

**MONTGOMERY ALCOHOLIC
BEVERAGE CONTROL BOARD**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2012 and 2011

JBW

J. B. WATSON & Co., P.L.L.C.
Certified Public Accountants

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Montgomery Alcoholic Beverage Control Board
Biscoe, North Carolina

We have audited the accompanying financial statements of Montgomery Alcoholic Beverage Control Board as of June 30, 2012 and 2011, and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of Montgomery Alcoholic Beverage Control Board's management. Our responsibility is to express an opinion on these basic 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 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 audits provide 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 Montgomery Alcoholic Beverage Control Board as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montgomery Alcoholic Beverage Control Board's financial statements. The Schedules of Store Expenses, Schedules of Administrative Expenses, and Schedule of Revenues and Expenditures – Budget and Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules of Store Expenses, Schedules of Administrative Expenses, and Schedule of Revenues and Expenditures – Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audits 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 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.

J. B. Watson & Co., PLLC

September 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Montgomery Alcoholic Beverage Control Board's financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2012. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

Working capital increased \$1,992 from the prior year.

Change in net assets before distributions amounted to \$30,111.

Distributions amounting to \$30,111 were made during the current year to law enforcement and the county and towns.

Overview of the Financial Statements

The audited financial statements of Montgomery Alcoholic Beverage Control 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 three statements. The first 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 Revenues and Expenditures – Budget and Actual**.

Financial Analysis of Montgomery Alcoholic Beverage Control Board

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$342,735 in 2012. The largest component of net assets was the inventory of liquor. It was 81.25% of the total net assets. Following is a summary of the Statement of Net Assets:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1
Condensed Statement of Net Assets

	June 30, 2012	June 30, 2011	\$ Change	% Change
Cash	\$ 141,838	\$ 140,585	\$ 1,253	0.89%
Inventory	278,479	254,236	24,243	9.54%
Current assets	420,317	394,821	25,496	6.46%
Capital assets, net	58,335	65,744	(7,409)	-11.27%
Total assets	478,652	460,565	18,087	3.93%
Current liabilities	134,563	111,059	23,504	21.16%
Noncurrent liabilities	1,354	6,771	(5,417)	-80.00%
Invested in capital assets, net of related debt	51,564	53,556	(1,992)	-3.72%
Restricted net assets	36,848	35,684	1,164	3.26%
Unrestricted net assets	254,323	253,495	828	0.33%
Total net assets	342,735	342,735	-	0.00%

Note that inventory increased by 9.54%. Total net assets were unchanged because all profits were distributed. Following is a summary of the changes in net assets:

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

	June 30, 2012	June 30, 2011	\$ Change	% Change
Operating revenues	\$ 1,241,694	\$ 1,203,423	\$ 38,271	3.18%
Less: Taxes on gross sales	283,624	275,659	7,965	2.89%
Net sales	958,070	927,764	30,306	3.27%
Cost of sales	648,350	633,886	14,464	2.28%
Gross profit	309,720	293,878	15,842	5.39%
Less: Operating expenses	279,825	291,549	(11,724)	-4.02%
Income from operations	29,895	2,329	27,566	1183.60%
Nonoperating revenues	216	219	(3)	-1.37%
Changes in net assets before distributions	30,111	2,548	27,563	1081.75%
Distributions	30,111	2,548	27,563	1081.75%
Change in net assets	-	-	-	0.00%
Net assets, beginning	342,735	342,735	-	0.00%
Net assets, ending	342,735	342,735	-	0.00%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales were up \$38,271 or 3.18%. Operating expenses were down \$11,724 or 4.02%. Income from operations was \$29,895 for 2012, compared to income from operations of \$2,329 for 2011. The increased sales and lower operating expenses were the main factors in this improvement.

