

Weaverville ABC Board
(A Component Unit of the Town of Weaverville)

Weaverville, North Carolina

FINANCIAL STATEMENTS

For the Years Ended June 30, 2012 and 2011

Weaverville ABC Board
(A Component Unit of the Town of Weaverville)
Weaverville, North Carolina

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BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Directors
Weaverville ABC Board
Weaverville, North Carolina

We have audited the accompanying financial statements of the Weaverville ABC Board, a component unit of the Town of Weaverville, as of June 30, 2012 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Weaverville ABC Board as of June 30, 2011, were audited by other auditors whose report dated July 20, 2011, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Weaverville ABC Board as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-6, respectfully 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Store Expenses, Schedule 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 Schedule of Store Expenses, Schedule 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.

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Such information has been subjected to the auditing procedures applied by us 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burlison & Earley, P.A.
Certified Public Accountants
September 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the Weaverville ABC Board's activities and financial performance provides the reader with an overview to the financial statements of the Weaverville ABC Board for the fiscal year ended June 30, 2012. The information contained in this MD&A should be considered in conjunction with the financial information contained in the various sections of this audit report.

FINANCIAL HIGHLIGHTS

- The liabilities of the Weaverville ABC Board exceeded its assets at the close of the fiscal year by \$(30,296) (*net assets*).
- The Board's total net assets increased by \$38,858, primarily due to operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The audited financial statements of the ABC Board consist of 3 components. They are as follows:

Management's Discussion and Analysis
Basic Financial Statements
Additional Information Required by the ABC Commission

The Basic Financial Statements are prepared using the full accrual basis of accounting. They consist of 3 statements. The first is the **Statement of Net Assets**. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Board's investments in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the **Statement of Revenues, Expenses, and Changes in Net Assets**. This statement is used in evaluating whether the Board has recovered all of its costs through sales. Its information is used in determining credit worthiness.

The final required statement is the **Statement of Cash Flows**. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing activities. Based on this data, the user can determine the sources of cash, and the change in cash.

The notes to the financial statements provide more detail 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 **Budget to Actual Reconciliation**.

FINANCIAL ANALYSIS OF THE ABC BOARD

Net assets are an indicator of the fiscal health of the Board. Liabilities exceeded assets by \$(30,296) in 2012. The largest component of net assets is restricted for working capital. Overall net assets are negative, but have improved from the previous year. Following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Assets

At June 30	2012	2011	\$ Change	% Change
Assets				
Current and Other Assets	\$ 200,716	\$ 216,513	\$ (15,797)	-7%
Capital Assets	1,387,367	1,455,143	(67,776)	-5%
Total Assets	\$ 1,588,083	\$ 1,671,656	\$ (83,573)	-5%
Liabilities				
Current Liabilities	\$ 222,372	\$ 295,787	\$ (73,415)	-25%
Non-current Liabilities	1,396,007	1,445,023	(49,016)	-3%
Total Liabilities	\$ 1,618,379	\$ 1,740,810	\$ (122,431)	-7%
Net Assets				
Invested in Capital Assets	(57,656)	(93,625)	35,969	38%
Restricted for Working Capital	62,380	58,444	3,936	7%
Unrestricted	(35,020)	(33,973)	(1,047)	-3%
Total Net Assets	\$ (30,296)	\$ (69,154)	\$ 38,858	56%

Net assets increased by 56% from the prior year. Income from operations increased by 57% from the prior year. Following is a summary of the changes in net assets:

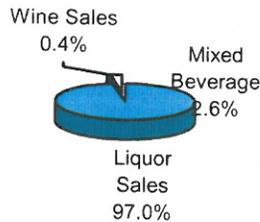
Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30	2012	2011	\$ Change	% Change
Operating Revenues	\$ 2,092,129	\$ 1,960,558	\$ 131,571	7%
Operating Expenses	1,966,979	1,881,051	85,928	5%
Operating Income (Loss) Before	125,150	79,507	45,643	57%
Non-Operating Revenues and Expenses				
Non-Operating Revenues and Expenses, Net	(86,292)	(66,072)	(20,220)	31%
Change in Net Assets Before Distributions	38,858	13,434	25,424	189%
Distributions	-	3,000	(3,000)	-100%
Increase in Net Assets	\$ 38,858	\$ 10,434	\$ 28,424	272%

