

**TOWN OF BISCOE  
OFFICIAL RECORD**

**MONTGOMERY ALCOHOLIC  
BEVERAGE CONTROL BOARD**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**June 30, 2014 and 2013**

**JBW**

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

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
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**June 30, 2014 and 2013**

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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, 2014 and 2013, 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, 2014 and 2013, 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 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. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 or to 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 basic financial statements as a whole.

*J. B. Watson + Co., P.L.L.C.*

Wadesboro, North Carolina  
September 8, 2014

## 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 years ended June 30, 2014 and 2013. This information should be read in conjunction with the audited financial statements included in this report.

### *Financial Highlights*

Working capital increased \$2,491 from the prior year.

Change in net position before distributions amounted to \$5,544.

Distributions amounting to \$5,544 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 **Statements 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 **Statements 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 **Statements 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 **Schedules of Store Expenses**, **Schedules of Administrative Expenses**, and **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 2014, by \$342,735 in 2013 and by \$342,735 in 2012. The largest component of net position was the inventory of liquor. It was 77.46% of the total net position for 2014, 86.37% for 2013, and 81.25% for 2012. Following is a summary of the Statements of Fund Net Position:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**Table 1**  
**Condensed Statements of Fund Net Position**

	June 30, 2014	June 30, 2013	June 30, 2012	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Cash	\$ 112,284	\$ 124,287	\$ 141,838	\$ (12,003)	-9.66%
Inventory	265,496	296,029	278,479	(30,533)	-10.31%
Current assets	378,314	421,110	420,317	(42,796)	-10.16%
Capital assets, net	62,324	66,169	58,335	(3,845)	-5.81%
Total assets	440,638	487,279	478,652	(46,641)	-9.57%
Current liabilities	97,903	144,544	134,563	(46,641)	-32.27%
Invested in capital assets	62,324	64,815	51,564	(2,491)	-3.84%
Restricted net position	38,296	38,784	36,848	(488)	-1.26%
Unrestricted net position	242,115	239,136	254,323	2,979	1.25%
Total net position	342,735	342,735	342,735	-	0.00%

Note that inventory decreased by 10.31%. Total net position was unchanged because all profits were distributed. Income from operations decreased by 83.63% from 2013 and increased by 9.46% between 2013 and 2012. Following is a summary of the changes in net position:

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

	June 30, 2014	June 30, 2013	June 30, 2012	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Operating revenues	\$ 1,288,817	\$ 1,306,044	\$ 1,241,694	\$ (17,227)	-1.32%
Less: Taxes on gross sales	293,134	297,680	283,624	(4,546)	-1.53%
Net sales	995,683	1,008,364	958,070	(12,681)	-1.26%
Cost of sales	676,366	680,552	648,350	(4,186)	-0.62%
Gross profit	319,317	327,812	309,720	(8,495)	-2.59%
Less: Operating expenses	313,960	295,090	279,825	18,870	6.39%
Income from operations	5,357	32,722	29,895	(27,365)	-83.63%
Nonoperating revenues	187	180	216	7	3.89%
Changes in net position before distributions	5,544	32,902	30,111	(27,358)	-83.15%
Distributions	5,544	32,902	30,111	(27,358)	-83.15%
Change in net position	-	-	-	-	0.00%
Net position, beginning	342,735	342,735	342,735	-	0.00%
Net position, ending	342,735	342,735	342,735	-	0.00%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales were down \$17,227 or 1.32%. Operating expenses were up \$18,870 or 6.39%. Income from operations was \$5,357 for 2014, compared to income from operations of \$32,722 for 2013 and \$29,895 for 2012.

Following is a breakdown of sales by source:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u> This Yr Over Last Yr	<u>% Change</u> This Yr Over Last Yr
Retail Liquor Sales	\$ 1,247,392	\$ 1,252,443	\$ 1,180,013	\$ (5,051)	-0.40%
Mixed Beverage Sales	41,425	53,601	61,681	(12,176)	-22.72%
<b>Total Sales</b>	<u>\$ 1,288,817</u>	<u>\$ 1,306,044</u>	<u>\$ 1,241,694</u>	<u>\$ (17,227)</u>	<u>-1.32%</u>

The percentage of mixed beverage sales to the total was 3.21% for 2014 as compared to 4.10% for 2013 and 4.97% for 2012.

