

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE BANKING DEPARTMENT**

**FINANCIAL AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2018**



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State of New Hampshire

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STEPHEN C. SMITH, CPA
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To The Fiscal Committee Of The General Court:

We have audited the financial statement of the New Hampshire Banking Department (Department) of the State of New Hampshire for the fiscal year ended June 30, 2018, and have issued our report thereon dated January 14, 2019.

This financial audit report presents information related to our audit in two sections: a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the Department's financial statement. This section contains an auditor's report on internal control over financial reporting and on compliance and other matters, related audit findings, and a summary of the status of prior audit findings originally contained in the report of the audit of the Department for the fiscal year ended June 30, 2011.

The financial section of this report, with the exception of the independent auditor's report on the Department's financial statement, was prepared by the financial management of the Department, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the auditor's report, the financial section of the report includes the financial statement, notes to the financial statement, and certain required supplementary information.

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

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

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

January 14, 2019

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE BANKING DEPARTMENT**

**FINANCIAL AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2018**

MANAGEMENT LETTER SECTION

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* No audit comment suggests legislative action may be required.

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

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the New Hampshire Banking Department (Department) which comprise the Statement of Revenues and Expenditures - General Fund for the fiscal year ended June 30, 2018, and the related notes to the financial statement, and have issued our report thereon dated January 14, 2019. Our report on the financial statement was modified as the Statement of Revenues and Expenditures - General Fund does not purport to and does not constitute a complete financial presentation of the Department in the General Fund in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Observations No. 1 through No. 5, that we consider to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its 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*.

Department's Responses To Findings

The Department's responses to the findings identified in our audit are included with each reported finding. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose Of This Report

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


Office Of Legislative Budget Assistant

January 14, 2019

Internal Control Comments
Significant Deficiencies

Observation No. 1: Prepare And Implement Fundamental Internal Control Processes And Plans

Observation:

The Department has not prepared and implemented certain internal control processes and plans that are generally regarded as fundamental to efficient and effective internal controls. During the fiscal year 2018, the Department had not established or maintained:

- A formal risk assessment process,
- A formal fraud reporting and mitigation process,
- A current information technology plan,
- A disaster recovery plan, or
- Finalized its continuity of operations plan.

Each of these processes and plans are generally regarded as central to an organization's ongoing internal controls. By not formally addressing these control fundamentals, the Department increases the risk that its operations could be negatively impacted by foreseeable, but unplanned for, events.

A similar comment was noted in our 2011 financial audit of the Department.

Recommendation:

The Department should prepare, implement, and maintain internal control processes and plans that are fundamental to efficient and effective internal controls including a formal risk assessment process, a formal fraud reporting and mitigation process, an information technology plan, and a disaster recovery plan. The Department should finalize its continuity of operations plan.

Auditee Response:

We concur.

In 2016, the Banking Department and its relatively new Senior Management Team recognized the need for implementing these internal control processes and plans. The Department began working on them immediately by realigning staff and focusing on drafting and implementing policies and procedures to support them.

The Department anticipates drafting and implementing a formal fraud reporting and mitigation process by the end of 2019. Work to complete a Continuity of Operations Plan is in progress with a target to complete the job in late 2019. The Department will work with representatives

from the Department of Information Technology (“DOIT”) to draft a Disaster Recovery Plan by the end of 2020. The Senior Management Team will work on drafting and implementing a Formal Risk Assessment Process by the end of 2020.

The Department submitted an Information Technology Plan for the 2020-2021 Budget Biennium to DOIT on or about March 2018. A copy of that plan was provided to the auditor team on or about November 8, 2018.

Observation No. 2: Support All Significant Aspects Of Financial Operations With Formal Management-Approved Policies And Procedures

Observation:

The Department has not supported significant aspects of its financial operations with formal controls in the form of management-approved policies and procedures, including:

- Assessment calculations and billings,
- Per-diem calculations and examination billings,
- Licensing of individuals and entities and collecting related fees and fines, and
- Monthly reconciliations.

These operations are performed by Department employees without the benefit of documented, management-approved policy and procedure guidance that would encourage accuracy, consistency, and compliance with management’s objectives and directives.