Following is a breakdown of sales by source:

For the Fiscal Year Ended June 30	2012	2011	\$ Change	% Change
Retail Liquor Sales	\$ 2,029,915	\$ 1,924,220	\$ 105,695	5%
Mixed Beverage Sales	53,446	27,688	25,758	93%
Retail Wine Sales	8,768	8,650	118	1%
Total Sales	\$ 2,092,129	\$ 1,960,558	\$ 131,571	7%

Operating Revenues



Operating Expenditures



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets decreased by 5% from the prior year.

**Table 3
Summary of Changes in Capital Assets**

	2012	2011	\$ Change	% Change
Building	\$ 1,479,898	\$ 1,479,898	\$ -	0%
Equipment & furniture	100,822	98,011	2,811	3%
	1,580,720	1,577,909	2,811	
Accumulated depreciation	(193,353)	(122,766)	70,587	-57%
	<u>\$ 1,387,367</u>	<u>\$ 1,455,143</u>	<u>\$ (67,776)</u>	<u>-5%</u>

The overall change in property, plant, and equipment are due to purchases of store equipment and current year depreciation expense.

Debt Administration

Long-term debt consists of notes payable. Current year activity is summarized below:

**Table 4
Summary of Changes in Long Term Debt**

	2012	2011	\$ Change	% Change
Notes Payable	<u>\$ 1,445,023</u>	<u>\$ 1,558,768</u>	<u>\$ (113,745)</u>	<u>-8%</u>

Economic Factors

The Board developed and approved a budget for fiscal year 2012-2013. Total budgeted revenues are \$2,070,000 which anticipates a slight decrease in sales as compared to 2012.

Requests for Information

This report is designed to provide an overview of the Board's finances for those with an interest in this area. Questions concerning any of the information found in this report, or requests for additional information, should be directed to:

Jacob Lions, Chairman
Weaverville ABC Board
7 Northridge Commons Parkway, Suite 101
Weaverville, NC 28787

Weaverville ABC Board
(A Component Unit of the Town of Weaverville)
Statements of Net Assets
June 30, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and Cash Equivalents	\$ 90,206	\$ 65,903
Inventory	105,423	150,610
Prepaid Expenses	5,087	-
Total Current Assets	<u>200,716</u>	<u>216,513</u>
Non-current Assets		
Property Plant and Equipment (net of accumulated depreciation)	<u>1,387,367</u>	<u>1,455,143</u>
Total Assets	<u>\$ 1,588,083</u>	<u>\$ 1,671,656</u>
<u>Liabilities</u>		
Current Liabilities		
Current Portion of Long-term Debt	\$ 56,382	\$ 103,745
Accounts Payable and Accrued Expenses	96,297	141,776
Accrued Interest Payable	14,568	-
Taxes Payable	55,125	50,266
Total Current Liabilities	<u>222,372</u>	<u>295,787</u>
Non-current Liabilities		
Compensated Absences	7,366	-
Long-term Portion of Debt	<u>1,388,641</u>	<u>1,445,023</u>
Total liabilities	<u>1,618,379</u>	<u>1,740,810</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	(57,656)	(93,625)
Restricted for Working Capital	62,380	58,444
Unrestricted Net Assets	<u>(35,020)</u>	<u>(33,973)</u>
Total Net Assets	<u>(30,296)</u>	<u>(69,154)</u>
Total Liabilities and Net Assets	<u>\$ 1,588,083</u>	<u>\$ 1,671,656</u>

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

Weaverville ABC Board
(A Component Unit of the Town of Weaverville)
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2012 and 2011