### *Capital Asset and Debt Administration*

#### **Capital Assets**

**Table 3**  
**Summary of Changes in Property and Equipment**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u> This Yr Over Last Yr	<u>% Change</u> This Yr Over Last Yr
Land	\$ 20,000	\$ 20,000	\$ 20,000	\$ -	0.00%
Building and improvements	159,526	159,526	146,987	-	0.00%
Furniture and equipment	125,678	124,088	124,088	1,590	1.28%
<b>Total</b>	<u>\$ 305,204</u>	<u>\$ 303,614</u>	<u>\$ 291,075</u>	<u>\$ 1,590</u>	<u>0.52%</u>

Acquisitions for the year ended June 30, 2014, consisted of bookkeeping software for the Biscoe Store in the amount of \$1,590.

#### **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, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u> This Yr Over Last Yr	<u>% Change</u> This Yr Over Last Yr
Installment purchase	\$ -	\$ 1,354	\$ 6,771	\$ (1,354)	-100.00%

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:

Lisa Wilson, Finance Officer  
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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 112,284	\$ 124,287
Inventory	265,496	296,029
Prepaid expenses	<u>534</u>	<u>794</u>
<b>TOTAL CURRENT ASSETS</b>	<u>378,314</u>	<u>421,110</u>
<b>CAPITAL ASSETS</b>		
Land	20,000	20,000
Building and improvements	159,526	159,526
Furniture and equipment	<u>125,678</u>	<u>124,088</u>
	305,204	303,614
Accumulated depreciation	<u>(242,880)</u>	<u>(237,445)</u>
	<u>62,324</u>	<u>66,169</u>
<b>TOTAL ASSETS</b>	<u>\$ 440,638</u>	<u>\$ 487,279</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ -	\$ 1,354
Accounts payable and accrued expenses	93,559	111,488
Accrued distributions	<u>4,344</u>	<u>31,702</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>97,903</u>	<u>144,544</u>
<b>NET POSITION</b>		
Net investment in capital assets	62,324	64,815
Restricted for:		
Working capital	38,296	38,784
Unrestricted	<u>242,115</u>	<u>239,136</u>
<b>TOTAL NET POSITION</b>	<u>342,735</u>	<u>342,735</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 440,638</u>	<u>\$ 487,279</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Liquor sales	\$ 1,247,392	\$ 1,252,443
Mixed beverage sales	<u>41,425</u>	<u>53,601</u>
<b>TOTAL GROSS SALES</b>	<u>1,288,817</u>	<u>1,306,044</u>
<b>DEDUCT TAXES ON GROSS SALES</b>		
State excise tax	284,154	287,430
Rehabilitation tax	5,220	5,352
Mixed beverage tax (Revenue)	3,418	4,453
Mixed beverage tax (Human Resources)	<u>342</u>	<u>445</u>
<b>TOTAL TAXES</b>	<u>293,134</u>	<u>297,680</u>
<b>NET SALES</b>	995,683	1,008,364
<b>COST OF LIQUOR SALES</b>	<u>676,366</u>	<u>680,552</u>
<b>GROSS PROFIT ON SALES</b>	<u>319,317</u>	<u>327,812</u>
<b>OPERATING EXPENSES</b>		
Store expenses	243,039	235,122
Administrative expenses	65,486	55,263
Depreciation expense	<u>5,435</u>	<u>4,705</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>313,960</u>	<u>295,090</u>
<b>INCOME FROM OPERATIONS</b>	5,357	32,722
<b>NONOPERATING REVENUES</b>		
Interest income	<u>187</u>	<u>180</u>
<b>CHANGE IN NET POSITION BEFORE DISTRIBUTIONS</b>	5,544	32,902
Law enforcement distributions	<u>(1,200)</u>	<u>(1,200)</u>
<b>CHANGE IN NET POSITION BEFORE PROFIT DISTRIBUTIONS</b>	<u>4,344</u>	<u>31,702</u>
<b>PROFIT DISTRIBUTIONS</b>		
Towns - Law enforcement per enabling act	(434)	(3,170)
Towns	(2,172)	(15,851)
County	<u>(1,738)</u>	<u>(12,681)</u>
<b>TOTAL PROFIT DISTRIBUTIONS</b>	<u>(4,344)</u>	<u>(31,702)</u>
<b>CHANGE IN NET POSITION</b>	-	-
<b>NET POSITION, BEGINNING</b>	<u>342,735</u>	<u>342,735</u>
<b>NET POSITION, ENDING</b>	<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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,376,228	\$ 1,393,828
Liquor taxes paid	(293,918)	(297,640)
Cash payments to suppliers for goods and services	(663,673)	(712,773)
Cash payments to employees for services	(209,595)	(201,505)
Other operating expenses	(85,113)	(75,457)
Liquor sales taxes paid	<u>(87,734)</u>	<u>(87,556)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>36,195</u>	<u>18,897</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(14,129)	-
Principal paid on debt	<u>(1,354)</u>	<u>(5,417)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(15,483)</u>	<u>(5,417)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Law enforcement distributions	(1,200)	(1,100)
Profit distributions to County and Towns	<u>(31,702)</u>	<u>(30,111)</u>
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(32,902)</u>	<u>(31,211)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>187</u>	<u>180</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(12,003)	(17,551)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>124,287</u>	<u>141,838</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 112,284</u>	<u>\$ 124,287</u>