Following is a breakdown of sales by source:

	June 30, 2012	June 30, 2011	\$ Change	% Change
Retail liquor sales	\$ 1,180,013	\$ 1,132,888	\$ 47,125	4.16%
Mixed beverage sales	<u>61,681</u>	<u>70,535</u>	<u>(8,854)</u>	<u>-12.55%</u>
Total sales	<u>\$ 1,241,694</u>	<u>\$ 1,203,423</u>	<u>\$ 38,271</u>	<u>3.18%</u>

The percentage of mixed beverage sales to the total was 4.97% for 2012 as compared to 5.86% for 2011.

Capital Asset and Debt Administration

Capital Assets

Table 3
Summary of Changes in Property and Equipment

	June 30, 2012	June 30, 2011	\$ Change	% Change
Land	\$ 20,000	\$ 20,000	\$ -	0.00%
Building and improvements	146,987	146,987	-	0.00%
Furniture and equipment	<u>124,088</u>	<u>124,088</u>	<u>-</u>	<u>0.00%</u>
Total	<u>\$ 291,075</u>	<u>\$ 291,075</u>	<u>\$ -</u>	<u>0.00%</u>

There were no acquisitions or disposals of capital assets for the year ended June 30, 2012.

Debt Administration

The largest component of long-term debt is installment purchase payable.

Table 4
Summary of Changes in Long-term Debt

	June 30, 2012	June 30, 2011	\$ Change	% Change
Installment purchase	<u>\$ 6,771</u>	<u>\$ 12,188</u>	<u>\$ (5,417)</u>	<u>-44.45%</u>

All debt payments were made as scheduled.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors

Due to the current slow economic conditions in Montgomery County, there are no plans to open any new locations. Current plans are to maintain present services at the same level.

Requests for Information

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

Phillip Richardson, Manager
Montgomery Alcoholic Beverage Control Board
509 East Main Street
Biscoe, NC 27209

BASIC FINANCIAL STATEMENTS

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 141,838	\$ 140,585
Inventory	<u>278,479</u>	<u>254,236</u>
TOTAL CURRENT ASSETS	<u>420,317</u>	<u>394,821</u>
CAPITAL ASSETS		
Land	20,000	20,000
Building and improvements	146,987	146,987
Furniture and equipment	<u>124,088</u>	<u>124,088</u>
	291,075	291,075
Accumulated depreciation	<u>(232,740)</u>	<u>(225,331)</u>
	<u>58,335</u>	<u>65,744</u>
TOTAL ASSETS	<u>\$ 478,652</u>	<u>\$ 460,565</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 5,417	\$ 5,417
Accounts payable and accrued expenses	99,035	103,094
Accrued distributions	<u>30,111</u>	<u>2,548</u>
TOTAL CURRENT LIABILITIES	134,563	111,059
NONCURRENT LIABILITIES		
Installment purchase payable less current portion	<u>1,354</u>	<u>6,771</u>
TOTAL LIABILITIES	<u>135,917</u>	<u>117,830</u>
NET ASSETS		
Invested in capital assets, net of related debt	51,564	53,556
Restricted for:		
Working capital	36,848	35,684
Unrestricted	<u>254,323</u>	<u>253,495</u>
TOTAL NET ASSETS	<u>342,735</u>	<u>342,735</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 478,652</u>	<u>\$ 460,565</u>

