

Independent Auditor's Report

City of Statesville ABC Board #120

as of

June 30, 2014

Prepared By:

*M. David McKenzie, PLLC
Certified Public Accountant*

City of Statesville ABC Board #120

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Independent Auditor's Report

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Board of Directors
City of Statesville ABC Board

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Statesville ABC Board, a component unit of the City of Statesville, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Statesville ABC Board as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The Schedule of Expenses by Store, Administrative Expenses and Schedule of Revenues and Expenditures – Budget vs. Actual are presented for purposes of additional analysis and are not a required part of the basis financial statements.

The Schedule of Expenses by Store, Administrative Expenses and Schedule of Revenues and Expenditures – Budget vs. Actual are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

M. David McKenzie, CPA, PLLC

Mooreville, North Carolina

August 21, 2014

Management's Discussion and Analysis

This section of the Alcoholic Beverage Control (ABC) Board's financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2014. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- Revenue increased approximately 1.9% during the year.
- Total profit distributions, including law enforcement and alcohol education expenditures, totaled approximately \$318,668 which is a 8.4% decrease from the prior year.
- Total assets increased \$24,430 which is a 1.1% increase from the prior year.
- Total liabilities increased \$24,420 which is a 1.9% increase from the prior year.

Overview of the Financial Statements

The audited financial statements of the ABC Board consist of 3 components. They are as follows:

- *Management's Discussion and Analysis*
- *Basic Financial Statements*
- *Additional Information Required by the ABC Commission*

The *Basic Financial Statements* are prepared using the full accrual basis of accounting. They consist of 3 statements. The first statement is the statement of net assets. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the statement of revenues, expenses and changes in net assets. This statement is used in evaluating whether the Board has recovered all of its costs through sales. Its information is used in determining credit worthiness.

The final required statement is the statement of cash flows. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing activities. Based on this data, the user can determine the sources of cash, the uses of cash, and the change in cash.

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements.

The ABC Commission requires some schedules in addition to the information required by generally accepted accounting principles. They include a Schedule of Store Expenses, a Schedule of Administrative Expenses, and a Schedule of Warehouse Expenses.

Management's Discussion and Analysis – continued

Financial Analysis of the ABC Board

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$941,923 in 2014. The largest component of net assets is the investment in capital assets (net of depreciation) which represented 169% of net assets. Following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Assets

	6/30/2014	6/30/2013	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Current assets	\$ 666,210	\$ 604,227	\$ 61,983	10.3%
Non-current assets	1,595,578	1,633,131	(37,554)	-2.3%
Total assets	2,261,787	2,237,358	24,430	1.1%
Current liabilities	504,554	438,059	66,495	15.2%
Non-current liabilities	815,311	857,376	(42,065)	-4.9%
Total liabilities	1,319,864	1,295,435	24,430	1.9%
Invested in capital assets, net of related debt	788,863	793,531	(4,668)	-0.6%
Restricted net assets	153,750	150,715	3,035	2.0%
Unrestricted net assets	(664)	(2,323)	1,659	-71.4%
Total net assets	941,949	941,923	26	0.0%

Table 2
Breakdown of Sales by Source

	6/30/2014	6/30/2013	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Operating Revenues	\$ 5,195,350	\$ 5,098,304	\$ 97,046	1.9%
Less: Taxes on Gross Sales	1,198,563	1,180,503	18,060	1.5%
Net Sales	3,996,787	3,917,801	78,986	2.0%
Cost of Sales	2,757,804	2,682,088	75,716	2.8%
Gross Profit	1,238,983	1,235,713	3,270	0.3%
Less: Operating Expenses	921,802	889,249	32,553	3.7%
Income from Operations	317,181	346,464	(29,283)	-8.5%

Non-Operating Revenues and Expenses	1,487	1,579	(92)	-5.8%
Change in Net Position Before Distributions	318,668	348,043	(29,375)	-8.4%
Distributions	318,668	348,043	(29,375)	-8.4%
Change in Net Position	0	(0)	0	0.0%
Net Position, Beginning	941,923	941,923	0	0.0%
Net Position, Ending	941,923	941,923	0	0.0%

Following is a breakdown of sales by source

	6/30/2014	6/30/2013	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Retail Liquor Sales	\$ 4,690,455	\$ 4,536,492	\$ 153,963	3.4%
Mixed Beverage Sales	494,898	551,019	(56,122)	-10.2%
Retail Wine Sales	9,998 #	10,793	(795)	-7.4%
Total Sales	\$ 5,195,350	\$ 5,098,304	\$ 97,046	1.9%

Capital Asset and Debt Administration

Capital Assets

Investment in capital assets as of June 30, 2014, totals \$1,594,092 (net of accumulated depreciation).