The lack of clear policy and procedure guidance likely contributed to the Department:

- Not issuing the 2018 assessment billings to recover costs of the Department’s Banking and Trust Divisions timely;
- Not detecting minor errors in the 2017 assessments billed in fiscal year 2018, or documenting its review of the assessment billing prior to its issuance;
- Using a fiscal year 2018 per-diem rate to recover examination costs that the Department recognized was not sufficient to recover the actual costs of the examinations;
- Not detecting errors in invoices issued to examined entities; and
- Not consistently performing monthly reconciliation controls.

While stability in a key business office staff position has contributed to the relative effectiveness of the Department’s financial operations to date, the lack of clear policy and procedure guidance increases the risk to the Department’s secure continuity of operations, especially in the event of an unplanned termination of key business office staff.

A similar comment was noted in our 2011 financial audit of the Department.

Recommendation:

The Department should support all significant aspects of its financial operations with formal management-approved policies and procedures that address processes and controls that promote financial operations and compliance with management's objectives and expectations.

The Department should perform an inventory of its significant financial operations and review whether existing policies and procedure controls are adequate or whether policies and procedures need to be established or updated. Approved policies and procedures need to be effectively communicated, and employees appropriately trained. In addition, Department management needs to establish a suitable monitoring control to ensure the policies and procedures that are in place operate as intended and remain relevant to the Department's risks.

Auditee Response:

We concur.

The Department recognizes the importance of supporting all significant aspects of financial operations with formal management-approved policies and procedures. Specifically, the Department has taken many affirmative steps in furtherance of this observation, including reconstituting a Legal Division within the Department and securing a new attorney position to focus on policies and procedures via its 2018-2019 budget request. Additionally, on January 9, 2017, the Department adopted a Creating Policies and Procedures policy in order to provide a formal mechanism to develop, approve, rescind, and periodically revise policies and procedures as well as improve dissemination of those policies and procedures. Since January 2017, the Department has adopted 21 policies and procedures in accordance with the Creating Policies and Procedures policy.

The Department anticipates drafting and implementing policies and procedures supporting assessment calculations and licensing of individuals and entities and collecting related fees and fines by the end of 2020. The Department implemented the Per Diem Calculation Policy and Procedure on October 17, 2018. The Department will continue to diligently work to achieve the goal that all significant aspects of financial operations are supported by formal policies and procedures.

Observation No. 3: Continue Efforts To Expand Use Of Technology

Observation:

The Department's operations suffered during fiscal year 2018 from its continued reliance on information systems that it recognizes are inadequate for its needs. The inability of the Department's systems to efficiently capture and integrate available information forces the Department to perform manual information processing and review that is inefficient and increases the risk of errors.

Examples of where the current information systems affect the efficiency and effectiveness of the Department's activities include:

- The Department uses databases, spreadsheets, and other resources to track its bank and consumer credit examiner hours, including accumulating information necessary to invoice entities subject to examination. The lack of a robust information system to track examination information is inefficient and increases the risk that invoices will not be complete and accurate, and that the Department will not have readily-available management information for monitoring its examination activities.
- Biweekly work-hour reporting submitted by Department employees examining consumer credit providers is not subject to a formal review and approval control to ensure the examiners' hours are accurately charged to the correct examination for billing purposes, increasing the risk that consumer credit examiner hours may be billed to an incorrect entity.
- The Department's current invoicing procedure for examinations is a largely manual process performed by two, long-tenured business office employees. The Department does not perform a formal review and approval of the consumer credit examination invoices prior to distributing the invoices to licensees. Auditors noted during a review of the Department's June 30, 2018 accounts receivable balance that one entity was invoiced twice for an examination performed in fiscal year 2018, resulting in an overbilling of \$10,070.
- Mortgage banker, broker, servicer, and loan originator licensees renew online using the Nationwide Multistate Licensing System & Registry (NMLS), a nation-wide servicing organization. Licensees pay their New Hampshire licensing fees to the operator of the NMLS system which subsequently sends aggregate payments to the Department and makes licensee information available for transfers to the Department's license database. Payment information is not captured in the Department's license database making a reconciliation of the information more difficult and increasing the risk that information in the license database is incomplete or otherwise incorrect.
- The Department did not have readily accessible information on the history of consumer credit examinations that would allow it to efficiently determine whether it was meeting the statutory requirements for those examinations. Access to accurate and complete examination information is key to the Department's ability to maintain compliance.