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 5,357	\$ 32,722
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	5,435	4,705
Changes in assets and liabilities:		
(Increase) decrease in inventory	30,533	(17,550)
(Increase) decrease in prepaid expenses	260	(794)
Decrease in accounts payable and accrued expenses	<u>(5,390)</u>	<u>(186)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 36,195</u>	<u>\$ 18,897</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>		
Parking lot improvements included in accounts payable at year end	<u>\$ -</u>	<u>\$ 12,539</u>

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

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**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 appoints 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, 2014 and 2013**

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, 2014 and 2013**

At June 30, 2014 and 2013, the ABC Board's deposits had a carrying amount of \$109,579 and \$121,582, respectively, and bank balances of \$104,364 and \$105,025, respectively. At June 30, 2014, all of the ABC Board's bank balances were covered by federal depository insurance. At June 30, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013.

**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, 2014 and 2013**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
<b>Capital assets being depreciated:</b>				
Building and improvements	159,526	-	-	159,526
Furniture and equipment	<u>124,088</u>	<u>1,590</u>	-	<u>125,678</u>
Total capital assets being depreciated	<u>283,614</u>	<u>1,590</u>	-	<u>285,204</u>
<b>Less accumulated depreciation for:</b>				
Building and improvements	134,226	1,798	-	136,024
Furniture and equipment	<u>103,219</u>	<u>3,637</u>	-	<u>106,856</u>
Total accumulated depreciation	<u>237,445</u>	<u>5,435</u>	-	<u>242,880</u>
<b>Capital assets, net</b>	<u>\$ 66,169</u>			<u>\$ 62,324</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, 2014 and 2013, was \$5,435 and \$4,705, 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**  
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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**

**Excess of Expenditures Over Appropriations**

For the fiscal year ended June 30, 2014, the expenditures made exceeded the authorized appropriations made by the Board for store expenses, debt service, and distributions. The Board plans to implement review procedures in the future to insure compliance with approved appropriations.

**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, 2014, 2013, and 2012, were \$9,149, \$8,400 and \$8,452, 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

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active service after one year of contributing membership in the System or who die within 180 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. Because all death benefit payments are made from the Death Benefit Plan, the Board does not determine the number of eligible participants. The Board has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount. 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.