Major capital asset transactions during the year included a computer system upgrade of \$21,744 and a telephone system upgrade of \$6,513.

Table 3
Capital Assets (net of depreciation)

	6/30/2014	6/30/2013	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Buildings	\$ 1,667,134	\$ 1,667,134	\$ 0	0.0%
Land	235,050	235,050	-	0.0%
Store equipment	348,701	319,273	29,428	9.2%
Total Capital Assets	2,250,885	2,221,457	29,428	1.3%

Debt Administration

Long-term debt consists of compensated absences payable to Board employees and notes payable associated with a second store.

Table 4
Summary of Changes in Long-term Debt

	6/30/2014	6/30/2013	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Compensated Absenses	\$ 43,484	\$ 52,134	\$ (8,650)	-16.6%
Notes Payable	805,256	837,304	(32,049)	-3.8%
Total Long-term Debt	848,740	889,438	(40,698)	-4.6%

Economic Factors

The area in which the Board operates is beginning to show slight improvement from the economic downturn affecting the area.

Requests for Information

This report is intended to provide a summary of the financial condition of the ABC Board. Questions or requests for additional information should be addressed to:

Mr. Tip Nicholson, Manager
City of Statesville ABC Board
311 South Center Street
Statesville, NC 28681

City of Statesville ABC Board
(A component unit of the City of Statesville Government)
Statement of Net Position
As of June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 178,032.22	\$ 150,044.83
Inventory - Store #1	304,643.98	269,220.99
Inventory - Store #2	<u>183,533.61</u>	<u>184,960.91</u>
Total Current Assets	666,209.81	604,226.73
Non-current Assets		
Property, Plant and Equipment		
Net of Accumulated Depreciation	<u>1,594,091.78</u>	<u>1,630,834.97</u>
Intangibles		
Net of Accumulated Amortization	<u>1,485.73</u>	<u>2,296.08</u>
Total Assets	<u>\$ 2,261,787.32</u>	<u>2,237,357.78</u>
Liabilities		
Current Liabilities		
Accounts Payable	\$ 215,796.57	\$ 200,398.39
Piedmont Line of Credit	96,215.98	(1,438.46)
Federal Withholding Payable	1,848.34	1,840.24
FICA Withholding Payable	6,236.78	6,244.88
State Withholding Payable	1,536.00	1,536.00
Mixed Bev. Tax (DHR) Payable	495.87	517.66
Alcohol Taxes Payable	91,778.35	92,932.35
Alcohol Taxes (Iredell County) Paya	1,307.48	1,312.14
Wine/Mixer Tax Payable	144.72	132.27
Sales Tax Payable	8,421.95	9,900.95
Accrued Unemployment Payable	21,714.32	24,899.25
Employee Credit Union Payable	(29.80)	76.48
Employee 401(K) Payable	8,802.87	9,979.30
Employee State Retirement	2,421.45	2,421.20
Due to Statesville (Regular)	10,711.81	29,367.26
Due to I/S Schools	2,120.00	10,782.00
Due to Mitchell Comm. Coll.	2,120.00	10,782.00
Due to Iredell Museums	849.00	4,313.00
Current Portion - Long Term Debt	<u>32,062.00</u>	<u>32,062.00</u>
Total Current Liabilities	<u>504,553.69</u>	<u>438,058.91</u>

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

City of Statesville ABC Board
(A component unit of the City of Statesville Government)
Statement of Net Position
As of June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Non-Current Liabilities		
Compensated Absences Payable	43,484.02	52,133.71
Note Payable - Piedmont	805,255.58	837,304.18
Less: Current Portion	<u>(33,428.95)</u>	<u>(32,062.00)</u>
Total Non-Current Liabilities	<u>815,310.65</u>	<u>857,375.89</u>
Total Liabilities	<u>1,319,864.34</u>	<u>1,295,434.80</u>
Net Position		
Invested in capital assets net of related debt	788,836.20	793,530.79
Restricted:		
Minimum Working Capital	153,751.00	150,715.00
Unrestricted	<u>(664.22)</u>	<u>(2,322.81)</u>
Total Net Assets	<u>941,922.98</u>	<u>941,922.98</u>
Total Liabilities and Net Position	<u>\$ 2,261,787.32</u>	<u>\$ 2,237,357.78</u>