Operating Revenue	2012	2011
Liquor Sales - Regular	\$ 2,029,915	\$ 1,924,220
Wine Sales	8,768	8,650
Mixed Beverage Sales	53,446	27,688
Total Gross Sales	<u>2,092,129</u>	<u>1,960,558</u>
Deduct Taxes on Gross Sales		
State Excise Tax	(458,192)	(431,468)
Mixed Beverage Tax (Revenue)	(4,379)	(2,215)
Mixed Beverage Tax (Human Resources)	(423)	(221)
Rehabilitation Tax	(6,687)	(6,495)
Wine Sales Tax	(571)	(622)
Total Taxes	<u>(470,252)</u>	<u>(441,021)</u>
Net Sales	<u>1,621,877</u>	<u>1,519,537</u>
Deduct Cost of Sales		
Cost of Goods Sold	<u>1,117,447</u>	<u>1,053,139</u>
Gross Profit on Sales	<u>504,430</u>	<u>466,398</u>
Deduct Operating Expenses		
Store Expenses	238,942	235,262
Administrative Expenses	69,751	81,277
Depreciation Expense	70,587	70,352
Total Operating Expenses	<u>379,280</u>	<u>386,891</u>
Income from Operations	<u>125,150</u>	<u>79,507</u>
Nonoperating Revenues and Expenses		
Interest Expense	(88,417)	(66,450)
Interest Income	255	377
Miscellaneous	1,870	-
Change in Net Assets Before Distributions	<u>38,858</u>	<u>13,434</u>
<u>Deduct</u>		
Law Enforcement	-	3,000
Alcohol Education	-	-
Change in Net Assets Before Profit Distributions	<u>38,858</u>	<u>10,434</u>
<u>Profit Distributions</u>		
Town of Weaverville	-	-
Change in Net Assets	<u>38,858</u>	<u>10,434</u>
Net Assets, Beginning of Year	<u>(69,154)</u>	<u>(79,588)</u>
Net Assets, End of Year	<u>\$ (30,296)</u>	<u>\$ (69,154)</u>

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

Town of Weaverville ABC Board
(A Component Unit of the Town of Weaverville)
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,092,129	\$ 1,960,558
Payments for Inventory Costs	(1,117,739)	(1,008,493)
Payments for Operating Expenses	(306,414)	(312,017)
Liquor Sales Tax Paid	(465,393)	(442,061)
Net Cash Provided by Operating Activities	202,583	197,987
Cash Flows from Capital and Related Financing Activities:		
Capital Expenditures	(2,811)	-
Principal Payments on Long-term Debt	(103,745)	(166,232)
Interest Payments on Long-term Debt	(73,849)	(82,841)
Net Cash Used by Capital and Related Financing Activities	(180,405)	(249,073)
Cash Flows from Non-Capital Financing Activities:		
Law Enforcement Distributions	-	-
Alcohol Education Distributions	-	-
Profit Distributions to Primary Government	-	-
Net Cash Used by Non-Capital Financing Activities	-	-
Cash Flows from Investing Activities:		
Interest Earned on Investments	255	377
Other Income	1,870	-
Net Cash Provided by Investing Activities	2,125	377
Net Increase (Decrease) in Cash and Cash Equivalents	24,303	(50,709)
Cash and Cash Equivalents, beginning of year	65,903	116,612
Cash and Cash Equivalents, end of year	\$ 90,206	\$ 65,903
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Income from Operations	\$ 125,150	\$ 79,507
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:		
Depreciation	70,587	70,352
Changes in Assets and Liabilities:		
(Increase) Decrease in Inventory	45,187	10,673
(Increase) Decrease in Prepaid Expenses	(5,087)	3,165
(Decrease) Increase in Accounts Payable and Accrued Expenses	(45,479)	34,799
(Decrease) Increase in Taxes Payable	4,859	(509)
(Decrease) Increase in Compensated Absences	7,366	-
Total Adjustments	77,433	118,480
Net Cash Provided by Operating Activities	\$ 202,583	\$ 197,987

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

WEAVERVILLE ABC BOARD
(A component unit of the Town of Weaverville)
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies

Principles used in determining the scope of the entity for financial reporting:

The Weaverville ABC Board (the ABC Board), a component unit of the Town of Weaverville, is a corporate body with powers outlined by General Statutes [Chapter 18B-701.] The Town's governing body appoints the ABC Board.

