

Independent Auditor's Report

City of Statesville ABC Board #120

As of

June 30, 2011

City of Statesville ABC Board #120

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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, 2011. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- Revenue decreased approximately 1.5% during the year.
- Total profit distributions, including law enforcement and alcohol education expenditures, totaled approximately \$182,580.
- Working capital remained essentially unchanged.
- Non-Current liabilities decreased to \$737,555.

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 assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$941,923 in 2011. The largest component of net assets is the investment in capital assets (net of depreciation) which represented 187% of net assets. Following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Assets

	6/30/2011	6/30/2010	\$ Change	% Change
Current assets	\$ 669,991	\$ 732,721	\$ (62,730)	-8.6%
Non-current assets	1,759,980	1,757,445	2,535	0.1%
Total assets	2,429,971	2,490,166	(60,195)	-2.4%
Current liabilities	750,493	643,775	106,718	16.6%
Non-current liabilities	737,555	904,468	(166,913)	-18.5%
Total liabilities	1,488,048	1,548,243	(60,195)	-3.9%
Invested in capital assets, net of related debt	858,612	842,445	16,167	1.9%
Restricted net assets	135,844	134,543	1,301	1.0%
Unrestricted net assets	(52,533)	(35,065)	(17,468)	49.8%
Total net assets	941,923	941,923	0	0.0%

Following is a summary of the changes in net assets

Net remained unchanged during the year.

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets

	6/30/2011	6/30/2010	\$ Change	% Change
Operating revenues	\$ 4,594,727	\$ 4,526,987	\$ 67,740	1.5%
Less: Taxes on gross sales	1,063,362	1,029,850	33,512	3.3%
Net sales	3,531,365	3,497,138	34,228	1.0%
Cost of sales	2,433,152	2,414,921	18,231	0.8%
Gross profit	1,098,213	1,082,217	15,997	1.5%
Less: Operating expenses	916,244	969,022	(52,778)	-5.4%
Income from operations	181,969	113,195	68,774	60.8%

Nonoperating revenues and expenses	612	3,276	(2,664)	-81.3%
Changes in net assets before distributions	182,581	116,470	66,110	56.8%
Distributions	182,581	106,627	75,954	71.2%
Change in net assets	0	9,843	(9,843)	-100.0%
Net assets, beginning	941,923	932,080	9,843	1.1%
Net assets, ending	941,923	941,923	-	0.0%

Capital Asset and Debt Administration

Capital Assets

Table 3
Summary of Changes in Capital Assets

	6/30/2011	6/30/2010	\$ Change	% Change
Buildings	\$ 1,667,134	\$ 1,667,134	\$ -	0.0%
Land	235,050	235,050	-	0.0%
Store equipment	310,639	216,925	93,714	43.2%
Law enforcement equipment	-	32,356	(32,356)	-100.0%
Total Capital Assets	2,212,823	2,151,465	61,358	2.9%

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

	6/30/2011	6/30/2010	\$ Change	% Change
Compensated Absences	\$ 50,367	\$ 49,468	\$ 899	1.8%
Notes Payable	897,451	980,951	(83,499)	-8.5%
Total Long-term Debt	947,818	1,030,419	(82,601)	-8.0%

Economic Factors

The area in which the Board operates is suffering from an economic recession.

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
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Independent Auditor's Report

Board of Directors
City of Statesville ABC Board
Statesville, North Carolina

We have audited the accompanying financial statements of the City of Statesville ABC Board, a component unit of the City of Statesville, as of June 30, 2011 and 2010, as listed in the table of contents. These basic financial statements are the responsibility of the City of Statesville ABC Board management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic 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, 2011 and 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