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

City of Statesville ABC Board
(A component unit of the City of Statesville Government)
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Revenue		
Sales	\$ 2,312,642.88	\$ 2,346,544.99
Sales - LBD	494,897.55	551,019.45
Sales - Credit & Debit Cards	2,377,812.13	2,189,946.80
Sales - Wine & Mixers	<u>9,997.51</u>	<u>10,792.53</u>
Total Gross Sales	<u>5,195,350.07</u>	<u>5,098,303.77</u>
Deduct Taxes on Gross Sales		
Mixed Beverage Tax - DHR	4,547.31	5,114.18
30% Alcohol Tax	1,129,838.00	1,105,791.00
5 Cent Alcohol Tax	17,966.00	17,652.00
Wine/Mixer Tax	739.62	798.42
Mixed Beverage Surcharge	<u>45,472.00</u>	<u>51,147.00</u>
Total Taxes	<u>1,198,562.93</u>	<u>1,180,502.60</u>
Net Sales	<u>3,996,787.14</u>	<u>3,917,801.17</u>
Deduct Cost of Sales		
Cost of Liquor Sold	<u>2,757,804.30</u>	<u>2,682,088.48</u>
Gross Profit on Sales	<u>1,238,982.84</u>	<u>1,235,712.69</u>
Deduct Operating Expenses		
Store Expenses	842,315.76	808,076.90
Administrative Expenses	12,504.96	13,248.33
Depreciation Expenses	<u>66,981.10</u>	<u>67,923.28</u>
Total Operating Expenses	<u>921,801.82</u>	<u>889,248.51</u>
Income From Operations	<u>317,181.02</u>	<u>346,464.18</u>
Nonoperating Revenues and Expenses		
Interest Earned	123.51	176.74
Other Income	<u>1,363.12</u>	<u>1,402.00</u>
Total Non-Operating Revenues (Expenses)	<u>1,486.63</u>	<u>1,578.74</u>
Change in Net Position Before Distributions	<u>318,667.65</u>	<u>348,042.92</u>
Deduct		
Law Enforcement	29,643.84	27,495.66
Alcohol Education	<u>20,000.00</u>	<u>15,000.00</u>
Total Alcohol Ed. & Law Enf.	<u>49,643.84</u>	<u>42,495.66</u>

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

City of Statesville ABC Board
(A component unit of the City of Statesville Government)
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Change in Net Position Before Profit Distribution	<u>269,023.81</u>	<u>305,547.26</u>
Profit Distributions		
City of Statesville	93,188.81	102,151.26
Iredell - Statesville Schools	58,244.00	63,843.00
Mitchell Community College	58,244.00	63,843.00
Iredell Museums Distributions	23,297.00	25,538.00
City of Statesville - LBD	<u>36,050.00</u>	<u>50,172.00</u>
Total Profit Distributions	<u>269,023.81</u>	<u>305,547.26</u>
Net Position, Beginning of Year	<u>941,922.98</u>	<u>941,922.98</u>
Net Position, End of Year	<u>\$ 941,922.98</u>	<u>\$ 941,922.98</u>

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

City of Statesville ABC Board
(A component unit of the City of Statesville Government)
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2013 and June 30, 2012

