

**MONTGOMERY ALCOHOLIC
BEVERAGE CONTROL BOARD**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2013 and 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of Montgomery Alcoholic Beverage Control Board which comprise the statements of fund net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery Alcoholic Beverage Control Board as of June 30, 2013 and 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. 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 in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

J. B. Watson + Co., PLLC

Wadesboro, North Carolina
September 3, 2013

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, 2013. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

Working capital decreased \$13,251 from the prior year due to capital expenditures for parking lot improvements. Change in net position before distributions amounted to \$32,902. Distributions amounting to \$32,902 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 Fund Net Position**. 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 Fund Net Position**. 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 position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$342,735 in 2013. The largest component of net position was the inventory of liquor. It was 86.37% of the total net position. Following is a summary of the Statement of Fund Net Position:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1
Condensed Statement of Fund Net Position

	June 30, 2013	June 30, 2012	\$ Change	% Change
Cash	\$ 124,287	\$ 141,838	\$ (17,551)	-12.37%
Inventory	296,029	278,479	17,550	6.30%
Current assets	421,110	420,317	793	0.19%
Capital assets, net	66,169	58,335	7,834	13.43%
Total assets	487,279	478,652	8,627	1.80%
Current liabilities	144,544	134,563	9,981	7.42%
Invested in capital assets	64,815	51,564	13,251	25.70%
Restricted net position	38,784	36,848	1,936	5.25%
Unrestricted net position	239,136	254,323	(15,187)	-5.97%
Total net position	342,735	342,735	-	0.00%

Note that inventory increased by 6.30%. Total net position was unchanged because all profits were distributed. Following is a summary of the changes in net position:

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

	June 30, 2013	June 30, 2012	\$ Change	% Change
Operating revenues	\$ 1,306,044	\$ 1,241,694	\$ 64,350	5.18%
Less: Taxes on gross sales	297,680	283,624	14,056	4.96%
Net sales	1,008,364	958,070	50,294	5.25%
Cost of sales	680,552	648,350	32,202	4.97%
Gross profit	327,812	309,720	18,092	5.84%
Less: Operating expenses	295,090	279,825	15,265	5.46%
Income from operations	32,722	29,895	2,827	9.46%
Nonoperating revenues	180	216	(36)	-16.67%
Changes in net position before distributions	32,902	30,111	2,791	9.27%
Distributions	32,902	30,111	2,791	9.27%
Change in net position	-	-	-	0.00%
Net position, beginning	342,735	342,735	-	0.00%
Net position, ending	342,735	342,735	-	0.00%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales were up \$64,350 or 5.18%. Operating expenses were up \$15,265 or 5.46%. Income from operations was \$32,722 for 2013, compared to income from operations of \$29,895 for 2012. The increased sales was the main factor in this improvement.

Following is a breakdown of sales by source:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Retail Liquor Sales	\$ 1,252,443	\$ 1,180,013	\$ 72,430	6.14%
Mixed Beverage Sales	53,601	61,681	(8,080)	-13.10%
Total Sales	<u>\$ 1,306,044</u>	<u>\$ 1,241,694</u>	<u>\$ 64,350</u>	<u>5.18%</u>

The percentage of mixed beverage sales to the total was 4.10% for 2013 as compared to 4.97% for 2012.

Capital Asset and Debt Administration

Capital Assets

Table 3
Summary of Changes in Property and Equipment

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 20,000	\$ 20,000	\$ -	0.00%
Building and improvements	159,526	146,987	12,539	8.53%
Furniture and equipment	124,088	124,088	-	0.00%
Total	<u>\$ 303,614</u>	<u>\$ 291,075</u>	<u>\$ 12,539</u>	<u>4.31%</u>

Acquisitions for the year ended June 30, 2013, consisted of parking lot improvements at the Mt Gilead Store in the amount of \$12,539.