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

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS**

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Liquor sales	\$ 1,180,013	\$ 1,132,888
Mixed beverage sales	<u>61,681</u>	<u>70,535</u>
TOTAL GROSS SALES	<u>1,241,694</u>	<u>1,203,423</u>
DEDUCT TAXES ON GROSS SALES		
State excise tax	272,696	263,667
Rehabilitation tax	5,124	5,102
Mixed beverage tax (Revenue)	5,276	6,264
Mixed beverage tax (Human Resources)	<u>528</u>	<u>626</u>
TOTAL TAXES	<u>283,624</u>	<u>275,659</u>
NET SALES	958,070	927,764
COST OF LIQUOR SALES	<u>648,350</u>	<u>633,886</u>
GROSS PROFIT ON SALES	<u>309,720</u>	<u>293,878</u>
OPERATING EXPENSES		
Store expenses	219,988	233,316
Administrative expenses	52,428	47,919
Depreciation expense	<u>7,409</u>	<u>10,314</u>
TOTAL OPERATING EXPENSES	<u>279,825</u>	<u>291,549</u>
INCOME FROM OPERATIONS	29,895	2,329
NONOPERATING REVENUES		
Interest income	<u>216</u>	<u>219</u>
CHANGE IN NET ASSETS BEFORE DISTRIBUTIONS	30,111	2,548
Law enforcement distributions	<u>(3,011)</u>	<u>(255)</u>
CHANGE IN NET ASSETS BEFORE PROFIT DISTRIBUTIONS	<u>27,100</u>	<u>2,293</u>
PROFIT DISTRIBUTIONS		
Towns	(15,056)	(1,274)
County	<u>(12,044)</u>	<u>(1,019)</u>
TOTAL PROFIT DISTRIBUTIONS	<u>(27,100)</u>	<u>(2,293)</u>
CHANGE IN NET ASSETS	-	-
NET ASSETS, BEGINNING	<u>342,735</u>	<u>342,735</u>
NET ASSETS, ENDING	<u>\$ 342,735</u>	<u>\$ 342,735</u>

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

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,324,413	\$ 1,294,178
Liquor taxes paid	(282,668)	(273,628)
Cash payments to suppliers for goods and services	(688,868)	(668,329)
Cash payments to employees for services	(188,869)	(192,815)
Other operating expenses	(72,119)	(69,513)
Liquor sales taxes paid	<u>(82,887)</u>	<u>(90,566)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>9,002</u>	<u>(673)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	-	(12,180)
Principal paid on debt	<u>(5,417)</u>	<u>(4,062)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,417)</u>	<u>(16,242)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Law enforcement distributions	(255)	-
Profit distributions to County and Towns	<u>(2,293)</u>	<u>-</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(2,548)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>216</u>	<u>219</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,253	(16,696)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>140,585</u>	<u>157,281</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 141,838</u>	<u>\$ 140,585</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Income from operations	\$ 29,895	\$ 2,329
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:		
Depreciation	7,409	10,314
Changes in assets and liabilities:		
Increase in inventory	(24,243)	(20,687)
Increase (decrease) in accounts payable and accrued expenses	<u>(4,059)</u>	<u>7,371</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 9,002</u>	<u>\$ (673)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Acquisition of cash register system and equipment through installment purchase	<u>\$ -</u>	<u>\$ 16,250</u>

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

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Montgomery ABC Board is a corporate body with powers outlined by G.S. 18B-701. The Town councils of Biscoe, Candor, Mt. Gilead, Star, and Troy appoint the ABC Board. The basic criteria of oversight responsibility was used to determine that the Towns do not exercise sufficient control to warrant inclusion of the ABC Board as part of the Towns' reporting entities.

Effective January 1, 2009, the Montgomery County Board of Commissioners will appoint a board member in addition to the members appointed by the Town councils of Biscoe, Candor, Mount Gilead, Star, and Troy. This change to the ABC Board necessitated a change in the legal corporate name from Montgomery Municipal Alcoholic Beverage Control Board to Montgomery Alcoholic Beverage Control Board.

B. Organizational History

The Board was organized under the provisions of Senate Bill #170, Chapter 145 of the North Carolina legislature, General Assembly of 1969, March 31, 1969, and implemented by citywide elections in the Towns of Biscoe and Mount Gilead, North Carolina held May 6, 1969. The Town councils of Biscoe, Candor, Mount Gilead, Star, and Troy each appointed one member to serve on the Board.

The ABC Board, as provided by North Carolina Alcoholic Beverage Control laws, operates two retail liquor stores. North Carolina General Statute 18B-805(c)(2)(3) requires the ABC Board to expend at least 5% of profits for law enforcement.