The ABC Board is required by State Statute to distribute its surpluses to the general fund of the Town, which represents a financial benefit to the Town. Therefore, the ABC Board is reported as a discretely presented component unit in the Town's financial statements.

Organizational History

The Board was organized under the provisions of Session Law of the North Carolina Legislature, General Assembly of North Carolina, September 15, 2008, and implemented by a Town wide election. The Town Board appointed three individuals to serve on the ABC Board with staggered terms of three years. The date of the Board's first retail sales occurred on October 21, 2009.

North Carolina General Statute (18B-805(c)(2)(3)) requires the Weaverville ABC Board expend at least 5% of profits for law enforcement and at least 7% of the same profits for alcohol education and rehabilitation purposes.

Basis of Presentation

All activities of the ABC Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or the change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. All sales are made by cash, check, debit or credit card and recorded at the time of sale. Other revenues are recorded when earned. Expenses are recognized when incurred. As permitted, the Board has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its proprietary operation, unless those pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates

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

Assets, Liabilities, and Net Assets

Deposits

All deposits of the ABC Board are made in board-designated official depositories and are collateralized as required by State law [G.S. 159-31]. The ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the ABC Board may establish Time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

All of the ABC Board's deposits are insured using the Pooling Method. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the ABC Board, these deposits are considered to be held by the ABC Board agent in the ABC Board's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the ABC Board or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the ABC Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2012, the ABC Board's deposits had a carrying amount of \$90,206, of which \$1,288 is held in petty cash funds, and a bank balance of \$90,831. All of the bank balance was covered by federal depository insurance.

Cash and Cash Equivalents

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

Inventories

Inventories are valued at the lower of cost (FIFO) or market.

Property, Plant and Equipment

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

	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Building	25 yrs.	\$ 1,479,898	\$ 162,789	\$ 1,317,109
Equipment & furniture	5 - 15 yrs.	100,822	30,564	70,258
		<u>\$ 1,580,720</u>	<u>\$ 193,353</u>	<u>\$ 1,387,367</u>

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

Liabilities, and Net Assets (continued)

Net Assets

Net Assets consists of the following:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted for capital improvements - State law [G.S. 18B-805(d)] requires approval of the appointing authority to establish this account.

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

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

Note 2. Detail Notes on All Funds

Pension Plan Obligations

Local Government 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 the 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 is 6.88%, of annual covered payroll. The contribution requirements of members and of ABC Board are established and may be amended by the North Carolina General Assembly. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$4,186, \$3,353, and \$0, respectively. The contributions made by the ABC Board equaled the required contributions for each year.

Vacation and Leave Compensation

ABC Board employees may earn up to 27 days vacation per year, depending upon the number of years employed. Employees may carry forward up to a maximum of 20 days, and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2012 and 2011 is \$7,366 and \$0, respectively.

Employees earn 12 days of sick leave per year. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the ABC Board has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Long-Term Debt

During the year ended June 30, 2009, the ABC Board entered into a construction loan with BB&T Governmental finance in the amount of \$1,500,000 bearing interest at 4.89%. The first payment of interest only was due April 17, 2010. Beginning in April of 2011, 19 annual payments of \$123,007 consisting of principal and interest are required. The loan matures in April 2029. At June 30, 2012 and 2011, the balance on this loan was \$1,398,257 and \$1,450,343, respectively.

During the year ended June 30, 2010, the ABC Board entered into a loan with BB&T Governmental Finance in the amount of \$50,000 bearing interest at 5.39%. The first payment of interest only was due in April 2010. Beginning in April of 2011, 19 annual payments of \$4,270 consisting of principal and interest are required. This loan matures in April 2029. At June 30, 2012 and 2011, the balance on this loan was \$46,766 and \$48,425, respectively.

During the year ended June 30, 2009, the ABC Board entered into an operating loan with Home Trust Bank in the amount of \$225,000. The loan required annual payments of one third the outstanding balance including interest at 6.50%, maturing in June 2012. At June 30, 2011, the balance on this loan was \$50,000. The loan was paid in full as of June 30, 2012.