A similar comment was noted in our 2011 financial audit of the Department.

Recommendation:

The Department should continue in its efforts to expand its use of technology to gain the benefits of efficiency, effectiveness, and accuracy. As an initial step, and as recommended in Observation No. 1, the Department should prepare and maintain a current information technology plan that outlines a plan and process for replacing and updating its current information technology systems as needed to ensure that the Department can efficiently and effectively meet its goals and objectives.

Pending the implementation of new technology, the Department should implement appropriate controls, including information review and approval controls and reconciliation controls, to ensure the information going into the current systems is complete and accurate and that

information derived from the current systems is reliable. The Department should also establish monitoring controls to ensure the information systems and controls continue to operate as intended.

Auditee Response:

We concur.

The Department will continue its efforts to expand its use of technology to gain the benefits of efficiency, effectiveness, and accuracy. The Department relies upon DOIT to support its information technology functions. At the Department from 2011 until 2017, one of DOIT's two embedded-positions responsible for database creation and maintenance was left vacant. During this time period, the embedded DOIT staff could only triage most information technology matters. Currently, DOIT has fully staffed its positions at the Department and the Department is once again gaining ground on its technology challenges. Additionally, expanding use of technology is a primary focus of the Department's next budget in pursuit of a "digital government" initiative put forward by Governor Sununu.

The Department drafted and implemented an Information Technology Plan for the 2020-2021 Budget Biennium in March 2018.

Observation No. 4: Strengthen Payroll Controls

Observation:

The Department's payroll review and approval control does not consistently include a review of the final run of the State payroll register report, to ensure no errors or irregularities exist in the final payroll prior to issuance.

For one of 25 random payroll transactions selected for testing, auditors noted a terminating employee was overpaid approximately \$1,300, as the employee was paid for 37.5 hours that the employee was not due, with 35 of those hours paid at time and one-half. Upon review, the Department and the Department of Administrative Services (DAS) determined the overpayment resulted from a payroll official, either at the Department or at DAS, deleting certain off-sets to the payroll transaction in the State's accounting system (NHFirst). Neither the Department nor DAS could identify the payroll official who altered the payroll records, or give an explanation as to why that transaction was altered. DAS reports that while NHFirst records the operator and detail of most actions occurring in the financial system, NHFirst does not "log" the deletion of these payroll off-set records.

Recommendation:

The Department should strengthen its payroll controls to include policies and procedures implementing a review and approval of the final payroll register report that is generated prior to issuance of the payroll.

DAS should consider whether the lack of logging of off-set deletions is a significant weakness in the NHFirst payroll system that needs to be addressed, or whether simple reminders to user agencies of the necessity of a final payroll review is sufficient to address the risk posed by unexpected payroll changes.

Auditee Response:

We concur.

The Department concurs that strong payroll controls are essential. Significant changes were made in Department payroll practices in direct response to findings in the 2011 audit. The Department will continue to draft and implement policies and procedure to improve its payroll control environment.

The Banking Department currently follows several steps to assure that the payroll directions it sends to the Department of Administrative Services are correct and properly implemented. The Banking Department will institute additional steps, including auditing the Department of Administrative Service's actions post payroll confirmation in an effort to spot similar problems more quickly. However, it is unclear that similar events would be prevented by process adjustments at the Banking Department only.

Department Of Administrative Services' Response:

We concur.

The Department of Administrative Services (DAS) acknowledges there are no audit records for deletes which occur in NH FIRST database tables. While the deletion of off-sets in NH FIRST may constitute a management override of system based controls, there are circumstances in which use of this delete function is appropriate. DAS does agree with the Banking Department that agency payroll officials should perform a final review of their agency payroll prior to issuance. In order to maximize the use of system based controls, DAS will reevaluate the necessity of management's ability to delete off-sets, system requirements and logging of deletions, and requirements for other related documentation supporting the deletion of off-sets.