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 5,195,350.07	\$ 5,098,303.77
Cash payments to suppliers for goods and services	(3,173,984.71)	(3,147,778.96)
Cash payments to employees for services	(483,836.18)	(474,375.32)
Liquor taxes Paid	<u>(1,198,562.93)</u>	<u>(1,180,502.60)</u>
Net cash provided by operating activities	\$ 338,966.25	\$ 295,646.89
Cash flows from capital and related financing activities		
Principal paid on loan maturities	(32,048.60)	(178,167.68)
Interest paid on loans	(35,748.89)	(35,012.25)
Borrowings	94,777.52	-
Acquisitions and construction of capital assets	<u>(29,427.56)</u>	<u>(8,633.00)</u>
Cash from/(used for) capital and related financing activities	(2,447.53)	(221,812.93)
Cash flows from non-capital financing activities:		
Increase (decrease) in non-current liabilities	(8,649.69)	864.88
Law Enforcement Distributions	29,643.84	27,495.66
Alcohol education distributions	20,000.00	15,000.00
Profit distributions	<u>269,023.81</u>	<u>305,547.26</u>
Net cash used by non capital financing activities	310,017.96	348,907.80
Cash flows from investing activities:		
Interest on Investments	123.51	176.74
Other	<u>1,363.12</u>	<u>1,402.00</u>
Net cash provided by investing activities	1,486.63	1,578.74
Net increase/(decrease) in cash and cash equivalents	27,987.39	(273,495.10)
Cash and cash equivalents, beginning of year	<u>150,044.83</u>	<u>423,539.93</u>
Cash and cash equivalents, end of year	<u>\$ 178,032.22</u>	<u>\$ 150,044.83</u>

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

City of Statesville ABC Board
(A component unit of the City of Statesville Government)
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2013 and June 30, 2012

	2014	2013
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	317,181.02	346,464.18
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation & Amortization	66,981.10	67,923.28
Changes in assets and liabilities:		
Decrease/(Increase) in Inventory	(33,994.69)	(18,195.34)
Decrease/(Increase) in Prepaid Expenses	-	-
Increase/(Decrease) in Accounts Payable	15,398.18	(60,207.31)
Increase/(Decrease) in Accrued Liabilities	(26,599.36)	(40,337.92)
Total Adjustments	21,785.23	(50,817.29)
Net cash provided by operating activities	\$ 338,966.25	\$ 295,646.89

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

**City of Statesville ABC Board
Notes to the Financial Statements**

1. **Summary of Significant Accounting Policies**

A. Principles used in determining the scope of the entity for financial reporting.

The City of Statesville ABC Board, a component unit of the City of Statesville, is a corporate body with powers outlined by General Statutes Chapter 18B-701. The City's governing body appoints the ABC Board.

The ABC Board is required by State Statute to distribute its surpluses to the General Fund of the City of Statesville, which represents a financial benefit to the City. Therefore, the City of Statesville ABC Board is reported as a discretely presented component unit in the City's financial statements.

B. Organizational History

The Board was organized under the provisions of Senate Bill #1092, Chapter 509 of the North Carolina Legislature, General Assembly of 1973 and implemented by a City wide election held September 11, 1973. The Statesville City Council appointed three individuals to serve on the Board with terms of three years, on a staggered basis.

The Board, as provided by North Carolina Alcoholic Beverage Control laws, operates a retail liquor store. North Carolina General Statute 18B-805(c)(2)(3) requires that the Board expend at least 5% of profits for law enforcement and at least 7% of same profits for alcohol education and rehabilitation purposes.

C. Basis of Presentation

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or the change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. All sales are made by cash, check, debit or credit card and recorded at the time of sale. Other revenues are recorded when earned. Expenses are recognized when incurred. As permitted, the Board has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its proprietary operation, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

F. Assets, Liabilities and Net Assets

Deposits

All deposits of the City of Statesville ABC Board are made in Board-designated official depositories but are not collateralized as required by G.S. 159-31. The Board may designate, as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

The Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the ABC Board's agent in the ABC Board's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the ABC Board, these deposits are considered to be held by the ABC Board agent in the ABC Board's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the ABC Board or the escrow agent. Because of the inability to measure the exact amount of collateral

pledged for the ABC Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2014 the ABC Board's deposits had a carrying value of \$178,032.22 and a bank balance of \$235,171.92. The Board maintains accounts at a single institution. Bank balances up to \$250,000 at each institution are covered by federal depository insurance. As of June 30, 2014 the Board had no uninsured balances. Amounts in excess of the federal depository insurance limits are collateralized under the Pooling Method.

Investments

State law G.S. 159-30(c) authorizes the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC registered (2a-7) money market mutual fund.

At June 30, 2014 the City of Statesville ABC Board had no investments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City of Statesville ABC Board considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories are valued at the lower of cost (FIFO) or market.