Interest expense for the years ended June 30, 2012 and 2011 was \$88,417 and \$66,450, respectively.

Scheduled principal payments on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Principal Repayments</u>	<u>Interest Payments</u>
2013	\$ 56,382	\$ 70,895
2014	59,147	68,130
2015	62,049	65,228
2016	65,093	68,351
2017	68,286	58,991
2018-2022	395,092	241,293
2023-2027	502,000	134,386
2028-2029	236,974	17,580
	<u>\$ 1,445,023</u>	<u>\$724,854</u>

Note 3. Distributions of Income

The ABC Board has made the following profit distributions:

Town of Weaverville \$ -

State law (G.S. 18B-805) requires that the minimum distribution set aside in (c)(1) and any profit remaining after deducting amounts required for law enforcement and alcohol education and retaining proper working capital, be paid quarterly to the appointing authority.

Note 4. Law Enforcement and Alcohol Education Expenses

The ABC Board is required by law to expend at least 5% of its profits for law enforcement and not less than 7% for alcohol education (alcohol education requirements follows local enabling act). Profits are defined by law for these calculations as change in net assets before law enforcement and educational expenses, less the 3 1/2% markup provided in G.S. 18B-804(b)(5) and the bottle charge provided for in G.S. 18B-804(b)(6b).

Profit before distributions	\$ 38,858
Less: 3 1/2% tax and bottle charge	<u>(60,019)</u>
Profit subject to expenses percentages	\$ (21,161)
Law enforcement expenditures	\$ -
-actual percentage of profit	5%
Provision for alcohol education and rehabilitation	\$ -
-actual percentage of profit	7%

Note 5. 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 year are summarized as follows:

Taxes payable 7/1/2011	\$ 36,379
Taxes collected during the year	458,192
Taxes remitted to Department of Revenue	<u>(453,390)</u>
Taxes payable 6/30/2012	<u>\$ 41,181</u>

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

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

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 alcoholic education and rehabilitation. For the fiscal year, payments to the county were based on the following bottle sales:

Regular Bottles 124,153 @ 5 cents	\$6,208
Mixed Beverage Bottles 2,326 @ 5 cents	116
Miniature Bottles 36,343 @ 1 cent	<u>363</u>
Total payment for the year	<u>\$6,687</u>

A "mixed beverage tax" at the rate of \$20 per 4 liters is charged on the sale of liquor to be resold as mixed beverages. One-half of the mixed beverage tax is submitted monthly to the Department of Revenue. Five percent of the mixed beverage tax is submitted monthly to the Department of Human Resources.

The mixed beverage tax for the year was:

Department of Revenue (50%)	\$4,379
Department of Human Resources (5%)	423
Profit Retained (45%)	<u>3,956</u>
Total	<u>\$8,758</u>

Note 6. Surcharge Collected

The total amount of surcharge collected for the fiscal year was \$22,379. (The rate is 85 cents per case sold).

Note 7. Liquor Sales Tax

The total amount of sales tax collected by the ABC Board and remitted to the Department of Revenue for the fiscal year was \$142,545. The current sales tax rate is 7%.

Note 8. 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 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 board's position on this requirement is as follows:

Minimum Amount	\$	62,380
Maximum Amount	\$	405,468
Actual Amount	\$	29,639

The board has not met the minimum amount of working capital.

Note 9. Breakage Expense

No breakage expense is absorbed by the Board for the year, as all breakage is credited against supplier invoices.

Note 10. Risk Management

The ABC Board is exposed the 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, auto liability, workmen's compensation and employee health coverage. The board also has liquor legal liability insurance.

There have been not 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 employee are bonded under a blanket bond in the amount of \$50,000.

Note 11. Commitments

The ABC Board has elected to pay direct costs of employment securities benefits in lieu of employment security taxes on payroll. A liability for benefit payments could accrue in the year following discharge of employee. For the year ended June 30, 2012, the Board incurred no expense for employment securities benefits.