For the fiscal year ended June 30, 2014, 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.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
Less than 10	1	2014
10-20	2	2015
20 or more	3	2016

Montgomery Alcoholic Beverage Control Board will have a three year reprieve because it has been contributing more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

**NOTE 4 – COMMITMENTS**

The ABC Board had no commitments at June 30, 2014, outside of the normal course of operations.

**NOTE 5 – LONG TERM DEBT AND LEASES**

**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, 2014:

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment purchase	\$ 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, 2014, 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 \$4,335 and \$4,181 at June 30, 2014 and 2013, 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.

**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	\$ 1,738	\$ 795,482
Town of Biscoe	691	274,367
Town of Candor	234	104,401
Town of Mount Gilead	547	275,241
Town of Star	244	119,377
Town of Troy	<u>890</u>	<u>387,571</u>
	<u>\$ 4,344</u>	<u>\$1,956,439</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.

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**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>2014</u>	<u>2013</u>
Profit before distributions	\$ 5,544	\$ 32,902
Less 3.5% tax and bottle charge	<u>(38,372)</u>	<u>(38,888)</u>
Profit (loss) subject to expense percentages	<u>\$ (32,828)</u>	<u>\$ (5,986)</u>
Law enforcement distributions - actual	<u>\$ 1,200</u>	<u>\$ 1,200</u>
Percent of profit	<u>- %</u>	<u>- %</u>

**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, 2014 and 2013, are summarized as follows:

	<u>2014</u>	<u>2013</u>
Taxes payable at July 1,	\$ 23,391	\$ 23,145
Taxes collected during the year	284,154	287,430
Taxes remitted to Department of Revenue during the year	<u>(284,981)</u>	<u>(287,184)</u>
Taxes payable at June 30,	<u>\$ 22,564</u>	<u>\$ 23,391</u>

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

The accrued North Carolina excise tax at June 30, 2014 and 2013, was remitted to the North Carolina Department of Revenue in July, 2014 and 2013, respectively.

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
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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, 2014 and 2013, were based on the following bottle sales:

	<u>2014</u>	<u>2013</u>
Regular bottles	94,778 @ \$.05 = \$ 4,739	97,702 @ \$.05 = \$ 4,885
Mixed beverage bottles	1,819 @ \$.05 = 91	2,374 @ \$.05 = 119
Miniature bottles	38,974 @ \$.01 = <u>390</u>	34,849 @ \$.01 = <u>348</u>
	<u>\$ 5,220</u>	<u>\$ 5,352</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 years ended June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Department of Revenue (50%)	\$ 3,418	\$ 4,453
Department of Human Resources (5%)	342	445
Profit Retained (45%)	<u>3,073</u>	<u>4,007</u>
Total	<u>\$ 6,833</u>	<u>\$ 8,905</u>

**NOTE 12 – SURCHARGE COLLECTED**

The total amount of surcharge of \$7,024 and \$7,284 was collected for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, was \$87,411 and \$87,784, respectively. The current sales tax rate is 7%.

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 14 – RETAIL OUTLETS**

The ABC Board operates two retail outlets:

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

	<u>2014</u>	<u>2013</u>
Gross Sales	\$ 941,286	\$ 954,154
Gross Profit	234,936	231,668
Change in Net Position Before Profit Distributions	5,771	15,251

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

	<u>2014</u>	<u>2013</u>
Gross Sales	\$ 347,531	\$ 351,890
Gross Profit	84,381	96,144
Change in Net Position Before Profit Distributions	(1,427)	16,451

**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, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Minimum requirement	\$ 38,296	\$ 38,784
Maximum allowable	331,896	336,120
Actual working capital	280,411	277,920

Montgomery ABC Board has met the working capital requirements at June 30, 2014 and 2013.