Observation No. 5: Evaluate And Control Risks Associated With Outsourced Services

Observation:

The Department does not routinely receive and utilize the *Service Organization Control Report, Report on Controls Placed in Operation and Tests of Operating Effectiveness* issued relative to the operation of the State License and Registration Payment Processing Service System utilized by the Department to initially process and electronically collect licensee application, renewal material, and fees for mortgage bankers, brokers, servicers, and loan originators.

Management is responsible for establishing and maintaining a system of internal control for both internal operations and contracted operations. When management intends to rely on a service organization's internal controls, its responsibilities extend to understanding the design and operating effectiveness of those controls. This is often accomplished by obtaining and considering pertinent aspects of an available and relevant service organization control (SOC) report, and ensuring that listed complementary user controls are in place. The Department reports that it has not established policies and procedures to regularly obtain, review, and react to SOC reports covering services provided by the State License and Registration Payment Processing Service System.

A similar comment was noted in our 2011 financial audit of the Department.

Recommendation:

The Department should implement policies and procedures to evaluate and control risks associated with outsourced services. The Department should regularly obtain, review, and react to the SOC Report for the State License and Registration Payment Processing Service System, including ensuring that any relevant complementary user controls are in place and operating effectively.

Auditee Response:

We concur.

The Department will implement a policy and practice of obtaining and reviewing SOC 1 reports from service providers like the Nationwide Multistate Licensing System. That policy will require documentation of that annual review, including identification of any concerns and the steps taken to address them.

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Current Status Of Prior Audit Findings

The following is a summary, as of January 14, 2019, of the current status of the observations contained in the financial audit of the New Hampshire Banking Department for the fiscal year ended June 30, 2011. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website:

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

	<u>Status</u>	
<i>Internal Control Comments</i>		
<i>Material Weakness</i>		
1. Regulatory Compliance Controls Should Be Improved <i>Strengthen internal controls through the adoption of policies and procedures intended to formalize and make routine a process to allow for better, more effective regulation and efficient enforcement of the State's banking laws.</i>	●	●
2. Revenue Processing Controls Should Be Strengthened <i>Segregate job responsibilities, restrictively endorse and deposit, or return checks in a timely manner, and perform timely and complete reconciliations. (See Current Observation No. 2)</i>	●	○
<i>Significant Deficiencies</i>		
3. Policies And Procedures Should Be Established For Significant Financial Operations <i>Implement appropriate controls, including establishing formal, comprehensive policies and procedures, for all significant financial operations, including policies and procedures required by statute. (See Current Observation No. 2)</i>	●	○
4. Policies And Procedures For Responding To Consumer Complaints Should Be Established <i>Establish policies and procedures to ensure timely response to consumer complaints of unfair or deceptive acts or practices by regulated financial institutions.</i>	●	○
5. Fraud Risk Mitigation Policies Should Be Established <i>Establish formal fraud risk mitigation policies to help limit exposure to fraud and to promote timely detection. (See Current Observation No. 1)</i>	●	○
6. Information Technology Controls Should Be Improved <i>Address weaknesses in the IT systems, maintain and test appropriate and current IT, disaster recovery, and continuity of operations plans and train employees in their respective plan responsibilities. (See Current Observations No. 1 and No. 3)</i>	●	○