Capital Assets

Property and equipment are stated at cost and are being depreciated over their useful lives on a straight-line basis. Intangibles are amortized over their useful lives on a straight-line basis. Depreciation and amortization are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated				
Land	\$ 235,050.00			\$ 235,050.00
Total capital assets not being depreciated	235,050.00	0.00	0.00	235,050.00
Capital assets being depreciated				
Buildings	1,667,133.53			1,667,133.53
Furniture, Fixtures and Equipment	319,273.35	29,427.56		348,700.91
Total capital assets being depreciated	1,986,406.88	29,427.56	0.00	2,015,834.44
Less accumulated depreciation for:				
Buildings	385,308.44	43,503.11		428,811.55
Furniture, Fixtures & Equipment	205,313.46	22,667.65		227,981.11
Total capital assets being depreciated	590,621.90	66,170.76	0.00	656,792.66
Capital Assets, net	\$ 1,630,834.98	\$(36,743.20)	\$ -	\$ 1,594,091.78

When an asset is disposed of the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in the earnings for the period.

Net Position

Net position may consist of the following:

1. Net investment in capital assets – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather that portion of debt is included in the same net assets component as the unspent proceeds.
2. Restricted for law enforcement - this applies only when the ABC Board employs its own ABC officer.
3. Restricted for capital improvements - G.S. 18B-805(d) requires approval of the appointing authority to establish this account. As of June 30, 2013, no such account had been established.

4. Restricted for working capital - North Carolina Alcoholic Beverage Control Commission Rule .0902 defines working capital as the total of cash, investments and inventory less all unsecured liabilities. An ABC Board shall set its working capital requirements at not less than two weeks average gross sales of the last fiscal year nor greater than four months' average gross sales of the last fiscal year. Average gross sales means gross receipts from the sale of alcoholic beverages less distributions required by G.S. 18B-805(b), (2), (3) and (4).
5. Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

2. **Stewardship, Compliance and Accountability**

Noncompliance with N.C. General Statutes

At June 30, 2014 there were no instances of noncompliance with N.C. General Statutes.

3. **Pension Plan Obligations**

A. Local Government Employees' Retirement System

Plan Description. The City of Statesville ABC Board contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City of Statesville ABC Board is required to contribute at an actuarially determined rate. The ABC Board's current rate for employees not engaged in law of annual covered payroll. The contribution requirements of members and of the ABC Board are established and may be amended by the North Carolina General Assembly. The ABC Board's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$27,687.91, \$23,894.67, and \$25,918.56, respectively. The contributions made by the City of Statesville ABC Board equaled the required contributions for each year.

B. Law Enforcement Officers' Special Separation Allowance

Plan Description.

The ABC Board administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the ABC Board's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the ABC Board are covered by the Separation Allowance. At June 30, 2014, there was one member receiving benefits. There was one active member and there were no terminated plan members entitled to but not receiving benefits.

A separate report was not issued for the Plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The ABC Board has chosen to fund the Separation Allowance on a pay as you go basis. The financial statements of the ABC Board are prepared using the accrual basis of accounting. Benefits are recognized as expenses when due and payable in accordance with terms of the plan. Administration expenses are recognized as incurred.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

Contributions.

The ABC Board is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to pay benefits and administration costs on a pay as you go basis. For the current year, the ABC Board paid benefits of \$23,775.18 or 100% of annual covered payroll. There were no contributions made to the plan by employees. The ABC Board's obligation to make these payments was established and may be amended by the North Carolina General Assembly.

The ABC Board has chosen not to have an actuarial study performed because the liability is considered to be immaterial.

C. Section 401(k) Plan

The Board maintains a retirement plan qualified under section 401(k) of the Internal Revenue Code for all eligible employees. The Board makes contributions of up to 5% of covered compensation. Contributions for the years ended June 30, 2014 and 2013 were \$18,184.86 and \$17,762.65, respectively.

4. Notes Payable

The Board has a note payable with a bank secured by real estate. At June 30, 2014 the outstanding balance was \$805,255.58. Monthly payments of principal and interest are \$5,539.39. The note bears interest at a rate of 4.125% per annum. Maturity is May 24, 2016. Interest expense was \$34,410.68

Maturities are as follows:

2015	\$ 33,428.95
2016	771,813.23
2017	0.00
2018	0.00
Beyond	0.00

The Board has a line of credit with a bank secured by real estate. At June 30, 2014 the outstanding balance was \$96,215.98. The line of credit matures April 25, 2015. The line of credit bears interest at 4.125% per annum. Interest is paid monthly. Interest expense for the year was \$1,338.21

5. Commitments

The ABC Board has elected to pay direct costs of employment securities benefits in lieu of employment security taxes on payroll. A liability for benefit payments could accrue in the year following discharge of employees.