M. David McKenzie, CPA, PLLC
August 24, 2011

City of Statesville ABC Board
(A component unit of the City of Statesville Government)
Statement of Net Assets
As of June 30, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 263,464.07	\$ 307,039.36
Inventory - Store #1	242,982.69	258,503.53
Inventory - Store #2	<u>163,544.13</u>	<u>167,178.05</u>
Total Current Assets	669,990.89	732,720.94
Non-current Assets		
Property, Plant and Equipment		
Net of Accumulated Depreciation	<u>1,756,063.03</u>	<u>1,757,445.22</u>
Intangibles		
Net of Accumulated Amortization	<u>3,916.93</u>	<u>0.00</u>
Total Assets	<u>\$ 2,429,970.85</u>	<u>2,490,166.16</u>
Liabilities		
Current Liabilities		
Accounts Payable	\$ 181,856.77	\$ 197,173.29
Piedmont Line of Credit	180,867.39	0.00
Wachovia Line of Credit	0.00	179,246.83
Federal Withholding Payable	2,884.13	2,884.13
FICA Withholding Payable	5,974.88	5,974.88
State Withholding Payable	443.00	443.00
Mixed Bev. Tax (DHR) Payable	512.53	530.78
Alcohol Taxes Payable	82,339.35	81,053.35
Alcohol Taxes (Iredell County) Paya	1,189.03	1,173.93
Wine/Mixer Tax Payable	259.45	283.73
Sales Tax Payable	10,804.68	7,829.24
Accrued Unemployment Payable	24,899.25	24,899.25
Employee 401(K) Payable	13,329.08	13,329.08
Employee State Retirement	(319.16)	0.00
Due to Statesville - LBD	0.00	3,103.00
Due to Statesville (Regular)	19,925.44	0.00
Due to I/S Schools	6,360.00	0.00
Due to Mitchell Comm. Coll.	6,360.00	0.00
Due to Iredell Museums	2,544.00	0.00
Current Portion - Long Term Debt	<u>210,263.44</u>	<u>125,850.60</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 Assets
As of June 30, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Total Current Liabilities	750,493.26	643,775.09
Non-Current Liabilities		
Note Payable - Piedmont Bank	0.00	65,850.60
Compensated Absences Payable	50,366.82	49,468.09
Note Payable - Wachovia	0.00	915,000.00
Note Payable - Piedmont	897,451.23	0.00
Less: Current Portion	<u>(210,263.44)</u>	<u>(125,850.60)</u>
Total Non-Current Liabilities	<u>737,554.61</u>	<u>904,468.09</u>
Total Liabilities	<u>1,488,047.87</u>	<u>1,548,243.18</u>
Net Assets		
Invested in capital assets net of related debt	858,611.80	842,445.22
Restricted:		
Minimum Working Capital	135,844.00	134,543.00
Unrestricted	<u>(52,532.82)</u>	<u>(35,065.24)</u>
Total Net Assets	<u>941,922.98</u>	<u>941,922.98</u>
Total Liabilities and Net Assets	<u>\$ 2,429,970.85</u>	<u>\$ 2,490,166.16</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 Assets
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating Revenue		
Sales	\$ 2,237,674.88	\$ 2,333,573.22
Sales - LBD	515,979.09	512,917.95
Sales - Credit & Debit Cards	1,828,264.86	1,667,404.17
Sales - Wine & Mixers	<u>12,808.16</u>	<u>13,091.72</u>
Total Gross Sales	<u>4,594,726.99</u>	<u>4,526,987.06</u>
Deduct Taxes on Gross Sales		
Mixed Beverage Tax - DHR	4,931.51	4,939.21
30% Alcohol Tax	992,269.00	958,326.23
5 Cent Alcohol Tax	16,272.00	16,206.98
Wine/Mixer Tax	571.25	983.95
Mixed Beverage Surcharge	<u>49,318.00</u>	<u>49,393.15</u>
Total Taxes	<u>1,063,361.76</u>	<u>1,029,849.52</u>
Net Sales	<u>3,531,365.23</u>	<u>3,497,137.54</u>
Deduct Cost of Sales		
Cost of Liquor Sold	<u>2,433,151.89</u>	<u>2,414,921.04</u>
Gross Profit on Sales	<u>1,098,213.34</u>	<u>1,082,216.50</u>
Deduct Operating Expenses		
Store Expenses	839,275.14	897,639.18
Administrative Expenses	14,094.51	10,569.78
Depreciation Expenses	<u>62,874.70</u>	<u>60,813.01</u>
Total Operating Expenses	<u>916,244.35</u>	<u>969,021.97</u>
Income From Operations	<u>181,968.99</u>	<u>113,194.53</u>
Nonoperating Revenues and Expenses		
Interest Earned	297.56	87.12
Other Income	<u>314.00</u>	<u>3,188.49</u>
Total Non-Operating Revenues (Expenses)	<u>611.56</u>	<u>3,275.61</u>
Change in Net Assets Before Distributions	<u>182,580.55</u>	<u>116,470.14</u>
Deduct		
Law Enforcement	28,692.11	52,402.98
Alcohol Education	<u>12,000.00</u>	<u>0.00</u>
Total Alcohol Ed. & Law Enf.	<u>40,692.11</u>	<u>52,402.98</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 Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Change in Net Assets Before Profit Distributions	<u>141,888.44</u>	<u>64,067.16</u>
Profit Distributions		
City of Statesville	44,544.44	14,250.00
Iredell - Statesville Schools	27,840.00	8,907.00
Mitchell Community College	27,840.00	8,907.00
Iredell Museums Distributions	11,136.00	3,563.00
City of Statesville - LBD	<u>30,528.00</u>	<u>18,597.00</u>
Total Profit Distributions	<u>141,888.44</u>	<u>54,224.00</u>
Change in Net Assets	0.00	9,843.16
Net Assets, Beginning of Year	<u>941,922.98</u>	<u>932,079.82</u>
Net Assets, 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, 2011 and June 30, 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 4,594,726.99	\$ 4,526,987.06
Cash payments to suppliers for goods and services	(2,781,346.35)	(2,702,417.57)
Cash payments to employees for services	(463,627.60)	(507,655.35)
Liquor taxes Paid	(1,063,361.76)	(1,029,849.52)
Net cash provided by operating activities	\$ 286,391.28	\$ 287,064.62
Cash flows from capital and related financing activities		
Debt Repayment	(1,160,097.43)	(63,403.97)
Borrowings	1,078,408.62	-
Acquisitions and construction of capital assets	(65,410.04)	(8,443.52)
Cash from/(used for) capital and related financing activities	(147,098.85)	(71,847.49)
Cash flows from non-capital financing activities:		
Increase (decrease) in non-current liabilities	898.73	1,611.55
Law Enforcement Distributions	28,692.11	52,402.98
Alcohol education distributions	12,000.00	-
Profit distributions	141,888.44	54,224.00
Net cash used by non capital financing activities	183,479.28	108,238.53
Cash flows from investing activities:		
Interest on Investments	297.56	87.12
Other	314.00	3,188.49
Net cash provided by investing activities	611.56	3,275.61
Net increase/(decrease) in cash and cash equivalents	(43,575.29)	110,254.21
Cash and cash equivalents, beginning of year	307,039.36	196,785.15
Cash and cash equivalents, end of year	\$ 263,464.07	\$ 307,039.36

