

**MONTGOMERY ALCOHOLIC
BEVERAGE CONTROL BOARD**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

September 30, 2013 and 2012

JBW

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

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
TABLE OF CONTENTS
September 30, 2013 and 2012

	<u>Page</u>
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT	1
BASIC FINANCIAL STATEMENTS	
Statements of Fund Net Position	2
Statements of Revenues, Expenses, and Changes in Fund Net Position	3
Statements of Cash Flows	4
Notes to the Financial Statements	6
SUPPLEMENTARY INFORMATION	
Schedules of Store Expenses	16
Schedules of Administrative Expenses	17

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

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

We have compiled the accompanying Statements of Fund Net Position of Montgomery Alcoholic Beverage Control Board as of September 30, 2013 and 2012, and the related Statements of Revenues, Expenses, and Changes in Fund Net Position and Cash Flows for the three months then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilations in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

J. B. Watson & Co., P.L.L.C.

November 14, 2013

BASIC FINANCIAL STATEMENTS

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF FUND NET POSITION
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,332	\$ 101,118
Inventory	<u>312,232</u>	<u>285,489</u>
TOTAL CURRENT ASSETS	<u>364,564</u>	<u>386,607</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>(238,764)</u>	<u>(233,903)</u>
	<u>64,850</u>	<u>57,172</u>
TOTAL ASSETS	<u>\$ 429,414</u>	<u>\$ 443,779</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ -	\$ 5,417
Accounts payable and accrued expenses	<u>92,888</u>	<u>95,286</u>
TOTAL CURRENT LIABILITIES	<u>92,888</u>	<u>100,703</u>
NET POSITION		
Net investment in capital assets	64,850	51,755
Restricted for:		
Working capital	36,070	34,832
Unrestricted	<u>235,606</u>	<u>256,489</u>
TOTAL NET POSITION	<u>336,526</u>	<u>343,076</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 429,414</u>	<u>\$ 443,779</u>

See the accompanying notes and accountants' report.

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Three Months Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Liquor sales	\$ 293,684	\$ 275,210
Mixed beverage sales	<u>9,868</u>	<u>18,511</u>
TOTAL GROSS SALES	<u>303,552</u>	<u>293,721</u>
DEDUCT TAXES ON GROSS SALES		
State excise tax	66,887	64,375
Rehabilitation tax	1,258	1,208
Mixed beverage tax (Revenue)	863	1,575
Mixed beverage tax (Human Resources)	<u>86</u>	<u>156</u>
TOTAL TAXES	<u>69,094</u>	<u>67,314</u>
NET SALES	234,458	226,407
COST OF LIQUOR SALES	<u>157,105</u>	<u>150,786</u>
GROSS PROFIT ON SALES	<u>77,353</u>	<u>75,621</u>
OPERATING EXPENSES		
Store expenses	69,152	62,743
Administrative expenses	12,796	11,112
Depreciation expense	<u>1,319</u>	<u>1,163</u>
TOTAL OPERATING EXPENSES	<u>83,267</u>	<u>75,018</u>
INCOME (LOSS) FROM OPERATIONS	(5,914)	603
NONOPERATING REVENUES		
Interest income	<u>5</u>	<u>38</u>
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	(5,909)	641
Law enforcement distributions	<u>(300)</u>	<u>(300)</u>
CHANGE IN NET POSITION BEFORE PROFIT DISTRIBUTIONS	<u>(6,209)</u>	<u>341</u>
PROFIT DISTRIBUTIONS		
Towns - Law enforcement per enabling act	-	-
Towns	-	-
County	<u>-</u>	<u>-</u>
TOTAL PROFIT DISTRIBUTIONS	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(6,209)	341
NET POSITION, BEGINNING	<u>342,735</u>	<u>342,735</u>
NET POSITION, ENDING	<u>\$ 336,526</u>	<u>\$ 343,076</u>

See the accompanying notes and accountants' report.

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF CASH FLOWS**

Page 1 of 2

For the Three Months Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 324,137	\$ 312,013
Liquor taxes paid	(72,727)	(69,478)
Cash payments to suppliers for goods and services	(183,183)	(169,316)
Cash payments to employees for services	(55,640)	(47,672)
Other operating expenses	(17,057)	(15,943)
Liquor sales taxes paid	<u>(21,595)</u>	<u>(18,747)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(26,065)</u>	<u>(9,143)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(12,539)	-
Principal paid on debt	<u>(1,354)</u>	<u>(1,354)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(13,893)</u>	<u>(1,354)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Law enforcement distributions	(300)	(150)
Profit distributions to County and Towns	<u>(31,702)</u>	<u>(30,111)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(32,002)</u>	<u>(30,261)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>5</u>	<u>38</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(71,955)	(40,720)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>124,287</u>	<u>141,838</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 52,332</u>	<u>\$ 101,118</u>

**MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
STATEMENTS OF CASH FLOWS**

Page 2 of 2

For the Three Months Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Income (loss) from operations	\$ (5,914)	\$ 603
Adjustments to reconcile income (loss) from operations to net cash used by operating activities:		
Depreciation	1,319	1,163
Changes in assets and liabilities:		
Increase in inventory	(16,203)	(7,010)
Decrease in prepaid expenses	794	-
Decrease in accounts payable and accrued expenses	<u>(6,061)</u>	<u>(3,899)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (26,065)</u>	<u>\$ (9,143)</u>

See accompanying notes and accountants' report.