- | | | | |
|----------------------------------|--|---|---|
| 7. | Monitoring Controls Over Service Organization Should Be Implemented
<i>Implement controls over the financial activities performed by the NMLS to reasonably ensure revenue due from the NMLS is properly remitted. (See Current Observation No. 5)</i> | ○ | ○ |
| 8. | Payroll Controls Should Be Strengthened
<i>Strengthen payroll procedures by including controls, such as segregation of incompatible duties and review-and-approval controls, intended to reasonably ensure errors are prevented, detected, and corrected in a timely manner.</i> | ● | ● |
| 9. | State’s Fiscal Year Closing Instructions Should Be Followed
<i>Ensure responsible financial accounting staff are aware of and trained in instructions for closing fiscal year financial activity.</i> | ● | ● |
| 10. | Financial Activity Should Be Recorded In The Proper Accounts
<i>Record and report all significant financial activity in the proper accounts.</i> | ● | ● |
| 11. | Necessity For Oversight Of Restitution Payments Should Be Reviewed
<i>Implement a more secure and efficient method of gaining confidence that timely and complete restitution payments are made by regulated institutions.</i> | ● | ● |
| 12. | Status Of Strategic Plan Should Be Resolved
<i>If determined appropriate, continue to finalize the strategic plan originally planned for completion in 2007.</i> | ● | ● |
| State Compliance Comments | | | |
| 13. | Administrative Rules Should Be Kept Current
<i>Adopt required rules and establish policies and procedures to ensure, going forward, all required administrative rules and appropriate discretionary administrative rules are adopted and readopted in a timely manner.</i> | ● | ○ |
| 14. | The Department Should Align Assessment Billings With Statute
<i>Base assessments on appropriations, as provided for in RSA 383:11, and establish administrative rules and policies and procedures for administrative assessments that provide for timely recovery of operating costs. (See Current Observation No. 2)</i> | ● | ○ |
| 15. | Late Fees Should Be Assessed In Accordance With Statute
<i>Establish administrative rules and policies and procedures to support the assessment of fees, assess late fees in accordance with statutory requirements, and refund or credit overcharged entities as appropriate.</i> | ● | ● |

16. Only Statutorily Directed Funds Should Be Deposited Into The Consumer Credit Administration License Fund ● ●
Only deposit funds collected pursuant to RSA 399-A into the Consumer Credit Administration License Fund.

<u>Status Key</u>			<u>Count</u>
Resolved	●	●	8
Remediation In Process (Action beyond meeting and discussion)	●	○	7
Unresolved	○	○	1

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**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE BANKING DEPARTMENT**

**AUDITED FINANCIAL STATEMENT
FISCAL YEAR ENDED JUNE 30, 2018**

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**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE BANKING DEPARTMENT**

**AUDITED FINANCIAL STATEMENT
FISCAL YEAR ENDED JUNE 30, 2018**

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Banking Department

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To The Fiscal Committee of the General Court:

The Office of the Legislative Budget Assistant (LBA), Audit Division, conducted a financial audit of the State of New Hampshire Banking Department for the Fiscal Year Ended June 30, 2018. The audit was conducted in accordance with auditing standards generally accepted in the United States of America, modified to reflect the fact that the Banking Department does not manage any funds. Its financial statement is a report of revenues and expenditures through two accounting units within the State General Fund and, as such, is not a complete representation of the Department in the context of the General Fund.

The Banking Department is committed to protecting the public's interest through the professional supervision of the financial services it regulates pursuant to statutes enacted by the General Court. Therefore, the primary objectives of the audit were to arrive at an opinion on the accuracy of the Department's financial statement, to determine the effectiveness of Department internal controls over financial and general operations, and to gauge compliance with certain state laws and regulations as the Department pursues its public protection mission.

The staff and management of the Department provided all information and data relied upon by the auditors for compilation of this report and is solely responsible for the accuracy and completeness of that information and data.

I wish to acknowledge the hard work and cooperation of many of my co-workers at the Banking Department who contributed to the collection and presentation of the great amount of information and data necessary to complete this project.

Finally, the Banking Department thanks our LBA audit team for their fairness, professionalism and patience. We view the product of their efforts as a valuable tool in our efforts to continually improve the service we provide to New Hampshire citizens and businesses.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gerald H. Little".

Gerald H. Little
Bank Commissioner

FINANCIAL SECTION



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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Financial Statement

We have audited the accompanying financial statement of the New Hampshire Banking Department (Department), which comprises the Statement of Revenues and Expenditures – General Fund for the fiscal year ended June 30, 2018, and the related notes to the financial statement, which collectively comprise the Department’s basic financial statement.

Management’s Responsibility for the Financial Statement

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

Auditor’s Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis For Qualified Opinion

As discussed in Note 1, the financial statement referred to above does not purport to, and does not, constitute a complete financial statement presentation of the Department, in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter described in the Basis For Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the respective revenues and expenditures of the Department's portion of the State of New Hampshire's General Fund for the fiscal year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 1, the financial statement referred to above reports certain financial activity of the Department. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire as of June 30, 2018 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budget to actual schedule on page 16 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the budget to actual schedule in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statement, and other knowledge we obtained during our audit of the financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2019 on our consideration of the Department’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department’s internal control over financial reporting and compliance.