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 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. The ABC Board

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

distinguishes operating revenues and expenses from nonoperating items. Operating revenues include liquor, mixed beverage, and wine sales. Operating expenses include cost of sales, store expenses, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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 assets date and reported amounts of revenue and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts, 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 ABC Board are made in board-designated official depositories and are collateralized as required by State law [G.S.159-31]. The ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

All the ABC 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's 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 undercollateralization, 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. The ABC Board has no policy regarding custodial credit risk for deposits.

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

At June 30, 2012 and 2011, the ABC Board's deposits had a carrying amount of \$139,133 and \$137,880, respectively, and bank balances of \$124,585 and \$143,096, respectively. At June 30, 2012, all of the ABC Board's bank balances were covered by federal depository insurance. At June 30, 2012 and 2011, the ABC Board's petty cash fund totaled \$2,705.

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 bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC registered (2a-7) money market mutual fund. At June 30, 2012 and 2011, the ABC Board had no investments.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the ABC Board considers all highly liquid investments (including restricted assets, if any) with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Montgomery ABC Board had no accounts receivable at June 30, 2012 and 2011.

Inventory

Inventory is valued at the lower of cost (FIFO) or market.

Capital Assets

Capital assets are stated at cost and are being depreciated over their estimated useful lives on a straight-line basis as follows:

	<u>Useful life of asset</u>
Building and improvements	20 yrs.
Furniture and equipment	5-10 yrs.

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated:				
Building and improvements	146,987	-	-	146,987
Furniture and equipment	<u>124,088</u>	<u>-</u>	<u>-</u>	<u>124,088</u>
Total capital assets being depreciated	<u>271,075</u>	<u>-</u>	<u>-</u>	<u>271,075</u>
Less accumulated depreciation for:				
Building and improvements	129,090	3,913	-	133,003
Furniture and equipment	<u>96,241</u>	<u>3,496</u>	<u>-</u>	<u>99,737</u>
Total accumulated depreciation	<u>225,331</u>	<u>7,409</u>	<u>-</u>	<u>232,740</u>
Capital assets, net	<u>\$ 65,744</u>			<u>\$ 58,335</u>

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

Depreciation expense for the years ended June 30, 2012 and 2011, was \$7,409 and \$10,314, respectively.

Net Assets

Net assets consist of the following:

- a. 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 period end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as unspent proceeds.
- b. 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 or greater than four months' average gross sales of the

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

last fiscal year. Average gross sales means gross receipts from the sale of alcoholic beverages less distributions required by State law [G.S. 18B-805 (b) (2), (3), and (4)].

- c. Unrestricted net assets - This component of net assets consists of net assets that do not meet the the definition of *restricted* or *invested in capital assets, net of related debt*.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Noncompliance with North Carolina General Statutes

No significant matters of noncompliance with fiscal and General Statute requirements have occurred.

NOTE 3 – PENSION PLAN OBLIGATIONS

Local Governmental Employees' Retirement System

Plan Description: The 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, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410 or by calling (919) 981-5454.

Funding Policy: Plan members are required to contribute six percent of their annual covered salary. The ABC Board is required to contribute at an actuarially determined rate. The ABC Board's current rate for employees not engaged in law enforcement is 7.07% of annual covered payroll. The Board does not employ any law enforcement officers. 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, 2012, 2011, and 2010, were \$8,452, \$8,208, and \$7,499 respectively. The contributions made by the ABC Board equaled the required contributions for each year.

Death Benefits

Montgomery Alcoholic Beverage Control Board has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System or who die within 180

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee’s 12 highest months salary in a row during the 24 months prior to the employee’s death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Board has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law officers. Because the benefit payments are made by the Death Benefit Plan and not by the Board, the Board does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, Montgomery Alcoholic Beverage Control Board made contributions to the State for death benefits of \$229. The Board’s required contributions for employees not engaged in law enforcement represented 0.19% of covered payroll. The Board does not employ any law enforcement officers. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

NOTE 4 – COMMITMENTS

The ABC Board had no commitments at June 30, 2012, outside of the normal course of operations.