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

At September 30, 2013 and 2012, the ABC Board's deposits had a carrying amount of \$49,627 and \$98,413, respectively, and bank balances of \$43,931 and \$81,575, respectively. At September 30, 2013, all of the ABC Board's bank balances were covered by federal depository insurance. At September 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 September 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 September 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.

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

Capital asset activity for the three months ended September 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	159,526	-	-	159,526
Furniture and equipment	<u>124,088</u>	<u>-</u>	<u>-</u>	<u>124,088</u>
Total capital assets being depreciated	<u>283,614</u>	<u>-</u>	<u>-</u>	<u>283,614</u>
Less accumulated depreciation for:				
Building and improvements	134,226	449	-	134,675
Furniture and equipment	<u>103,219</u>	<u>870</u>	<u>-</u>	<u>104,089</u>
Total accumulated depreciation	<u>237,445</u>	<u>1,319</u>	<u>-</u>	<u>238,764</u>
Capital assets, net	<u>\$ 66,169</u>			<u>\$ 64,850</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 three months ended September 30, 2013 and 2012, was \$1,319 and \$1,163, 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
September 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 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 three months ended September 30, 2013, 2012, and 2011, were \$2,435, \$2,040 and \$2,282, respectively. The contributions made by the ABC Board equaled the required contributions for each period.

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

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

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. 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 three months ended September 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 postemployment benefit amount and the other benefit amount.

NOTE 4 – COMMITMENTS

The ABC Board had no commitments at September 30, 2013, 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 three months ended September 30, 2013:

	<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 September 30, 2013, until the date of this report that would have a significant effect on the ABC Board's financial statements.

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

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 \$5,790 and \$2,096 at September 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.

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	\$ -	\$ 793,744
Town of Biscoe	-	273,676
Town of Candor	-	104,167
Town of Mount Gilead	-	274,694
Town of Star	-	119,133
Town of Troy	-	<u>386,681</u>
	<u>\$ -</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 (loss) before distributions	\$ (5,909)	\$ 641
Less 3.5% tax and bottle charge	<u>(9,060)</u>	<u>(8,718)</u>
Profit (loss) subject to expense percentages	<u>\$ (14,969)</u>	<u>\$ (8,077)</u>
Law enforcement distributions - actual	<u>\$ 300</u>	<u>\$ 300</u>
Percent of profit	<u>- %</u>	<u>- %</u>

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
September 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 three months ended September 30, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Taxes payable at July 1,	\$ 23,391	\$ 23,145
Taxes collected during the period	66,887	64,375
Taxes remitted to Department of Revenue during the period	<u>(70,343)</u>	<u>(66,348)</u>
Taxes payable at September 30,	<u>\$ 19,935</u>	<u>\$ 21,172</u>

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

The accrued North Carolina excise tax at September 30, 2013 and 2012, was remitted to the North Carolina Department of Revenue in October, 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 three months ended September 30, 2013 and 2012, were based on the following bottle sales:

	<u>2013</u>	<u>2012</u>
Regular bottles	22,883 @ \$.05 = \$ 1,144	21,659 @ \$.05 = \$ 1,083
Mixed beverage bottles	460 @ \$.05 = 23	840 @ \$.05 = 42
Miniature bottles	9,078 @ \$.01 = <u>91</u>	8,251 @ \$.01 = <u>83</u>
	<u>\$ 1,258</u>	<u>\$ 1,208</u>

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

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 three months ended September 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Department of Revenue (50%)	\$ 863	\$ 1,575
Department of Human Resources (5%)	86	156
Profit Retained (45%)	<u>777</u>	<u>1,419</u>
Total	<u>\$ 1,726</u>	<u>\$ 3,150</u>

NOTE 12 – SURCHARGE COLLECTED

The total amount of surcharge of \$1,709 and \$1,688 was collected for the three months ended September 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 three months ended September 30, 2013 and 2012, was \$20,585 and \$18,292, 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	\$ 222,182	\$ 217,141
Gross Profit	56,618	55,787
Change in Net Position Before Profit Distributions	(4,688)	1,450

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

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

	<u>2013</u>	<u>2012</u>
Gross Sales	\$ 81,370	\$ 76,580
Gross Profit	20,735	19,834
Change in Net Position Before Profit Distributions	(1,521)	(1,109)

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 September 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Minimum requirement	\$ 36,070	\$ 34,832
Maximum allowable	312,612	301,876
Actual working capital	271,676	291,321

Montgomery ABC Board has met the working capital requirements at September 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**

For the Three Months Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries	\$ 48,144	\$ 41,574
Payroll taxes	3,880	3,163
Employees' retirement	2,435	2,040
Electricity	2,960	3,344
Water	289	302
Repairs and maintenance	1,039	169
Computer maintenance	8,024	7,524
Unloading	260	205
Supplies	75	2,702
Credit card fees	2,046	1,720
	<u>\$ 69,152</u>	<u>\$ 62,743</u>

See accountants' report.

MONTGOMERY ALCOHOLIC BEVERAGE CONTROL BOARD
SCHEDULES OF ADMINISTRATIVE EXPENSES
For the Three Months Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Telephone	\$ 745	\$ 607
Office supplies	500	741
Insurance and bonds	8,886	7,189
Travel	585	126
Auditing and accounting	1,500	1,450
Dues, conventions, subscriptions, etc.	182	626
Bank charges	<u>398</u>	<u>373</u>
	<u>\$ 12,796</u>	<u>\$ 11,112</u>

See accountants' report.