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, 2011 and June 30, 2010

	2011	2010
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	181,968.99	113,194.53
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation & Amortization	62,874.70	60,813.01
Changes in assets and liabilities:		
Decrease/(Increase) in Inventory	19,154.76	57,258.16
Decrease/(Increase) in Prepaid Expenses	-	-
Increase/(Decrease) in Accounts Payable	(15,316.52)	21,251.04
Increase/(Decrease) in Accrued Liabilities	37,709.35	34,547.88
Total Adjustments	104,422.29	173,870.09
Net cash provided by operating activities	\$ 286,391.28	\$ 287,064.62

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. 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, 2011 the ABC Board's deposits had a carrying value of \$253,364.07 and a bank balance of \$262,079.65. The Board maintains accounts at a single

institution. Bank balances up to \$250,000 at each institution are covered by federal depositary insurance. As of June 30, 2011 the Board had no uninsured balances. Amounts in excess of the federal depositary 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, 2011 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.

Property, Plant and Equipment and Intangibles

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:

	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Balance</u>
Land	N/A	\$ 235,050.00	\$ -	\$ 235,050.00
Building	30 yrs.	1,649,467.60	280,595.83	1,368,871.77
Paving	15 yrs.	17,665.93	17,665.93	-
Furniture & & Fixtures	5-7 yrs.	310,639.45	158,498.19	152,141.26
Intangibles	5 yrs.	4,052.00	135.07	3,916.93
		<u>\$2,216,874.98</u>	<u>\$ 456,895.02</u>	<u>\$ 1,759,979.96</u>

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 Assets

Net assets may consist of the following:

1. Invested in capital assets, net of related debt – 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, 2011, 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 *invested in capital assets, net of related debt*.