NOTE 5 – LONG TERM DEBT AND LEASES

Installment Purchase Payable

Installment purchase payable consisted of the following at June 30, 2012:

On August 10, 2010, the ABC Board entered into an installment purchase contract with Carolina Data Systems to finance the purchase of cash register systems and equipment. The financing contract requires 36 monthly payments of \$451. Carolina Data Systems does not charge interest on this agreement.

\$ 6,771

The future minimum payments of the installment purchase as of June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest
2013	\$ 5,417	\$ -
2014	1,354	-
	<u>\$ 6,771</u>	<u>\$ -</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

Changes in Long-Term Obligations

The following is a summary of changes in the ABC Board's long-term obligations for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment purchase	\$ 12,188	\$ -	\$ 5,417	\$ 6,771	\$ 5,417

NOTE 6 – RELATED PARTY TRANSACTIONS

The ABC Board had no significant transactions involving related parties.

NOTE 7 – SUBSEQUENT EVENTS

No events have occurred from June 30, 2012, until the date of this report that would have a significant effect on the ABC Board's financial statements.

NOTE 8 – VACATION AND SICK LEAVE COMPENSATION

ABC Board employees may accumulate up to twenty-five days of earned vacation and such leave is fully vested when earned. Accumulated earned vacation was \$3,271 and \$3,764 at June 30, 2012 and 2011, respectively.

Employees can accumulate up to eight weeks of sick leave. Sick leave does not vest and cannot be used in the determination of length of service for retirement benefit purposes. Since the Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 9 – DISTRIBUTIONS OF INCOME

The Board has made distributions since its inception in 1969 as follows:

	<u>Current period</u>	<u>Total to date</u>
Montgomery County	\$ 12,044	\$ 781,063
Town of Biscoe	3,287	268,631
Town of Candor	1,624	102,457
Town of Mount Gilead	2,284	270,704
Town of Star	1,694	117,350
Town of Troy	<u>6,167</u>	<u>380,188</u>
	<u>\$ 27,100</u>	<u>\$1,920,393</u>

S.L. 1969 – 145 requires the entire profit, after deducting amounts required for law enforcement and retaining proper working capital, be paid annually to the County and Towns.

NOTE 10 – LAW ENFORCEMENT AND ALCOHOL EDUCATION EXPENSES

The ABC Board is required by law to expend at least 5% of its profits for law enforcement. The ABC Board is exempt, however, from the requirement that not less than 7% of its profits be expended for alcohol education. Profits are defined by law for these calculations as change in net assets before law enforcement and educational expenses less the 3.5% markup provided for in G.S. 18B-804 (b) (5) and the bottle charge provided for in G.S. 18B-804 (b) (6b).

	<u>2012</u>	<u>2011</u>
Profit (loss) before distributions	\$ 30,111	\$ 2,548
Less 3.5% tax and bottle charge	<u>(36,939)</u>	<u>(35,863)</u>
Profit (loss) subject to expense percentages	<u>\$ (6,828)</u>	<u>\$ (33,315)</u>
Law enforcement distributions - actual	<u>\$ 3,011</u>	<u>\$ 255</u>
Percent of profit	<u>- %</u>	<u>- %</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 11 – DISBURSEMENT OF TAXES INCLUDED IN SELLING PRICE

A state excise tax, at the rate of 30%, on the retail (net sales) price is charged monthly on liquor sales (excluding wine sales). Transactions for this account for the years ended June 30, 2012 and 2011, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Taxes payable at July 1,	\$ 21,683	\$ 20,222
Taxes collected during the year	272,696	263,667
Taxes remitted to Department of Revenue during the year	<u>(271,234)</u>	<u>(262,206)</u>
Taxes payable at June 30,	<u>\$ 23,145</u>	<u>\$ 21,683</u>

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

The accrued North Carolina excise tax at June 30, 2012 and 2011, was remitted to the North Carolina Department of Revenue in July, 2012 and 2011, respectively.

