

05.29.2018

To: Statesville ABC Board Members, City of Statesville,
NC ABC Commission, Media, Interested Parties

From: Tip Nicholson, General Manager

Date: May 29, 2018

Subject: 2018-19 Budget Message

The Annual Budget for the fiscal year July 1, 2018 through June 30, 2019 (FY18/19) has been prepared in accordance to North Carolina General Statute 18B-702 "Financial operations of local boards". The ABC Board determines, through adoption of an annual budget, the level of customer services that the ABC system will provide and the resources available for operations.

The primary drivers during the preparation of this budget included projected operating costs required to sustain acceptable levels of customer service during FY18/19 and the need for revenues sufficient to fund distributions to beneficiaries.

Projected operating revenues are estimated to increase slightly during FY18/19 while budgeted expenses are also expected to increase. The primary increase in budgeted expenses is to prepare for needed building and grounds work.

The budget consists of: projected revenues from liquor sales and other receipts of \$6,034,528; taxes related to income of \$1,384,623; cost of sales of \$3,166,110; operating expenses costs of \$1,031,157; and local distributions of \$252,632.

Highlights of Key Budget Elements Include:

- With the one year anniversary of the opening of the Troutman ABC store, sales have finally began to increase to the levels where they were two years ago. The budget has been adjusted to reflect the continued impact of Troutman ABC sales.
- Following the City of Statesville, there will be a 3.5% salary increase for accepted levels of performance.

Statesville ABC Board

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- The entire amount for health insurance premiums for 7 full time staff persons has been budgeted. Currently, we have 1 full time staff person that is on Medicare. The board pays their Medicare supplement which is less than what would be paid for regular health insurance. In anticipation of a time that this staff person is replaced, and to financially prepare for that time, the full amount of health insurance under the board's plan has been budgeted. The deductible for employee's health insurance has been raised to \$1,000 in order to reduce costs.
- There will be no significant increase in electric rates and water/sewer rates will increase approximately 3%.
- The new requirement for processing credit cards requires additional monthly costs.
- In order to better promote NC made products, new racks will be purchased to showcase them.
- The board plans to replace its aging and outdated video security systems at both stores.
- The ABC Board will continue to closely watch its working capital. The NC ABC Commission issues guidelines for minimum and maximum working capital (defined below in the Priorities and Assumptions section). The actual amount is determined at the completion of the annual audit sometime in August of 2018. The board is not allowed to go under the minimum amount and if it does, it is allowed to withhold distributions until such time that the amount again exceeds the minimum. The Board goal is to try and maintain working capital at the mid-point range recommended by the NC ABC Commission. It is hoped that revenues will exceed projections and expenditures will be less than budgeted so that the working capital target can be met while also increasing local distributions.

The Board's Budget Process

During April and May, information was gathered regarding possible changes in budget lines for the new fiscal year. Once the City Manager released the budget message for FY18/19, the proposed budget was finalized. The Statesville ABC Board will hold a public hearing for the proposed budget on Wednesday May 30th at 11:00am at its regularly scheduled meeting. After hearing public comment, the board will continue to study the budget and then act on the FY18/19 budget at its June 26th meeting.

Priorities and Assumptions:

- The Board's primary source of revenue is through the sale of spirituous beverages. A key assumption is the amount of expected sales growth (which is estimated to increase slightly). Revenue projections are projected based on current economic factors combined with historic sales figures.

- The Board's books and records are maintained based on the Enterprise method of accounting which is different than the Fund method of accounting used by many government entities.
- The Board satisfies its obligation for law enforcement (minimum of 5% of net profits) by employing a retired law enforcement officer who conducts inspections of liquor by the drink outlets and coordinates any law enforcement issues with the Statesville Police Department.
- Alcohol Education – The Statesville ABC Board believes strongly in its responsibility to help fund local organizations that work with alcohol and substance abuse services. The Board historically has funded alcohol education programs at more than the minimum of 7% as required by law.
- NC ABC Commission Rules (4 NCAC 2R.0902) define “working capital” as “the total cash, investments and inventory less all unsecured liabilities.” Also, “a local Board shall set its Working Capital requirements at not less than two week’s average gross sales of the latest fiscal year nor greater than four months’ average gross sales of the latest fiscal year. Gross sales means gross receipts from the sales of alcoholic beverages less distributions as defined in G.S. 18B-805(b)(2), (3), and (4).” The Statesville ABC Board, while meeting these requirements, will continue to work to build its “working capital” to a level that will at least reach the midpoint of the minimum and maximum requirements.