2. **Stewardship, Compliance and Accountability**

Noncompliance with N.C. General Statutes

At June 30, 2011 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, 2011, 2010 and 2009 were \$24,326.42, \$13,367.88, and \$16,594.76, 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, 2011, 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 \$7,301.57 or 17.9% 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.

4. **Notes Payable**

The Board has a note payable with a bank secured by real estate. At June 30, 2011 the outstanding balance was \$897,451.23. 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

The Board has a revolving line of credit with a bank secured by real estate. At June 30, 2011 the outstanding balance was \$180,867.39. The note requires monthly payments of interest only. The note bears interest at a rate of 4.125% per annum.

Maturities are as follows:

2012	\$ 210,263.44
2013	30,751.00
2014	32,066.00
2015	33,641.00
Beyond	771,813.23

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, 2011 was \$50,366.82. 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%)	\$ 44,544.44
Iredell – Statesville Schools (25%)	27,840.00
Mitchell Community College – Board of Trustees (25%)	27,840.00
Iredell Museums (10%)	11,136.00
City of Statesville (Liquor by the drink)	<u>30,528.00</u>
	<u>\$141,888.44</u>

North Carolina General Statute 18B-805(e) requires that the entire net income, after deducting amounts required for law enforcement and alcohol education and retaining proper working capital, be paid quarterly to the recipients listed above.

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>2011</u>	<u>2010</u>
Profit Before Distributions	\$182,580.00	\$116,470.00
Less: 3 1/2% Tax and Bottle Charge	<u>132,594.00</u>	<u>132,504.00</u>
Profit Subject to Expense Percentage	49,986.00	(16,304.00)
Law Enforcement - Actual (Percentage of Profit)	28,692.11 57.40%	52,402.98 321.41%
Provision for Alcohol Education (Percentage of Profit)	12,000.00 24.01%	0.00 0.00%

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 6/30/10	\$ 81,051.00
Taxes collected during the year	1,041,587.00
Taxes remitted to Department of Revenue	1,040,301.00
Taxes payable 6/30/10	82,337.00

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

The accrued North Carolina excise tax at June 30, 2011 was remitted to the North Carolina Department of Revenue on July 14, 2011.

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	284,355 @ \$0.05	\$14,217.75
Mixed Beverage Bottles	26,010 @ \$0.05	1,300.50
Miniature Bottles	75,205 @ \$0.01	<u>752.05</u>
		<u>\$16,270.30</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%)	\$ 49,318.00
Department of Human Resources (5%)	4,931.51
Profit Retained (45%)	<u>44,383.56</u>
Total	<u>\$ 98,630.14</u>

10. **Surcharge Collected**

The total amount of Surcharge collected for the fiscal year was \$26,696.00. The rate is 85 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 \$3,050,553.70 Change in Net Assets \$0.00

Store #2 – 1312 Garner Bagnal Blvd., Statesville, NC
 Gross Sales \$1,544,173.29 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	\$ 134,844.00
Maximum Amount	1,177,312.00
Actual Amount	310,628.00

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 \$324,886.15. The current rate is 8%.

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. Each is covered against loss up to \$50,000.

Supplemental Information

**(The following schedules are information that
theABC Commission requires.)**

City of Statesville ABC Board
Schedule of Store Expenses
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Salaries & Wages	\$ 458,227.60	\$ 502,255.35
Payroll Tax Expense	54,433.64	58,632.55
Retirement Contributions	43,205.81	40,098.67
Insurance	84,545.47	86,315.96
Direct Deposit Fees	1,246.10	0.00
Interest Expense	55,443.78	60,452.35
Repairs & Maintenance	14,331.74	21,237.01
Utilities	29,337.92	28,531.37
Telephone	0.00	137.31
Store Supplies	13,569.43	12,211.32
Credit Card Expense	45,265.44	26,419.52
Bank Charges	3,165.31	19,955.46
Vehicle Expense	2,075.76	3,909.39
Training	1,901.65	0.00
Office & Postage	8,102.51	11,331.84
Miscellaneous	2,234.46	0.00
Maintenance Agreements	7,218.49	9,181.66
Professional Fees	12,805.00	14,010.00
Dues & Subscriptions	1,238.00	842.21
Alarm Service	927.03	2,117.21
Total Store Expenses	<u>\$ 839,275.14</u>	<u>\$ 897,639.18</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, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Travel & Meetings	\$ 8,694.51	\$ 5,169.78
Board Salaries	<u>5,400.00</u>	<u>5,400.00</u>
Total Administrative Expenses	<u>\$ 14,094.51</u>	<u>\$ 10,569.78</u>