Office Of Legislative Budget Assistant

January 14, 2019

**State of New Hampshire
New Hampshire Banking Department
Statement of Revenues and Expenditures – General Fund
For the Fiscal Year Ended June 30, 2018**

Revenues

Unrestricted Revenues

Fines	\$	-
Other		-

Total Unrestricted Revenues		-
------------------------------------	--	----------

Restricted Revenues

Examinations		2,062,934
Assessments (Note 2)		1,465,686
Licenses		1,494,465
Fines		542,697
Other		16,591

Total Restricted Revenues		5,582,373
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Total Revenues		5,582,373
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Expenditures

Salaries And Benefits		4,209,233
Information Technology		265,499
Current Expenses		31,405
Lease		195,223
Transfers To Other State Agencies		116,499
Travel Reimbursement		178,119
Indirect Costs		40,828
Employee Training		92,500
Other		37,470

Total Expenditures		5,166,776
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Excess (Deficiency) Of Revenues

Over (Under) Expenditures		415,597
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Other Financing Sources (Uses)

Net Appropriations (Note 3)		-
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Total Other Financing Sources (Uses)		-
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Excess (Deficiency) Of Revenues And

Other Financing Sources Over (Under)		
Expenditures And Other Financing Uses	\$	415,597

The notes are an integral part of this financial statement.

**Notes to the Statement of Revenues and Expenditures – General Fund
State of New Hampshire
New Hampshire Banking Department
For the Fiscal Year Ended June 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Banking Department is a department of the primary government of the State of New Hampshire.

The financial statement reports certain financial activity of the New Hampshire Banking Department (Department) in the State of New Hampshire's (State's) General Fund. Not included in the financial statement is the Public Deposit Investment Pool (PDIP). Pursuant to RSA 383:22, the Banking Commissioner established the PDIP for the purpose of investing the funds of the State and other governmental entities. The PDIP operates under contract with a private investment advisor and annually issues audited financial statements. Also not included in the Department's financial statement is the financial activity of the Noble Trust Company, a financial institution under the possession of the Department, pursuant to an action taken under RSA 395:2 by the Department and Merrimack County Superior Court. At June 30, 2018, the Department's Commissioner has been assigned liquidator of the Noble Trust Company.

The financial activity of the Department is accounted for and reported in the State's General Fund in the State'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 Department, as an organization 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 Department cannot be determined. Accordingly, the accompanying General Fund financial statement is not intended to show the financial position or fund balance of the Department in the General Fund.

B. FINANCIAL STATEMENT PRESENTATION

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

Governmental Fund Type:

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.

C. REPORTING PERIOD

The accompanying financial statement of the Department is presented for the fiscal year ended June 30, 2018.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations including compensated absences, other post-employment benefits, pollution remediation obligations and claims and judgments are recorded only when payment is due.

E. REVENUES AND EXPENDITURES

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “unrestricted” (general purpose) or “restricted.” Unrestricted revenues are credited directly to the General Fund or other fund balance upon recording in the State’s accounting system. Pursuant to the State’s operating budget, unrestricted revenues collected by an agency are not used as direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency’s authorization to expend funds. The Department did not report any unrestricted revenues during fiscal year 2018.

Unused restricted revenues at year end are either lapsed or generally recorded as committed or assigned fund balance. When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State’s general policy to use restricted resources first. In the governmental funds, when expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts

in any of these unrestricted classifications could be used, it is the State's general policy to spend committed resources first followed by assigned and unassigned resources, respectively.

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

F. BUDGET CONTROL AND REPORTING

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental funds.