6. Vacation and Sick Leave Compensation

The City of Statesville ABC Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2014 was \$43,484.02. The current portion of the accumulated vacation pay is not considered material.

Employees can accumulate an unlimited amount of sick leave. Sick leave does not vest but unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit determination. Since the Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

7. Distributions of Income

The Board made distribution for the current year as follows:

City of Statesville (40%)	\$ 93,189.00
Iredell – Statesville Schools (25%)	58,244.00
Mitchell Community College – Board of Trustees (25%)	58,244.00
Iredell Museums (10%)	23,297.00
City of Statesville (Liquor by the drink)	<u>36,050.00</u>
	<u>\$269,024.00</u>

State law [G.S. 18B-805] requires that the minimum distribution set aside in (c)(1) and any profit remaining after deducting amounts required for law enforcement and alcohol education and retaining proper working capital, be paid quarterly to the appointing authority.

8. Law Enforcement and Alcohol Education Expenses

The Board is required by law to expend at least 5% of its profits for law enforcement and not less than 7% for alcohol education (alcohol education requirement follows local enabling act). Profits are defined by law for the calculations as income before law enforcement and educational expenses, less 3 ½% markup provided in G.S. 18B-804(b)(5) and the bottle charge provided for in G.S. 18B-804(b)(6b).

Expenditure of Alcoholism funds distributed under G.S. 18B-805(b)(4) and G.S. 18B-805(c)(3) are to be spent for the treatment of alcoholism or substance abuse. G.S. 18B-805(h) requires that the minutes of the board of county commissioners or local board spending such funds shall describe the activity for which the funds are to be spent. Any agency or person receiving funds from the county commissioners or local board shall submit an annual report to the board or county commissioners or local board from which the funds were received, describing how the funds were spent.

	<u>2014</u>	<u>2013</u>
Profit Before Distributions	\$318,667.65	\$348,042.92
Less: 3 1/2% Tax and Bottle Charge	<u>132,027.00</u>	<u>129,299.00</u>
Profit Subject to Expense Percentage	186,640.65	218,743.92
Law Enforcement - Actual (Percentage of Profit)	29,643.84 15.88%	27,495.66 12,57%

Provision for Alcohol Education (Percentage of Profit)	20,000.00 10.72%	15,000.00 6.86%
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9. **Disbursements of Taxes Included in Selling Price**

A state excise tax, at the rate of 30% is charged monthly on liquor sales (excluding wine sales). Transactions for this account for the year are summarized as follows:

Taxes payable 7/01/13	\$	92,929.00
Taxes collected during the year		1,175,311.00
Taxes remitted to Department of Revenue		1,176,468.00
Taxes payable 6/30/14		91,772.00

The excise tax is computed in accordance with G.S. 18B-805(i).

The accrued North Carolina excise tax at June 30, 2014 was remitted to the North Carolina Department of Revenue on July 11, 2014.

A bottle charge of one cent on each bottle containing 50 milliliters or less and five cents on each bottle containing more than 50 milliliters is collected and distributed monthly to the county commissioners for alcohol education and rehabilitation. For the fiscal year, payments to the county were based on the following bottle sales:

Regular Bottles	310,705 @ \$0.05	\$15,535.25
Mixed Beverage Bottles	23,485 @ \$0.05	1,174.25
Miniature Bottles	125,337 @ \$0.01	<u>1,255.37</u>
		<u>\$17,651.84</u>

A "mixed beverage tax" at the rate of \$20 per 4 liters is charged on the sale of liquor to be resold as mixed beverages. One-half of the mixed beverage tax is submitted monthly to the Department of Revenue. Five percent of the mixed beverage tax is submitted monthly to the Department of Human Resources.

The mixed beverage tax for the year was:

Department of Revenue (50%)	\$ 45,473.14
Department of Human Resources (5%)	4,547.13
Profit Retained (45%)	<u>40,925.82</u>
Total	<u>\$ 90,946.09</u>

10. **Surcharge Collected**

The total amount of Surcharge collected for the fiscal year was \$29,111.00. The rate is 80 cents per case sold.