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

**City of Statesville ABC Board
 Schedule of Law Enforcement Expenses
 For the Fiscal Years Ended June 30, 2011 and June 30, 2010**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Salaries	\$ 21,692.08	\$ 33,756.39
Payroll Taxes	1,659.46	2,559.37
Retirement	0.00	2,031.59
Insurance	1,696.60	6,524.57
Depreciation & Amortization	419.15	444.12
Telephone	2,074.37	3,068.71
Travel & Meetings	1,050.45	1,290.59
Office & Postage	100.00	108.75
Auto Expense	0.00	1,032.26
401(K) Contributions	0.00	1,586.63
Total Law Enforcement Expenses	<u>\$ 28,692.11</u>	<u>\$ 52,402.98</u>

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

City of Statesville ABC Board
Schedule of Yearly Statements of Operations - Store #1
For the Fiscal Year Ended June 30, 2011
 With Comparative Data
 For the Fiscal Year ended June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating Revenue		
Sales	\$ 1,394,011.82	\$ 1,522,381.64
Sales - LBD	515,979.09	512,917.95
Sales - Credit & Debit Cards	1,132,042.19	1,047,614.98
Sales - Wine & Mixers	<u>8,520.60</u>	<u>8,745.02</u>
Total Gross Sales	<u>3,050,553.70</u>	<u>3,091,659.59</u>
Deduct Taxes on Gross Sales		
Mixed Beverage Tax - DHR	4,931.51	4,939.21
30% Alcohol Tax	650,792.00	645,001.59
5 Cent Alcohol Tax	10,715.00	10,870.55
Wine/Mixer Tax	571.25	656.47
Mixed Beverage Surcharge	<u>49,318.00</u>	<u>49,393.15</u>
Total Taxes	<u>716,327.76</u>	<u>710,860.97</u>
Net Sales	<u>2,334,225.94</u>	<u>2,380,798.62</u>
Deduct Cost of Sales		
Cost of Liquor Sold	<u>1,573,185.47</u>	<u>1,632,233.73</u>
Gross Profit	<u>761,040.47</u>	<u>748,564.89</u>
Deduct Operating Expenses		
Salaries & Wages	320,533.42	353,761.11
Payroll Tax Expense	25,314.55	28,450.84
Retirement Contributions	28,622.24	27,037.14
Insurance	58,104.90	55,979.71
Direct Deposit Fees	1,030.65	0.00
Interest Expense	1,465.47	4,609.20
Depreciation & Amortization	24,056.50	22,482.80
Repairs & Maintenance	5,487.55	9,595.75
Utilities	15,896.05	15,293.10
Telephone	0.00	137.31
Store Supplies	8,364.14	9,516.25
Credit Card Expense	28,411.03	16,368.54
Bank Charges	2,453.42	15,673.09
Travel & Meetings	8,694.51	4,886.73
Vehicle Expense	2,075.76	3,909.39
Training	1,893.12	0.00

