

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, 2013, 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 audit procedures that are appropriate in the circumstances 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 a 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 Store'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.

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 17, 2013

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BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

September 17, 2013

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

We have audited the financial statements of Weaverville ABC Board for the year ended June 30, 2013. 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 17, 2013. 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 2013. We noted no transactions entered into by the board 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 financial statement disclosures 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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.

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 17, 2013.

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 Board'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 Matters

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 and management 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,

Burlison & Earley, P.A.
Certified Public Accountants

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

Weaverville, North Carolina

FINANCIAL STATEMENTS

For the Years Ended June 30, 2013 and 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Weaverville ABC Board, a component unit of the Town of Weaverville, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in 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.

Auditor's 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.

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Opinions

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, 2013 and 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the years 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 3 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The Schedule of Expenses by Store and Administrative Expenses and Schedule of Revenues and Expenditures – Budget vs. Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Expenses by Store and Administrative Expenses and Schedule of Revenues and Expenditures – Budget vs. Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Burleson & Earley, P.A.
Certified Public Accountants
September 17, 2013

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, 2013. 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 assets of the Weaverville ABC Board exceeded its liabilities at the close of the fiscal year by \$44,582 (*net position*).
- The Board's total net position increased by \$74,878, 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 Position**. 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 Position**. This statement is used in evaluating whether the Board has recovered all of its costs through sales. Its information is used in determining credit worthiness.

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

The notes to the financial statements provide more 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 position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$44,582 in 2013. The largest component of net position is restricted for working capital. Overall net position is positive, which is an improvement from being negative the previous year. Following is a summary of the Statement of Net Position:

Table 1
Condensed Statement of Net Position

At June 30	2013	2012	2011	\$ Change	% Change
Assets					
Current and Other Assets	\$ 270,070	\$ 200,716	\$ 216,513	\$ 69,354	35%
Capital Assets	1,316,896	1,387,367	1,455,143	(70,471)	-5%
Total Assets	\$ 1,586,966	\$ 1,588,083	\$ 1,671,656	\$ (1,117)	0%
Liabilities					
Current Liabilities	\$ 205,537	\$ 222,372	\$ 295,787	\$ (16,835)	-8%
Non-current Liabilities	1,336,847	1,396,007	1,445,023	(59,160)	-4%
Total Liabilities	\$ 1,542,384	\$ 1,618,379	\$ 1,740,810	\$ (75,995)	-5%
Net Position					
Net Investment in Capital Assets	(71,745)	(57,656)	(93,625)	(14,089)	-24%
Restricted Net Position	64,770	62,380	58,444	2,390	4%
Unrestricted Net Position	51,557	(35,020)	(33,973)	86,577	247%
Total Net Position	\$ 44,582	\$ (30,296)	\$ (69,154)	\$ 74,878	247%

Net position increased by 247% from 2012 compared to a 56% increase between 2012 and 2011. Income from operations increased by 93% from 2012 and by 57% between 2012 and 2011. Following is a summary of the changes in net position:

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

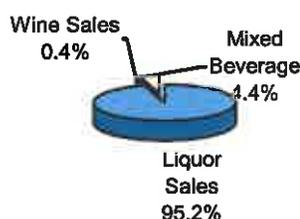
For the Fiscal Year Ended June 30	2013	2012	2011	\$ Change	% Change
Operating Revenues	\$ 2,189,148	\$ 2,092,129	\$ 1,960,558	\$ 97,019	5%
Operating Expenses	2,042,537	1,966,979	1,881,051	75,558	4%
Operating Income (Loss) Before	146,611	125,150	79,507	21,461	17%
Non-Operating Revenues and Expenses					
Non-Operating Revenues and Expenses, Net	(70,120)	(86,292)	(66,073)	16,172	19%
Change in Net Position Before Distributions	76,491	38,858	13,434	37,633	97%
Distributions	1,613		3,000	1,613	100%
Change in Net Position	74,878	38,858	10,434	36,020	93%
Net Position, Beginning	(30,296)	(69,154)	(79,588)	38,858	56%
Net Position, Ending	\$ 44,582	\$ (30,296)	\$ (69,154)	\$ 74,878	247%

The increase in sales is inflationary in nature. There is a decrease in non-operating revenues and expenses due to lower interest expense as debt payable is decreasing.

Following is a breakdown of sales by source:

For the Fiscal Year Ended June 30	2013	2012	2011	\$ Change	% Change
Retail Liquor Sales	\$ 2,084,056	\$ 2,029,915	\$ 1,924,220	\$ 54,141	3%
Mixed Beverage Sales	96,563	53,446	27,688	43,117	81%
Retail Wine Sales	8,529	8,768	8,650	(239)	-3%
Total Sales	\$ 2,189,148	\$ 2,092,129	\$ 1,960,558	\$ 97,019	5%

Operating Revenues



Operating Expenses



The percentage of mixed beverage sales to the total increased by 1.8% in 2013 and increased by 1.2% in 2012 compared to 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets decreased by 5% from the prior year.

Table 3
Summary of Changes in Capital Assets

	2013	2012	2011	\$ Change	% Change
Building	\$ 1,479,898	\$ 1,479,898	1,479,898	\$ -	0%
Equipment & furniture	101,175	100,822	98,011	353	0.4%
	1,581,073	1,580,720	1,577,909	353	
Accumulated depreciation	(264,177)	(193,353)	(122,766)	70,824	37%
Total	\$ 1,316,896	\$ 1,387,367	\$ 1,455,143	\$ (70,471)	-5%

The overall change in property, plant, and equipment is 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**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Notes Payable	<u>\$ 1,388,641</u>	<u>\$ 1,445,023</u>	<u>\$ 1,558,768</u>	<u>\$ (56,382)</u>	<u>-4%</u>

Economic Factors

The Board developed and approved a budget for fiscal year 2013-2014. Total budgeted revenues are \$2,281,000 which anticipates a slight increase in sales as compared to 2013.