11. The City of Statesville ABC Board operated with two retail outlets:

Store #1 – 311 South Center Street, Statesville, NC
Gross Sales \$3,381,263.60 Change in Net Assets \$0.00

Store #2 – 1312 Garner Bagnal Blvd., Statesville, NC
Gross Sales \$1,717,020.17 Change in Net Assets \$0.00

12. The City of Statesville ABC Board is required by the Alcoholic Beverage Control Commission rule .0902 to set its working capital requirements at not less than two weeks average gross sales of the last fiscal year. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805(b)(2), (3) and (4).

The City of Statesville ABC Board’s position on this requirement is as follows:

Minimum Amount	\$ 153,751.00
Maximum Amount	999,382.00
Actual Amount	289,934.00

The Board has met the minimum amount of working capital.

13. **Liquor Sales Tax**

The total amount of sales tax collected by the ABC Board and remitted to the Department of Revenue for the fiscal year was \$328,787.60. The current rate is 7%.

14. **Breakage Expense**

Breakage expense absorbed by the Board for the year was \$0.00.

15. **Risk Management**

The City of Statesville ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has property, general liability, auto liability, workmen’s compensation and employee health coverage. The Board also has liquor legal liability.

There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

The Board maintains surety bonds on all Board members, General Manager and Financial Officer in accordance with G.S. 18B-700(i). Each is covered against loss up to \$50,000.

Supplemental Information

**(The following schedule(s) are information that
the ABC Commission requires.)**

City of Statesville ABC Board
Schedule of Store Expenses
For the Fiscal Years Ended June 30, 2014 and June 30, 2013
Store #1

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Salaries & Wages	\$ 385,183.99	\$ 323,768.71
Payroll Tax Expense	25,351.40	26,181.74
Retirement Contributions	29,473.41	29,142.03
Insurance	43,251.62	49,314.93
Direct Deposit Fees	881.50	812.00
Repairs & Maintenance	19,201.31	8,730.66
Utilities	19,031.60	19,437.11
Uniforms	1,292.22	1,572.92
Store Supplies	10,315.80	8,712.37
Credit Card Expense	26,882.89	23,727.80
Bank Charges	881.80	173.69
Vehicle Expense	2,195.38	5,195.60
Training	4,446.58	0.00
Office & Postage	6,011.96	6,625.40
Maintenance Agreements	8,157.39	7,347.71
Professional Fees	14,075.00	14,020.00
Dues & Subscriptions	1,695.00	1,134.00
Alarm Service	475.68	475.68
Total Store Expenses	<u>\$ 598,804.53</u>	<u>\$ 526,372.35</u>

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

City of Statesville ABC Board
Schedule of Store Expenses
For the Fiscal Years Ended June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Salaries & Wages	\$ 483,836.18	\$ 474,375.32
Payroll Tax Expense	38,074.91	36,701.97
Retirement Contributions	44,852.65	41,598.86
Insurance	76,071.45	71,407.60
Direct Deposit Fees	881.50	812.00
Interest Expense	35,748.89	35,012.25
Repairs & Maintenance	28,844.39	19,815.38
Utilities	32,839.46	33,567.20
Uniforms	1,916.21	1,621.34
Store Supplies	16,074.62	15,861.63
Credit Card Expense	41,329.88	38,159.70
Bank Charges	881.80	173.69
Vehicle Expense	2,195.38	5,195.60
Training	4,446.58	0.00
Office & Postage	6,903.74	7,314.30
Maintenance Agreements	11,152.44	10,676.38
Professional Fees	14,075.00	14,020.00
Dues & Subscriptions	1,715.00	1,169.00
Alarm Service	475.68	594.68
	<u>842,315.76</u>	<u>808,076.90</u>
Total Store Expenses	<u>\$ 842,315.76</u>	<u>\$ 808,076.90</u>

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

City of Statesville ABC Board
Schedule of Administrative Expenses
For the Fiscal Years Ended June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Travel & Meetings	\$ 7,104.96	\$ 7,848.33
Board Salaries	<u>5,400.00</u>	<u>5,400.00</u>
Total Administrative Expenses	<u>\$ 12,504.96</u>	<u>\$ 13,248.33</u>