Supplementary Information

**Town of Weaverville ABC Board
Schedules of Store Expenses
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Building Repairs and Maintenance	\$ 19,419	\$ 16,322
Equipment Repairs and Maintenance	-	4,254
Maintenance Agreement	1,749	-
Security	1,423	185
Group Insurance	16,310	16,032
Insurance	5,838	7,199
Payroll	165,851	161,034
Payroll Taxes	12,183	11,312
Supplies	6,026	7,388
Telephone	2,921	3,124
Utilities	7,225	8,472
Cash over/short	(3)	(60)
Total Store Expenses	<u>\$ 238,942</u>	<u>\$ 235,262</u>

**Town of Weaverville ABC Board
Schedules of Administrative Expenses
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Retirement Expense	\$ 4,186	\$ 3,353
Bank Charges	25,902	27,046
Travel	282	399
Office Supplies	2,767	1,698
Postage	530	449
Professional Services	11,972	17,551
Dues and Subscriptions	260	876
Board Member Expense	7,455	11,065
Outside Services	16,217	16,375
Training	120	839
Data Processing	60	-
Miscellaneous	-	1,626
Total Administrative Expenses	<u>\$ 69,751</u>	<u>\$ 81,277</u>

Town of Weaverville ABC Board
Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2012

	2012 Original Budget	2012 Revised Budget	2012 Actual	Variance Positive (Negative)
Revenues:				
Operating Revenues:				
Liquor Sales – Regular	\$ -	\$ -	\$ 2,029,915	\$ -
Mixed Beverage Sales	-	-	53,446	-
Wine/Mixer Sales	-	-	8,768	-
Total	<u>2,066,000</u>	<u>2,066,000</u>	<u>2,092,129</u>	<u>26,129</u>
Non-Operating Revenues/(Expenses):				
Interest Income			255	
Miscellaneous			1,870	
Total revenues	<u>2,066,000</u>	<u>2,066,000</u>	<u>2,094,254</u>	<u>28,254</u>
Expenditures:				
Taxes Based on Revenue:				
State Excise Tax			458,192	
Mixed Beverage Tax (Revenue)			4,379	
Mixed Beverage Tax (Human resources)			423	
Rehabilitation Tax			6,687	
Wine/Mixer Sales Tax			571	
Total	<u>501,120</u>	<u>501,120</u>	<u>470,252</u>	<u>30,868</u>
Cost of Goods Sold	<u>1,033,180</u>	<u>1,033,180</u>	<u>1,117,447</u>	<u>(84,267)</u>
Operating Expenses:				
Salaries and benefits	203,400	203,400	191,164	12,236
Board member expense	8,500	8,500	7,455	1,045
Utilities	10,200	10,200	10,146	54
Repairs & maintenance	22,500	22,500	22,591	(91)
Office/store supplies	8,800	8,800	9,323	(523)
Insurance – general & bonds	6,800	6,800	5,838	962
Travel	400	400	282	118
Professional fees	12,000	12,000	28,369	(16,369)
Credit card fees	28,000	28,000	25,902	2,098
Dues and subscriptions			260	(260)
Cash over/short			-	3
Contingencies	3,000	3,000	-	3,000
Total	<u>303,600</u>	<u>303,600</u>	<u>301,327</u>	<u>2,273</u>
Capital outlay:	<u>-</u>	<u>-</u>	<u>2,811</u>	<u>(2,811)</u>
Debt service:	<u>228,100</u>	<u>228,100</u>	<u>192,162</u>	<u>35,938</u>
Total expenditures	<u>2,066,000</u>	<u>2,066,000</u>	<u>2,083,999</u>	<u>(17,999)</u>
Distributions:				
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures & distributions	<u>2,066,000</u>	<u>2,066,000</u>	<u>2,083,999</u>	<u>(17,999)</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>10,255</u>	<u>10,255</u>
Other financing (uses):				
Working capital retained			(3,936)	(3,936)
(Unrestricted funds)	<u>-</u>	<u>-</u>	<u>1,047</u>	<u>1,047</u>
Revenues over expenditures and other financing (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,366</u>	<u>\$ 7,366</u>