Debt Administration

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

Table 4
Summary of Changes in Long-Term Debt

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Installment purchase	<u>\$ 1,354</u>	<u>\$ 6,771</u>	<u>\$ (5,417)</u>	<u>-80.00%</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 FUND NET POSITION
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 124,287	\$ 141,838
Prepaid expenses	794	-
Inventory	<u>296,029</u>	<u>278,479</u>
TOTAL CURRENT ASSETS	<u>421,110</u>	<u>420,317</u>
CAPITAL ASSETS		
Land	20,000	20,000
Building and improvements	159,526	146,987
Furniture and equipment	<u>124,088</u>	<u>124,088</u>
	303,614	291,075
Accumulated depreciation	<u>(237,445)</u>	<u>(232,740)</u>
	<u>66,169</u>	<u>58,335</u>
TOTAL ASSETS	<u>\$ 487,279</u>	<u>\$ 478,652</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 1,354	\$ 5,417
Accounts payable and accrued expenses	111,488	99,035
Accrued distributions	<u>31,702</u>	<u>30,111</u>
TOTAL CURRENT LIABILITIES	144,544	134,563
NONCURRENT LIABILITIES		
Installment purchase payable less current portion	<u>-</u>	<u>1,354</u>
TOTAL LIABILITIES	<u>144,544</u>	<u>135,917</u>
NET POSITION		
Net investment in capital assets	64,815	51,564
Restricted for:		
Working capital	38,784	36,848
Unrestricted	<u>239,136</u>	<u>254,323</u>
TOTAL NET POSITION	<u>342,735</u>	<u>342,735</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 487,279</u>	<u>\$ 478,652</u>

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

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Liquor sales	\$ 1,252,443	\$ 1,180,013
Mixed beverage sales	<u>53,601</u>	<u>61,681</u>
TOTAL GROSS SALES	<u>1,306,044</u>	<u>1,241,694</u>
DEDUCT TAXES ON GROSS SALES		
State excise tax	287,430	272,696
Rehabilitation tax	5,352	5,124
Mixed beverage tax (Revenue)	4,453	5,276
Mixed beverage tax (Human Resources)	<u>445</u>	<u>528</u>
TOTAL TAXES	<u>297,680</u>	<u>283,624</u>
NET SALES	1,008,364	958,070
COST OF LIQUOR SALES	<u>680,552</u>	<u>648,350</u>
GROSS PROFIT ON SALES	<u>327,812</u>	<u>309,720</u>
OPERATING EXPENSES		
Store expenses	235,122	219,988
Administrative expenses	55,263	52,428
Depreciation expense	<u>4,705</u>	<u>7,409</u>
TOTAL OPERATING EXPENSES	<u>295,090</u>	<u>279,825</u>
INCOME FROM OPERATIONS	32,722	29,895
NONOPERATING REVENUES		
Interest income	<u>180</u>	<u>216</u>
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	32,902	30,111
Law enforcement distributions	<u>(1,200)</u>	<u>-</u>
CHANGE IN NET POSITION BEFORE PROFIT DISTRIBUTIONS	<u>31,702</u>	<u>30,111</u>
PROFIT DISTRIBUTIONS		
Towns - Law enforcement per enabling act	(3,170)	(3,011)
Towns	(15,851)	(15,056)
County	<u>(12,681)</u>	<u>(12,044)</u>
TOTAL PROFIT DISTRIBUTIONS	<u>(31,702)</u>	<u>(30,111)</u>
CHANGE IN NET POSITION	-	-
NET POSITION, BEGINNING	<u>342,735</u>	<u>342,735</u>
NET POSITION, 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,393,828	\$ 1,324,413
Liquor taxes paid	(297,640)	(282,668)
Cash payments to suppliers for goods and services	(712,773)	(688,868)
Cash payments to employees for services	(201,505)	(188,869)
Other operating expenses	(75,457)	(72,119)
Liquor sales taxes paid	<u>(87,556)</u>	<u>(82,887)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>18,897</u>	<u>9,002</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on debt	<u>(5,417)</u>	<u>(5,417)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Law enforcement distributions	(1,100)	-
Profit distributions to County and Towns	<u>(30,111)</u>	<u>(2,548)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(31,211)</u>	<u>(2,548)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>180</u>	<u>216</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,551)	1,253
CASH AND CASH EQUIVALENTS, BEGINNING	<u>141,838</u>	<u>140,585</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 124,287</u>	<u>\$ 141,838</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 32,722	\$ 29,895
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	4,705	7,409
Changes in assets and liabilities:		
Increase in inventory	(17,550)	(24,243)
Increase in prepaid expenses	(794)	-
Decrease in accounts payable and accrued expenses	<u>(186)</u>	<u>(4,059)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 18,897</u>	<u>\$ 9,002</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Parking lot improvements included in accounts payable at year end	<u>\$ 12,539</u>	<u>\$ -</u>

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

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 position 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, 2013 and 2012

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.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position date and reported amounts of 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 Position

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, 2013 and 2012

At June 30, 2013 and 2012, the ABC Board's deposits had a carrying amount of \$121,582 and \$139,133, respectively, and bank balances of \$105,025 and \$124,585, respectively. At June 30, 2013, all of the ABC Board's bank balances were covered by federal depository insurance. At June 30, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012.

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.