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. Payments to the County for the years ended June 30, 2012 and 2011, were based on the following bottle sales:

	<u>2012</u>	<u>2011</u>
Regular bottles	93,194 @ \$.05 = \$ 4,660	92,918 @ \$.05 = \$ 4,646
Mixed beverage bottles	2,814 @ \$.05 = 141	3,340 @ \$.05 = 167
Miniature bottles	32,260 @ \$.01 = <u>323</u>	28,913 @ \$.01 = <u>289</u>
	<u>\$ 5,124</u>	<u>\$ 5,102</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.

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

The mixed beverage tax for the years ended June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Department of Revenue (50%)	\$ 5,276	\$ 6,264
Department of Human Resources (5%)	528	626
Profit Retained (45%)	<u>4,749</u>	<u>5,637</u>
Total	<u>\$ 10,553</u>	<u>\$ 12,527</u>

NOTE 12 – SURCHARGE COLLECTED

The total amount of surcharge of \$7,397 and \$7,398 was collected for the years ended June 30, 2012 and 2011, respectively. (This rate is 85 cents per case sold.)

NOTE 13 – LIQUOR SALES TAX

The total amount of sales tax collected by the ABC Board and remitted to the Department of Revenue for the years ended June 30, 2012 and 2011, was \$82,719 and \$90,755, respectively. (This rate was 8% until June 30, 2011 and 7% beginning July 1, 2011.)

NOTE 14 – RETAIL OUTLETS

The ABC Board operates two retail outlets:

Store #1 - 509 E. Main Street, Biscoe, NC 27209

	<u>2012</u>	<u>2011</u>
Gross Sales	\$ 907,207	\$ 881,134
Gross Profit	226,270	209,598
Change in Net Assets Before Profit Distributions	14,320	(6,867)

Store #2 - 202 North Wadesboro Blvd, Mt. Gilead, NC 27306

	<u>2012</u>	<u>2011</u>
Gross Sales	\$ 334,487	\$ 322,289
Gross Profit	83,450	84,280
Change in Net Assets Before Profit Distributions	12,780	9,160

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 15 – WORKING CAPITAL

The 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 and not more than four months' average gross sales of the last fiscal year. (Gross sales are gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805 (b), (2), (3), and (4).

The ABC Board's position on this requirement at June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Minimum requirement	\$ 36,848	\$ 35,684
Maximum allowable	319,356	309,256
Actual working capital	291,171	289,179

Montgomery ABC Board has met the working capital requirements at June 30, 2012 and 2011.

NOTE 16 – BREAKAGE EXPENSE

Breakage expense absorbed by the ABC Board was \$-0- and \$-0- for the years ended June 30, 2012 and 2011, respectively.

NOTE 17 – RISK MANAGEMENT

The 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 commercial property, general 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.

In accordance with G.S. 18B-700(i), each board member and the employees designated as the general manager and finance officer are bonded in the amount of \$50,000 secured by a corporate security.

SUPPLEMENTARY INFORMATION

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULES OF STORE EXPENSES
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries	\$ 168,068	\$ 170,798
Payroll taxes	12,648	12,897
Employees' retirement	8,452	8,208
Electricity	11,909	12,440
Water	1,195	1,178
Repairs and maintenance	1,250	5,189
Computer maintenance	7,379	7,488
Bags	388	1,360
Unloading	665	550
Supplies	848	3,697
Credit card fees	<u>7,186</u>	<u>9,511</u>
	<u>\$ 219,988</u>	<u>\$ 233,316</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULES OF ADMINISTRATIVE EXPENSES
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Telephone	\$ 2,818	\$ 3,103
Office supplies	1,265	2,085
Insurance and bonds	35,827	30,611
Licenses and special tax	-	375
Travel	728	573
Board member fees	4,206	3,600
Auditing and accounting	5,800	5,800
Dues, conventions, subscriptions, etc.	207	156
Bank charges	<u>1,577</u>	<u>1,616</u>
	<u>\$ 52,428</u>	<u>\$ 47,919</u>