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:	
Depreciation	\$ (70,587)
Capital expenditures	2,811
Increase in compensated absences	(7,366)
Principal portion of debt payments	103,745
Total	<u>28,603</u>
Change in net assets	<u>\$ 38,858</u>

BURLESON & EARLEY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

September 13, 2012

To the Ed Doughty, Store Manager
Nola Kaufman, Finance Officer
Board of Directors
Weaverville ABC Board

We have audited the financial statements of the Weaverville ABC Board, a component unit of the Town of Weaverville, for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 23, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Weaverville ABC Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Weaverville ABC Board's financial statements was:

Management's estimate of the depreciable lives assigned to fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material adjusting entries are listed below:

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	<u>Effect on Net Assets</u>
Interest accrual on long term debt	\$ (14,568)
Accrue PTO	\$ (7,366)

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 13, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

We do understand that the Weaverville ABC Board does utilize the services of an independent CPA for the accounting services. These services are provided on a regular basis and the CPA works directly with Nola Kaufman, Finance Officer.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Ed Doughty, Nola Kaufman and the Board of Directors of Weaverville ABC Board and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Burleson & Earley, P.A.
 Certified Public Accountants

BURLESON & EARLEY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

To Ed Doughty, Store Manager
Nola Kaufman, Finance Officer
and the Board of Directors
Weaverville ABC Board
Weaverville, NC

In planning and performing our audit of the financial statements of the Weaverville ABC Board for the year ended June 30, 2012 we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated September 13, 2012 on the financial statements of the Weaverville ABC Board. We will review the status of these comments at our next audit engagement. We have already discussed many of these comments and suggestions with various store personnel, and will be pleased to discuss any of these comments in further detail with you at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Bank Reconciliation

Currently there is no documentation of review and approval of the bank reconciliations that are prepared by the Finance Officer. We recommend designating a Board member to review the bank reconciliations and bank statements each month and documenting this procedure by signing and dating the reconciliation.

Year End Procedures

Material prepaid and accrual type adjustments were necessary during the performance of the audit. We recommend that additional procedures be implemented at year end to ensure that consideration is given to these types of entries. We are happy to provide information to assist in this process for next year.

This report is intended solely for the information and use of the governing board, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Burleson & Earley, P.A.

Certified Public Accountants
September 13, 2012

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BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

To Ed Doughty, Store Manager
Nola Kaufman, Finance Officer
Board of Directors
of Weaverville ABC Board

In planning and performing our audit of the financial statements of the Weaverville ABC Board, a component unit of the Town of Weaverville, as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Weaverville ABC Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Weaverville ABC Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Weaverville ABC Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Weaverville ABC Board's internal control to be significant deficiencies:

Segregation of Duties

Due to the small size of the Organization's staff, it is technically impossible to fully segregate duties in a manner that achieves a workable set of checks and balances on each employee involved in the process. The purpose behind the need for these checks and balances is to reduce the possibility for errors arising from such causes as misunderstanding of instructions, mistakes of judgment, and personal carelessness, distraction, or fatigue. Even procedures whose effectiveness depends on segregation of duties can be circumvented by collusion. In consideration of this deficiency, the Board and management should always be alert for opportunities to strengthen the internal controls by changing or adopting policies that will help the limitations imposed by the small staff size. Additional consideration will be necessary in evaluating the potential costs versus benefit of new procedures designed to strengthen internal controls.

Preparation of the financial statements

The Association has the responsibility to design and implement a system of internal control over financial reporting that provides for the management of risk that material misstatements could exist in their financial statements and not be detected. In the absence of these controls, significant risk exists that this could occur. Adjusting entries that were considered significant were necessary to the financial statements during the audit process. We recommend that management develop policies surrounding the production of its annual financial reports that provide a basis for the management of these risks. These policies can include such processes as consideration of prepaid and accrual adjustments at year end for pertinent account classes.

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This communication is intended solely for the information and use of management, the Finance Officer, the Board of Directors and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Burleson & Earley, P.A.
Certified Public Accountants
September 13, 2012