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June 30, 2013 and 2012

Capital asset activity for the year ended June 30, 2013, 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	12,539	-	159,526
Furniture and equipment	124,088	-	-	124,088
Total capital assets being depreciated	<u>271,075</u>	<u>12,539</u>	<u>-</u>	<u>283,614</u>
Less accumulated depreciation for:				
Building and improvements	133,003	1,223	-	134,226
Furniture and equipment	99,737	3,482	-	103,219
Total accumulated depreciation	<u>232,740</u>	<u>4,705</u>	<u>-</u>	<u>237,445</u>
Capital assets, net	<u>\$ 58,335</u>			<u>\$ 66,169</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, 2013 and 2012, was \$4,705 and \$7,409, respectively.

Net Position

Net position consists of the following:

- a. Net investment in capital assets - This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position 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, 2013 and 2012

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 position - This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

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 6.74% 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, 2013, 2012, and 2011, were \$8,400, \$8,452 and \$8,208, 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

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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, 2013, Montgomery Alcoholic Beverage Control Board made contributions to the State for death benefits of \$-0-. The Board's required contributions for employees not engaged in law enforcement represented 0.00% 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, 2013, 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, 2013:

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.

\$ 1,354

The future minimum payments of the installment purchase as of June 30, 2013, are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2014	<u>\$ 1,354</u>	<u>\$ -</u>

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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, 2013:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment purchase	\$ 6,771	\$ -	\$ 5,417	\$ 1,354	\$ 1,354

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, 2013, 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 \$4,181 and \$3,271 at June 30, 2013 and 2012, 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.

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June 30, 2013 and 2012

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	\$ 12,681	\$ 793,744
Town of Biscoe	5,045	273,676
Town of Candor	1,710	104,167
Town of Mount Gilead	3,990	274,694
Town of Star	1,783	119,133
Town of Troy	<u>6,493</u>	<u>386,681</u>
	<u>\$ 31,702</u>	<u>\$1,952,095</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 position 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>2013</u>	<u>2012</u>
Profit before distributions	\$ 32,902	\$ 30,111
Less 3.5% tax and bottle charge	<u>(38,888)</u>	<u>(36,939)</u>
Profit (loss) subject to expense percentages	<u>\$ (5,986)</u>	<u>\$ (6,828)</u>
Law enforcement distributions - actual	<u>\$ 1,200</u>	<u>\$ -</u>
Percent of profit	<u>- %</u>	<u>- %</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Taxes payable at July 1,	\$ 23,145	\$ 21,683
Taxes collected during the year	287,430	272,696
Taxes remitted to Department of Revenue during the year	<u>(287,184)</u>	<u>(271,234)</u>
Taxes payable at June 30,	<u>\$ 23,391</u>	<u>\$ 23,145</u>

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

The accrued North Carolina excise tax at June 30, 2013 and 2012, was remitted to the North Carolina Department of Revenue in July, 2013 and 2012, 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, 2013 and 2012, were based on the following bottle sales:

	<u>2013</u>	<u>2012</u>
Regular bottles	97,702 @ \$.05 = \$ 4,885	93,194 @ \$.05 = \$ 4,660
Mixed beverage bottles	2,374 @ \$.05 = 119	2,814 @ \$.05 = 141
Miniature bottles	34,849 @ \$.01 = <u>348</u>	32,260 @ \$.01 = <u>323</u>
	<u>\$ 5,352</u>	<u>\$ 5,124</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, 2013 and 2012

The mixed beverage tax for the years ended June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Department of Revenue (50%)	\$ 4,453	\$ 5,276
Department of Human Resources (5%)	445	528
Profit Retained (45%)	<u>4,007</u>	<u>4,749</u>
Total	<u>\$ 8,905</u>	<u>\$ 10,553</u>

NOTE 12 – SURCHARGE COLLECTED

The total amount of surcharge of \$7,284 and \$7,397 was collected for the years ended June 30, 2013 and 2012, respectively. (This rate was 85 cents per case sold until July 31, 2012, and 80 cents per case sold beginning August 1, 2012.)

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, 2013 and 2012, was \$87,784 and \$82,719, respectively. The current sales tax rate is 7%.

NOTE 14 – RETAIL OUTLETS

The ABC Board operates two retail outlets:

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

	<u>2013</u>	<u>2012</u>
Gross Sales	\$ 954,154	\$ 907,207
Gross Profit	231,668	226,270
Change in Net Position Before Profit Distributions	15,251	15,826

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

	<u>2013</u>	<u>2012</u>
Gross Sales	\$ 351,890	\$ 334,487
Gross Profit	96,144	83,450
Change in Net Position Before Profit Distributions	16,451	14,285

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Minimum requirement	\$ 38,784	\$ 36,848
Maximum allowable	336,120	319,356
Actual working capital	277,920	291,171

Montgomery ABC Board has met the working capital requirements at June 30, 2013 and 2012.