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

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

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

Budget to actual comparisons and additional budgetary information are included as Required Supplementary Information.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

2. ASSESSMENTS

RSA 383:11 directs the Department to collect from institutions it regulates an annual assessment to cover the cost of operating the Department that is not recovered through examination fees, other fees, fines, and penalties. The Department calculates separate assessments for the Banking and Consumer Credit Divisions which are billed and collected in the subsequent fiscal year. Assessments that will be issued during fiscal year 2019 to recover 2018 costs are reported as deferred inflows of resources in the State's Comprehensive Annual Financial Report; any excess collected in any fiscal year is used to reduce the sum required to be collected in the next succeeding fiscal year.

The Department issued and collected \$1.149 million of Banking Division and \$316,000 of Consumer Credit Division assessments in fiscal year 2018. At June 30, 2018, the Banking Department recorded deferred inflows of resources in the amounts of \$957,417 for the Banking Division and (\$3,241) for the Consumer Credit Division related to assessments that will be issued and collected in fiscal year 2019.

3. NET APPROPRIATIONS

Net appropriations reflect appropriations for expenditures in excess of restricted revenues. During fiscal year 2018, restricted revenues exceeded expenditures and therefore, the Department's net appropriations from the State's General Fund were \$0.

4. RISK MANAGEMENT AND INSURANCE

The State and Department are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. The State generally retains the risk of loss except where the provisions of law require the purchase of commercial insurance or a risk assessment has indicated that commercial insurance is economical and beneficial for the State or the general public. In such instances, the State may elect to purchase commercial insurance. There are approximately 26 such commercial insurance programs in effect. These include, but are not exclusive to, state owned real property insurance, fleet automobile liability, inland marine insurance, foster parent liability, ski area liability for Cannon Mountain, data security and privacy cyber liability insurance, and a fidelity and faithful performance bond. In general, claims settled in the past three years under the insurance programs have not exceeded commercial insurance coverage, one fleet claim was settled in excess of policy limits during fiscal 2016. As of June 30, 2018, there are no outstanding fleet claims that are currently expected to exceed the

policy coverage. The State's exposure per claimant is limited by law to a total of \$475 thousand under RSA 541-B:14 and the State's current fleet policy coverage is \$250 thousand per claimant.

Claim liabilities not covered by commercial insurance are recorded by the State when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities not covered by commercial insurance relate primarily to worker's compensation claims and health benefit claims.

5. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

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

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

Members in service with 10 or more years of creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

All covered Department 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.

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

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

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and Group II police officers contributed 11.55% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 11.08% of gross payroll for Group I members, 27.79% of gross payroll for Group II firefighter members, and 25.33% of gross payroll for Group II police officer members.

The Department's required and actual contributions for the year ended June 30, 2018 were \$323,735, which included an amount for other post-employment benefits of \$3,464.

OTHER POSTEMPLOYMENT BENEFITS

The State participates in two Other Post Employment Benefit (OPEB) plans – (1) New Hampshire Retirement System (NHRS) which is a cost-sharing OPEB plan (medical subsidy portion of the pension trust) administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Trusted OPEB Plan), and (2) State's single employer (primary government with component units) defined benefit OPEB plan which is not administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Non Trusted OPEB Plan). The actuarial liability and expenses of the OPEB plans do not flow to Department-level financial statements.

General Information about the New Hampshire Retirement System Trusted OPEB Plan

Plan Description: Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS administers a cost-sharing multiple employer defined benefit postemployment medical subsidy healthcare plan designated in statute by membership type ("medical subsidy plan"). The membership groups are Group II Police Officers and Firefighters and Group I State Employees.

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

Benefits Provided: The Trusted OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employers of its members, or their insurance administrator, toward the cost of health insurance for a qualified retiree, spouse, and certifiably dependent children with a disability who is living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of

member who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving Trusted OPEB Plan benefits differ for Group I and Group II members. Eligibility for the medical subsidy payment is determined by the relevant RSA's, however, the medical subsidy plan is closed to new entrants. The State is a recipient of these medical subsidy payments on behalf of its former employees.

Contributions: Pursuant to RSA 100-A:16, III, and the biennial actuarial valuation, funding for the medical subsidy payment is via the employer contribution rates set forth by NHRS. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 1.07% of gross payroll for Group I members, 4.10% of gross payroll for Group II firefighter members, and 4.10% of gross payroll for Group II police officer members. Employees are not required to contribute to the Trusted OPEB Plan.

