrow Account (Account) was \$7,137,126 and the bank balance was \$7,235,747. The difference between the carrying amount and the bank balance consists of checks that have not cleared the bank as of June 30, 2008. Additions to the Account represent eminent domain cases filed with the Board during fiscal year 2008. Deletions from the Account represent distribution of funds to the property owners during fiscal year 2008. All distributions are reviewed and approved by at least two Board members.

### **NOTE 3 - EMPLOYEE BENEFIT PLANS**

#### *New Hampshire Retirement System*

The Board of Tax and Land Appeals, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers all full-time employees of the Board. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 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 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 all members.

Group I members at age 60 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 (1.67%) of 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 ten or more years of creditable service who are between ages 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 at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Board employees are members of Group I.

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.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2008, Group I members were required to contribute 5% and group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Board's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Board's payments for normal contributions for the fiscal year ended June 30, 2008 amounted to 8.74% of the covered payroll for its group I employees. The Board's normal contributions for the fiscal year ended June 30, 2008 were \$45,932.

A special account was established by RSA 100-A:16, II (h) for additional benefits. Effective for fiscal year 2008, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10 ½ percent as long as the actuary determines the funded ratio of the retirement system to be at least 85 percent. If the funded ratio of the system is less than 85 percent, no assets will be transferred to the special account.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301 or from their web site at <http://www.nhrs.org>.

#### *Health Insurance For Retired Employees*

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical 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 after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

The cost of the health benefits for the Board's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System and is not included in the Board's financial statement.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfounded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Board.

**STATE OF NEW HAMPSHIRE  
BOARD OF TAX AND LAND APPEALS  
SUPPLEMENTARY INFORMATION  
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Actual</u>	<b>Favorable (Unfavorable) Variance</b>
<b><u>Revenues</u></b>			
<b>Unrestricted Revenues</b>			
Appeals For Abatement	\$ 53,625	\$ 48,320	\$ (5,305)
Assessments	6,500	3,190	(3,310)
Miscellenous	<u>1,000</u>	<u>1,186</u>	<u>186</u>
<b>Total Unrestricted Revenues</b>	<u>61,125</u>	<u>52,696</u>	<u>(8,429)</u>
<b>Restricted Revenues</b>			
Transfer From Department Of Transportation	<u>245,116</u>	<u>227,748</u>	<u>(17,368)</u>
<b>Total Restricted Revenues</b>	<u>245,116</u>	<u>227,748</u>	<u>(17,368)</u>
<b>Total Revenues</b>	<u>306,241</u>	<u>280,444</u>	<u>(25,797)</u>
<b><u>Expenditures</u></b>			
Salaries And Benefits	886,681	846,057	40,624
Transfers To General Services	56,670	56,670	-0-
Current Expenses	43,800	34,437	9,363
Transfers To Office Of Information Technology	48,584	32,842	15,742
Maintnace Other Than Buildings And Grounds	500	5,819	(5,319)
Consultants	6,000	5,524	476
Equipment	4,262	4,898	(636)
Travel	4,100	2,844	1,256
Rents/Leases Other Than State	3,000	2,508	492
Other	<u>1,150</u>	<u>1,123</u>	<u>27</u>
<b>Total Expenditures</b>	<u>1,054,747</u>	<u>992,722</u>	<u>62,025</u>
<b>Excess (Deficiency) Of Revenues</b>			
Over (Under) Expenditures	<u>(748,506)</u>	<u>(712,278)</u>	<u>36,228</u>
<b>Other Financing Sources (Uses)</b>			
Net General Fund	<u>748,506</u>	<u>712,278</u>	<u>36,228</u>
<b>Total Other Financing Sources (Uses)</b>	<u>748,506</u>	<u>712,278</u>	<u>36,228</u>
<b>Excess (Deficiency) Of Revenues And</b>			
<b>    Other Financing Sources Over (Under)</b>			
<b>    Expenditures And Other Financing Uses</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>-0-</u>

The accompanying note is an integral part of this schedule.

## **Note To The Budget To Actual Schedule - General Fund For The Fiscal Year Ended June 30, 2008**

### **Note 1 - General Budget Policies**

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 annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received. 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 and proprietary fund types with the exception of the Capital Projects Fund.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2008 as passed by the Legislature in Chapter 262, Laws of 2007.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative 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 lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

#### *Variances - Favorable/(Unfavorable)*

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget and the actual revenues and expenditures for the fiscal year ended June 30, 2008. Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

The unfavorable expenditure variances shown on the Budget to Actual Schedule represents the difference between the actual expenditures incurred during the fiscal year ended June 30, 2008 and the original budget in place at the beginning of fiscal year 2008. The unfavorable expenditure variances do not represent expenditures incurred in excess of appropriations because the original budget amounts do not include supplemental appropriations. The State and the Board use supplemental appropriations to add appropriations to original budget amounts to reflect changes in levels of operations not provided for in the original budget.