NOTE 16 – 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries	\$ 176,977	\$ 168,068
Payroll taxes	13,924	12,648
Employees' retirement	8,400	8,452
Electricity	11,991	11,909
Water	1,296	1,195
Repairs and maintenance	1,941	1,250
Computer maintenance	7,524	7,379
Bags	3,473	388
Unloading	940	665
Supplies	1,263	848
Credit card fees	<u>7,393</u>	<u>7,186</u>
	<u>\$ 235,122</u>	<u>\$ 219,988</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULES OF ADMINISTRATIVE EXPENSES
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Telephone	\$ 2,594	\$ 2,818
Office supplies	2,220	1,265
Insurance and bonds	36,800	35,827
Licenses and special tax	394	-
Travel	903	728
Board member fees	4,275	4,206
Auditing and accounting	5,800	5,800
Dues, conventions, subscriptions, etc.	701	207
Bank charges	<u>1,576</u>	<u>1,577</u>
	<u>\$ 55,263</u>	<u>\$ 52,428</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Positive (Negative)
REVENUES				
Operating revenues:				
Liquor sales	\$1,198,602	\$1,254,724	\$1,252,443	\$ (2,281)
Mixed beverage sales	61,475	45,475	53,601	8,126
Total	<u>1,260,077</u>	<u>1,300,199</u>	<u>1,306,044</u>	<u>5,845</u>
Non-operating revenues:				
Interest income	110	170	180	10
TOTAL REVENUES	<u>1,260,187</u>	<u>1,300,369</u>	<u>1,306,224</u>	<u>5,855</u>
EXPENDITURES AND DISTRIBUTIONS				
Taxes based on revenue:				
State excise tax	273,565	296,565	287,430	9,135
Rehabilitation tax	5,500	5,800	5,352	448
Mixed beverage tax (Revenue)	4,600	4,600	4,453	147
Mixed beverage tax (Human Resources)	600	600	445	155
Total	<u>284,265</u>	<u>307,565</u>	<u>297,680</u>	<u>9,885</u>
Cost of goods sold	<u>667,876</u>	<u>673,876</u>	<u>680,552</u>	<u>(6,676)</u>
Store expenses:				
Salaries and wages	171,840	178,840	176,067	2,773
Payroll related expenses	22,242	23,409	22,324	1,085
Utilities	19,000	15,000	13,287	1,713
Repairs and maintenance	13,200	12,061	9,465	2,596
Bags and store supplies	5,800	4,600	4,736	(136)
Unloading	840	960	940	20
Credit card fees	8,050	8,850	7,393	1,457
Total	<u>240,972</u>	<u>243,720</u>	<u>234,212</u>	<u>9,508</u>
Administrative expenses:				
Telephone	2,600	2,600	2,594	6
Office supplies	2,200	2,200	2,220	(20)
Insurance and bonds	38,200	40,450	36,800	3,650
Accounting and legal fees	6,100	6,100	5,800	300
Bank charges	2,000	2,000	1,576	424
Board member fees	4,800	4,275	4,275	-
Licenses and special tax	-	-	394	(394)
Travel	800	1,450	903	547
Dues, conventions, subscriptions	750	970	701	269
Contingency	7,000	-	-	-
Total	<u>64,450</u>	<u>60,045</u>	<u>55,263</u>	<u>4,782</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Positive (Negative)
Capital outlay	-	12,539	12,539	-
Debt service:				
Principal retirement	5,424	5,424	5,417	7
Distributions:				
Profit distribution - County and Towns	2,000	2,000	31,702	(29,702)
Law enforcement	1,200	1,200	1,200	-
Total	3,200	3,200	32,902	(29,702)
TOTAL EXPENDITURES AND DISTRIBUTIONS	<u>1,266,187</u>	<u>1,306,369</u>	<u>1,318,565</u>	<u>(12,196)</u>
REVENUES UNDER EXPENDITURES AND DISTRIBUTIONS	(6,000)	(6,000)	(12,341)	(6,341)
APPROPRIATED FUND BALANCE	<u>6,000</u>	<u>6,000</u>	<u>-</u>	<u>(6,000)</u>
REVENUES AND APPROPRIATED FUND BALANCE UNDER EXPENDITURES AND DISTRIBUTIONS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,341)</u>	<u>\$ (12,341)</u>

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

Revenues and appropriated fund balance under expenditures and distributions - Budgetary basis	\$ (12,341)
Reconciling items:	
Depreciation	(4,705)
Capital outlay	12,539
Increase in accrued vacation pay	(910)
Principal paid on debt	<u>5,417</u>
CHANGE IN NET POSITION	<u>\$ -</u>