Staffing Summary

The Board has authorized a total of 7 full-time positions. An additional 17 part time employees work a variety of hours and positions for the Board.

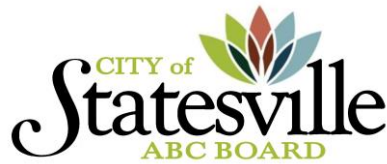
Conclusion

The budget reflects the Board's commitment to fulfill its mission based on known information.

Tip Nicholson

General Manager

Attached: Proposed Budget for Fiscal Year 2018/2019



2018-19 FISCAL YEAR BUDGET
STATESVILLE ABC BOARD
July 1, 2018 – June 30, 2019

Section 1. Estimated Revenues.

It is estimated that the revenues listed below will be available during the fiscal year beginning July 1, 2018 and ending June 30, 2019 to meet the operational and functional appropriations as set forth in Section 2, in accordance with the chart of accounts prescribed by the state ABC Commission.

Estimated Revenues:

Sales	\$6,031,124
Other Income	\$3,404
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Total	<u>\$6,034,528</u>

Section 2. Appropriations.

The following expenses are estimated for fiscal year 2018 – 2019 and are funded by the revenues made available through Section 1, herein.

Appropriations:

Taxes Based on Revenue	\$1,384,623
Cost of Sales	\$3,166,110

Operating Expenses:	Law		Total	
	Stores	Enforcement		
Salaries & Benefits	\$740,576	\$20,572	\$761,148	
Board Salaries	\$5,400		\$5,400	
Repairs & Maintenance	\$46,034		\$46,034	
Utilities	\$31,858		\$31,858	
Insurance – Building & Liability	\$12,284		\$12,284	
Store/Office Supplies	\$57,133	\$440	\$57,573	
Travel, Training & Conferences	\$11,748		\$11,748	
Contracts & Professional Fees	\$45,000		\$45,000	
Credit Card Fees	\$58,120		\$58,120	
Contingencies/Miscellaneous	\$1,992		\$1,992	
Total Operating Expense	\$1,010,145	\$21,012	\$1,031,157	\$1,031,157
Capital Outlay:	Law		Total	
	Stores	Enforcement		
Security Systems Replacement (may switch to contracted)				
NC Products Display Racks	\$2,000		\$2,000	
Copy Machine	\$2,000		\$2,000	
Security Systems Replacement CO Funding (From Administrative Reserve)	-\$4,000		-\$4,000	
Total Capital Outlay	0	0	0	0

Debt Service:

Principal Payments on Store #2 Loan	\$33,000	
Interest Payments on Loan & Line of Credit	\$24,216	
Total Debt Service	\$57,216	\$57,216

Distributions:

Mandatory Profit Distributions	\$204,632	
Alcohol Education & Rehab.	\$48,000	
Total Distributions	\$252,632	\$252,632
Working Capital		\$142,790
Retained/Administrative Reserve		

Total Expense, Distributions & Reserve		\$6,034,528
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Section 3. Copies of this Budget, once approved, shall be furnished to the appointing authority, the state ABC Commission, and to the Budget Officer and Finance Officer to be kept on file by them for their direction in the disbursement of funds.

The policy of the Statesville ABC Board is to maintain working capital at the mid-point of the minimum and maximum amounts as set by the State of North Carolina and the North Carolina ABC Commission. All remaining money once the mid-point is reached, is allocated to our distribution partners and local organizations that are working in the areas of alcohol and substance abuse education, prevention and treatment.