**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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Salaries	\$ 182,621	\$ 176,977
Payroll taxes	15,232	13,924
Employees' retirement	9,149	8,400
Electricity	12,273	11,991
Water	1,140	1,296
Repairs and maintenance	2,102	1,941
Computer maintenance	8,667	7,524
Bags	1,817	3,473
Unloading	920	940
Supplies	777	1,263
Credit card fees	<u>8,341</u>	<u>7,393</u>
	<u>\$ 243,039</u>	<u>\$ 235,122</u>

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Telephone	\$ 2,997	\$ 2,594
Office supplies	2,788	2,220
Insurance and bonds	45,532	36,800
Licenses and special tax	394	394
Travel	1,575	903
Board member fees	4,275	4,275
Auditing and accounting	6,000	5,800
Dues, conventions, subscriptions, etc.	258	701
Miscellaneous	73	-
Bank charges	1,594	1,576
	<u>\$ 65,486</u>	<u>\$ 55,263</u>

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Positive (Negative)
<b>REVENUES</b>				
Operating revenues:				
Liquor sales	\$ 1,304,705	\$ 1,247,988	\$ 1,247,392	\$ (596)
Mixed beverage sales	48,300	33,800	41,425	7,625
Total	<u>1,353,005</u>	<u>1,281,788</u>	<u>1,288,817</u>	<u>7,029</u>
Non-operating revenues:				
Interest income	150	180	187	7
	<u>150</u>	<u>180</u>	<u>187</u>	<u>7</u>
<b>TOTAL REVENUES</b>	<u>1,353,155</u>	<u>1,281,968</u>	<u>1,289,004</u>	<u>7,036</u>
<b>EXPENDITURES AND DISTRIBUTIONS</b>				
Taxes based on revenue:				
State excise tax	300,500	287,412	284,154	3,258
Rehabilitation tax	5,800	5,300	5,220	80
Mixed beverage tax (Revenue)	3,200	2,500	3,418	(918)
Mixed beverage tax (Human Resources)	650	390	342	48
Total	<u>310,150</u>	<u>295,602</u>	<u>293,134</u>	<u>2,468</u>
Cost of goods sold	<u>692,025</u>	<u>668,000</u>	<u>676,366</u>	<u>(8,366)</u>
Store expenses:				
Salaries and wages	193,000	165,000	182,468	(17,468)
Payroll related expenses	27,280	24,280	24,381	(101)
Utilities	18,600	15,600	13,413	2,187
Repairs and maintenance	10,910	9,610	10,769	(1,159)
Bags and store supplies	6,200	3,200	2,594	606
Unloading	900	940	920	20
Credit card fees	8,700	9,400	8,341	1,059
Total	<u>265,590</u>	<u>228,030</u>	<u>242,886</u>	<u>(14,856)</u>
Administrative expenses:				
Telephone	3,000	3,000	2,997	3
Office supplies	2,500	2,600	2,788	(188)
Insurance and bonds	51,500	59,500	45,532	13,968
Accounting and legal fees	6,500	6,100	6,000	100
Bank charges	1,600	1,600	1,594	6
Board member fees	4,500	4,275	4,275	-
Licenses and special tax	-	-	394	(394)
Travel	2,000	1,800	1,575	225
Dues, conventions, subscriptions	1,000	600	258	342
Miscellaneous	-	-	73	(73)
Contingency	7,000	5,071	-	5,071
Total	<u>79,600</u>	<u>84,546</u>	<u>65,486</u>	<u>19,060</u>

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Positive (Negative)
Capital outlay	1,590	1,590	1,590	-
Debt service:				
Principal retirement	1,000	1,000	1,354	(354)
Distributions:				
Profit distribution - County and Towns	2,000	2,000	4,344	(2,344)
Law enforcement	1,200	1,200	1,200	-
Total	3,200	3,200	5,544	(2,344)
<b>TOTAL EXPENDITURES AND DISTRIBUTIONS</b>	<u>1,353,155</u>	<u>1,281,968</u>	<u>1,286,360</u>	<u>(4,392)</u>
<b>REVENUES OVER EXPENDITURES AND DISTRIBUTIONS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,644</u>	<u>\$ 2,644</u>

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

Revenues over expenditures and distributions - Budgetary basis	\$ 2,644
Reconciling items:	
Depreciation	(5,435)
Capital outlay	1,590
Increase in accrued vacation pay	(153)
Principal paid on debt	1,354
<b>CHANGE IN NET POSITION</b>	<u>\$ -</u>