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULE OF REVENUES AND EXPENDITURES -**

BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Positive (Negative)
REVENUES				
Operating revenues:				
Liquor sales	\$1,172,002	\$1,188,302	\$1,180,013	\$ (8,289)
Mixed beverage sales	72,250	59,750	61,681	1,931
Total	<u>1,244,252</u>	<u>1,248,052</u>	<u>1,241,694</u>	<u>(6,358)</u>
Nonoperating revenues:				
Interest income	135	135	216	81
TOTAL REVENUES	<u>1,244,387</u>	<u>1,248,187</u>	<u>1,241,910</u>	<u>(6,277)</u>
EXPENDITURES AND DISTRIBUTIONS				
Taxes based on revenue:				
State excise tax	262,350	284,350	272,696	11,654
Rehabilitation tax	4,950	5,275	5,124	151
Mixed beverage tax (Revenue)	5,600	5,000	5,276	(276)
Mixed beverage tax (Human resources)	600	600	528	72
Total	<u>273,500</u>	<u>295,225</u>	<u>283,624</u>	<u>11,601</u>
Cost of goods sold	<u>667,150</u>	<u>667,150</u>	<u>648,350</u>	<u>18,800</u>
Store expenses:				
Salaries and wages	172,240	168,740	168,561	179
Payroll related expenses	22,322	21,922	21,100	822
Utilities	18,418	18,418	13,104	5,314
Repairs and maintenance	13,095	12,295	8,629	3,666
Bags and store supplies	3,442	2,942	1,236	1,706
Unloading	720	820	665	155
Credit card fees	7,600	8,800	7,186	1,614
Total	<u>237,837</u>	<u>233,937</u>	<u>220,481</u>	<u>13,456</u>
Administrative expenses:				
Telephone	3,000	3,000	2,818	182
Office supplies	1,100	2,100	1,265	835
Insurance and bonds	38,800	38,000	35,827	2,173
Accounting and legal fees	5,600	6,600	5,800	800
Bank charges	1,675	2,175	1,577	598
Board member fees	4,275	4,275	4,206	69
Travel	800	800	728	72
Dues, conventions, subscriptions	350	750	207	543
Contingency	1,000	-	-	-
Total	<u>56,600</u>	<u>57,700</u>	<u>52,428</u>	<u>5,272</u>

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULE OF REVENUES AND EXPENDITURES -**

BUDGET AND ACTUAL

Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Positive (Negative)
Debt service:				
Principal retirement	5,100	5,600	5,417	183
Distributions:				
Profit distribution - County and Towns	3,000	2,300	27,100	(24,800)
Law enforcement	1,200	400	3,011	(2,611)
Total	<u>4,200</u>	<u>2,700</u>	<u>30,111</u>	<u>(27,411)</u>
TOTAL EXPENDITURES AND DISTRIBUTIONS	<u>1,244,387</u>	<u>1,262,312</u>	<u>1,240,411</u>	<u>21,901</u>
REVENUES OVER (UNDER) EXPENDITURES AND DISTRIBUTIONS	-	(14,125)	1,499	15,624
APPROPRIATED FUND BALANCE	<u>-</u>	<u>14,125</u>	<u>-</u>	<u>(14,125)</u>
REVENUES AND APPROPRIATED FUND BALANCE OVER EXPENDITURES AND DISTRIBUTIONS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,499</u>	<u>\$ 1,499</u>

**RECONCILIATION FROM BUDGETARY
BASIS (MODIFIED ACCRUAL) TO
FULL ACCRUAL:**

Revenues and appropriated fund balance over expenditures and distributions - Budgetary basis	\$ 1,499
Reconciling items:	
Depreciation	(7,409)
Decrease in accrued vacation pay	493
Principal paid on debt	<u>5,417</u>
CHANGE IN NET ASSETS	<u>\$ -</u>