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

City of Statesville ABC Board
Schedule of Revenues and Expenditures - Budget and Actual
For the Year ended June 30, 2014

	2014 Original Budget	2014 Revised Budget	2014 Actual	Variance Positive (Negative)
Revenues:				
Operating Revenues:				
Liquor Sales - Regular			\$ 4,690,455	
Mixed Beverage Sales			494,898	
Wine/Mixer Sales			9,998	
Total	5,238,566	5,238,566	5,195,350	(43,216)
Non-Operating Revenues:				
Interest			124	
Other	1,649	1,649	1,363	
Total	1,649	1,649	1,487	(162)
Total Revenues	5,240,215	5,240,215	5,196,837	(43,378)
Expenditures				
Taxes Based on Revenue				
State Excise Tax			1,129,838	
Mixed Beverage Tax (Revenue)			45,472	
Mixed Beverage Tax (Human Resources)			4,547	
Rehabilitation Tax			17,966	
Wine/Mixer Sales Tax			740	
Total	1,210,079	1,210,079	1,198,563	11,516
Cost of Goods Sold	2,756,604	2,756,604	2,682,088	74,516
Operating Expenses				
Salaries & Benefits	624,861	624,861	619,889	4,972
Board Member Expenses	5,400	5,400	5,400	0
Utilities	36,339	36,339	32,839	3,500
Repair & Maintenance	23,104	23,104	28,844	(5,740)
Office/Store Supplies	41,847	41,847	27,967	13,880
Insurance	16,366	16,366	23,489	(7,123)
Travel, Training & Conferences	20,168	20,168	13,747	6,421
Professional Fees	14,815	14,815	14,075	740
Credit Card & Bank Service Charges	38,708	38,708	42,212	(3,504)
Contingencies	6,000	10,000	0	10,000
Total	827,608	831,608	808,461	23,147
Capital Outlay				
Point of Sale Upgrade	21,899	21,899	21,744	155
Telephone Upgrade	6,514	6,514	6,513	1
Video Security Upgrade	1,172	1,172	1,171	1
Capital Outlay from Administrative Reserve	(29,585)	(29,585)	0	(29,585)
	0	0	29,428	(29,428)

The accompanying notes are an integral part of the financial statements

City of Statesville ABC Board
Schedule of Revenues and Expenditures - Budget and Actual
For the Year ended June 30, 2014

	2014 Original Budget	2014 Revised Budget	2014 Actual	Variance Positive (Negative)
Debt Service				
Principal Payments on Store 2 Note & LOC	29,590	29,590	32,049	(2,459)
Interest Payments	36,128	36,128	35,749	379
	<u>65,718</u>	<u>65,718</u>	<u>67,798</u>	<u>-2,080</u>
 Total Expenditures	 <u>4,860,009</u>	 <u>4,864,009</u>	 <u>4,786,338</u>	 <u>77,671</u>
Distributions:				
Law Enforcement			29,644	(29,644)
Alcohol Education & Rehab			20,000	(20,000)
City of Statesville			129,239	(129,239)
Iredell - Statesville Schools			58,244	(58,244)
Mitchell Community College			58,244	(58,244)
Iredell Museums			23,297	(23,297)
Total	<u>356,069</u>	<u>356,069</u>	<u>318,668</u>	<u>37,401</u>
 Total Expenditures & Distributions	 <u>5,216,078</u>	 <u>5,220,078</u>	 <u>5,105,005</u>	 <u>115,073</u>
 Revenues over Expenditures	 24,137	 20,137	 121,259	 101,122
Other Financing (uses):				
Working Capital Retained	24,137	20,137	0	20,137
Working Capital (Used)/Added			62,927	(62,927)
Unrestricted Funds				0
Total	<u>24,137</u>	<u>20,137</u>	<u>62,927</u>	<u>-42,790</u>
 Revenues over Expenditures and Other Financing (uses)	 <u>\$ -</u>	 <u>\$ -</u>	 <u>58,332</u>	 <u>\$ 143,912</u>

Reconciliation from Budgetary Basis (modified accrual)
to Full Accrual:

Depreciation	66,981
Increase in Accrued Vacation Pay	<u>(8,650)</u>
Total	<u>58,331</u>
 Change in Net assets	 <u>\$ 0</u>

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