The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the medical subsidy plan. The Department's contributions made to the NHRS for the medical subsidy component amounted to \$3,464 for fiscal year 2018.

General Information about the Non Trusted OPEB Plan

Plan Description: RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of state service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health plan (Plan), which is the state's self-insurance internal service fund implemented in October 2003 for active state employees and retirees. The Plan funds the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees and eligible spouses. An additional major source of funding for retiree benefits is from the NHRS medical subsidy payment described earlier. The Department's contributions for the fiscal year ended June 30, 2018 were \$145,009.

Required Supplementary Information
Budgetary Reporting
(Unaudited)

**State of New Hampshire
New Hampshire Banking Department
Budget to Actual Schedule – General Fund (Budgetary Basis) (Unaudited)
For the Fiscal Year Ended June 30, 2018**

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance With Final</u>
	<u>Original</u>	<u>Final</u>		<u>Budget-Positive (Negative)</u>
Restricted Revenues				
Examinations	\$ 2,382,819	\$ 2,382,819	\$ 2,134,443	\$ (248,376)
Assessments	1,680,375	1,680,375	1,465,686	(214,689)
Licenses	1,598,427	1,598,427	1,494,465	(103,962)
Fines	672,679	672,679	542,697	(129,982)
Other	<u>8,267</u>	<u>8,267</u>	<u>16,591</u>	<u>8,324</u>
Total Restricted Revenues	<u>6,342,567</u>	<u>6,342,567</u>	<u>5,653,882</u>	<u>(688,685)</u>
Total Revenues	<u>6,342,567</u>	<u>6,342,567</u>	<u>5,653,882</u>	<u>(688,685)</u>
Expenditures				
Salaries and Benefits	5,089,849	5,089,849	4,189,809	900,040
Information Technology	401,214	401,214	265,499	135,715
Current Expenses	80,800	80,800	31,389	49,411
Lease	227,597	227,597	195,223	32,374
Transfers to Other State Agencies	116,061	116,061	116,499	(438)
Travel Reimbursement	204,100	204,100	175,355	28,745
Indirect Costs	54,000	54,000	40,828	13,172
Employee Training	105,500	105,500	91,104	14,396
Other	<u>63,446</u>	<u>63,446</u>	<u>37,470</u>	<u>25,976</u>
Total Expenditures	<u>6,342,567</u>	<u>6,342,567</u>	<u>5,143,176</u>	<u>1,199,391</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 510,706</u>	<u>\$ 510,706</u>

The accompanying note is an integral part of this schedule.

**State of New Hampshire
New Hampshire Banking Department
For the Fiscal Year Ended June 30, 2018**

Note to the Required Supplementary Information – Budgetary Reporting (Unaudited)

The Budget to Actual (Non-GAAP Budgetary Basis) Schedule depicts budgeted to actual expenditures at the department level, which is the legal level of budgetary control for all governmental funds.

The comparison schedule presents the original and final appropriated budgets for fiscal year 2018, as well as the actual resource inflows and outflows stated on the budgetary basis.

The “original budget” and related estimated revenues represent the spending authority enacted into law by the appropriation bill (HB144) as of June 28, 2017, with an effective date of July 1, 2017, and include balances and encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require the final legal budget be reflected in the “final budget” column for those accounts included in the original budget. Therefore, updated revenue estimates available for appropriations as of June 30, 2018, rather than the amounts shown in the original budget, are reported. The final appropriations budget represents the original budget (HB144), plus HB517 and supplemental appropriations, carry-forwards, approved transfers, and any executive order reductions for budgeted accounts.

Reconciliation of Budgetary To GAAP

The State’s biennial budget is prepared on a basis other than GAAP. The “actual” results column of the Budget to Actual (Non-GAAP Budgetary Basis) schedule is presented on a “budgetary basis” under such standardized accounting methods and policies structured to provide a meaningful comparison to budget.

Because the Department’s GAAP basis financial statement approximates the budgetary actual amounts for the fiscal year ended June 30, 2018, no reconciliation of the differences between budgetary accounting methods and the GAAP basis accounting principles is necessary.

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