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

City of Statesville ABC Board
Schedule of Yearly Statements of Operations - Store #1
For the Fiscal Year Ended June 30, 2011
 With Comparative Data
 For the Fiscal Year ended June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Office & Postage	7,049.79	10,084.18
Maintenance Agreements	7,218.49	6,947.20
Professional Fees	12,805.00	14,010.00
Dues & Subscriptions	1,218.00	842.21
Board Salaries	5,400.00	5,400.00
Alarm Service	927.03	1,266.88
Total Operating Expenses	<u>567,021.62</u>	<u>606,251.43</u>
Income From Operations	<u>194,018.85</u>	<u>142,313.46</u>
Other Income and Expenses		
Interest Earned	297.56	87.12
Other Income	267.00	3,188.49
Total Non-Operating Revenues	<u>564.56</u>	<u>3,275.61</u>
Income Before Distributions	<u>194,583.41</u>	<u>145,589.07</u>
Deduct		
Law Enforcement	28,692.11	51,453.86
Alcohol Education	12,000.00	0.00
Total Alcohol Ed. & Law Enf.	<u>40,692.11</u>	<u>51,453.86</u>
Profit Distributions		
City of Statesville	84,898.30	12,213.00
Iredell - Statesville Schools	28,747.00	7,676.00
Mitchell Community College	28,747.00	7,676.00
Iredell Museums Distributions	11,499.00	3,071.00
City of Statesville - LBD	0.00	18,597.00
Total Distributions	<u>153,891.30</u>	<u>49,233.00</u>
Net Income	<u>0.00</u>	<u>44,902.21</u>

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

City of Statesville ABC Board
Schedule of Yearly Statements of Operations - Store #2
For the Fiscal Year Ended June 30, 2011

With Comparative Data
For the Fiscal Year ended June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating Revenue		
Sales	\$ 843,663.06	\$ 811,191.58
Sales - Credit & Debit Cards	696,222.67	619,789.19
Sales - Wine & Mixers	<u>4,287.56</u>	<u>4,346.70</u>
Total Gross Sales	<u>1,544,173.29</u>	<u>1,435,327.47</u>
Deduct Taxes on Gross Sales		
30% Alcohol Tax	341,477.00	313,324.64
5 Cent Alcohol Tax	5,557.00	5,336.43
Wine/Mixer Tax	<u>0.00</u>	<u>327.48</u>
Total Taxes	<u>347,034.00</u>	<u>318,988.55</u>
Net Sales	<u>1,197,139.29</u>	<u>1,116,338.92</u>
Deduct Cost of Sales		
Cost of Liquor Sold	<u>859,966.42</u>	<u>782,687.31</u>
Gross Profit	<u>337,172.87</u>	<u>333,651.61</u>
Deduct Operating Expenses		
Salaries & Wages	137,694.18	148,494.24
Payroll Tax Expense	29,119.09	30,181.71
Retirement Contributions	14,583.57	13,061.53
Insurance	26,440.57	30,336.25
Direct Deposit Fees	215.45	0.00
Interest Expense	53,978.31	55,843.15
Depreciation & Amortization	38,818.20	38,330.21
Repairs & Maintenance	8,844.19	11,641.26
Utilities	13,441.87	13,238.27
Store Supplies	5,205.29	2,695.07
Credit Card Expense	16,854.41	10,050.98
Bank Charges	711.89	4,282.37
Travel & Meetings	0.00	283.05
Training	8.53	0.00
Office & Postage	1,052.72	1,247.66
Miscellaneous	2,234.46	0.00
Maintenance Agreements	0.00	2,234.46
Dues & Subscriptions	20.00	0.00
Alarm Service	<u>0.00</u>	<u>850.33</u>

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

City of Statesville ABC Board
Schedule of Yearly Statements of Operations - Store #2
For the Fiscal Year Ended June 30, 2011

With Comparative Data
For the Fiscal Year ended June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Total Operating Expenses	<u>349,222.73</u>	<u>362,770.54</u>
Income From Operations	<u>(12,049.86)</u>	<u>(29,118.93)</u>
Other Income and Expenses		
Other Income	<u>47.00</u>	<u>0.00</u>
Total Non-Operating Revenues	<u>47.00</u>	<u>0.00</u>
Income Before Distributions	<u>(12,002.86)</u>	<u>(29,118.93)</u>
Deduct		
Law Enforcement	<u>0.00</u>	<u>949.12</u>
Total Alcohol Ed. & Law Enf.	<u>0.00</u>	<u>949.12</u>
Profit Distributions		
City of Statesville	(9,825.86)	2,037.00
Iredell - Statesville Schools	(907.00)	1,231.00
Mitchell Community College	(907.00)	1,231.00
Iredell Museums Distributions	<u>(363.00)</u>	<u>492.00</u>
Total Distributions	<u>(12,002.86)</u>	<u>4,991.00</u>
Net Income	<u><u>0.00</u></u>	<u><u>(35,059.05)</u></u>

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