Requests for Information

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

Ron Sussex, 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 Position
June 30, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and Cash Equivalents	\$ 151,220	\$ 90,206
Inventory	113,757	105,423
Prepaid Expenses	5,093	5,087
Total Current Assets	<u>270,070</u>	<u>200,716</u>
Non-current Assets		
Property Plant and Equipment (net of accumulated depreciation)	<u>1,316,896</u>	<u>1,387,367</u>
Total Assets	<u>\$ 1,586,966</u>	<u>\$ 1,588,083</u>
<u>Liabilities</u>		
Current Liabilities		
Current Portion of Long-term Debt	\$ 59,147	\$ 56,382
Accounts Payable and Accrued Expenses	78,696	96,297
Accrued Interest Payable	13,999	14,568
Taxes Payable	53,695	55,125
Total Current Liabilities	<u>205,537</u>	<u>222,372</u>
Non-current Liabilities		
Compensated Absences	7,353	7,366
Long-term Portion of Debt	<u>1,329,494</u>	<u>1,388,641</u>
Total Liabilities	<u>1,542,384</u>	<u>1,618,379</u>
<u>Net Position</u>		
Net Investment in Capital Assets	(71,745)	(57,656)
Restricted for Working Capital	64,770	62,380
Unrestricted	51,557	(35,020)
Total Net Position	<u>44,582</u>	<u>(30,296)</u>
Total Liabilities and Net Position	<u>\$ 1,586,966</u>	<u>\$ 1,588,083</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 Position
For the years ended June 30, 2013 and 2012

	2013	2012
Operating Revenue		
Liquor Sales - Regular	\$ 2,084,056	\$ 2,029,915
Wine Sales	8,529	8,768
Mixed Beverage Sales	96,563	53,446
Total Gross Sales	<u>2,189,148</u>	<u>2,092,129</u>
Deduct Taxes on Gross Sales		
State Excise Tax	(480,568)	(458,192)
Mixed Beverage Tax (Revenue)	(7,822)	(4,379)
Mixed Beverage Tax (Human Resources)	(722)	(423)
Rehabilitation Tax	(6,886)	(6,687)
Wine Sales Tax	(597)	(571)
Total Taxes	<u>(496,595)</u>	<u>(470,252)</u>
Net Sales	<u>1,692,553</u>	<u>1,621,877</u>
Deduct Cost of Sales		
Cost of Goods Sold	<u>1,161,939</u>	<u>1,117,447</u>
Gross Profit on Sales	<u>530,614</u>	<u>504,430</u>
Deduct Operating Expenses		
Store Expenses	243,837	238,942
Administrative Expenses	69,341	69,751
Depreciation Expense	70,825	70,587
Total Operating Expenses	<u>384,003</u>	<u>379,280</u>
Income from Operations	<u>146,611</u>	<u>125,150</u>
Nonoperating Revenues and Expenses		
Interest Expense	(70,327)	(88,417)
Interest Income	207	255
Miscellaneous	<u>-</u>	<u>1,870</u>
Change in Net Position Before Distributions	<u>76,491</u>	<u>38,858</u>
Deduct		
Law Enforcement	672	-
Alcohol Education	<u>941</u>	<u>-</u>
Change in Net Position Before Profit Distributions	<u>74,878</u>	<u>38,858</u>
Profit Distributions		
Town of Weaverville	<u>-</u>	<u>-</u>
Change in Net Position	<u>74,878</u>	<u>38,858</u>
Net Position, Beginning of Year	<u>(30,296)</u>	<u>(69,154)</u>
Net Position, End of Year	<u>\$ 44,582</u>	<u>\$ (30,296)</u>

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

Town of Weaverville ABCBoard
(A Component Unit of the Town of Weaverville)
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,189,148	\$ 2,092,129
Payments for Inventory Costs	(1,189,487)	(1,117,739)
Payments for Operating Expenses	(313,197)	(306,414)
Liquor Sales Tax Paid	(498,025)	(465,393)
Net Cash Provided by Operating Activities	188,439	202,583
Cash Flows from Capital and Related Financing Activities:		
Capital Expenditures	(354)	(2,811)
Principal Payments on Long-term Debt	(56,382)	(103,745)
Interest Payments on Long-term Debt	(70,896)	(73,849)
Net Cash Used by Capital and Related Financing Activities	(127,632)	(180,405)
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	207	255
Other Income	-	1,870
Net Cash Provided by Investing Activities	207	2,125
Net Increase in Cash and Cash Equivalents	61,014	24,303
Cash and Cash Equivalents, beginning of year	90,206	65,903
Cash and Cash Equivalents, end of year	\$ 151,220	\$ 90,206
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Income from Operations	\$ 146,611	\$ 125,150
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:		
Depreciation	70,825	70,587
Changes in Assets and Liabilities:		
(Increase) Decrease in Inventory	(8,334)	45,187
(Increase) Decrease in Prepaid Expenses	(6)	(5,087)
(Decrease) Increase in Accounts Payable and Accrued Expenses	(19,214)	(45,479)
(Decrease) Increase in Taxes Payable	(1,430)	4,859
(Decrease) Increase in Compensated Absences	(13)	7,366
Total Adjustments	41,828	77,433
Net Cash Provided by Operating Activities	\$ 188,439	\$ 202,583

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, 2013

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.

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 position 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.

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 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 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 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, 2013, the ABC Board's deposits had a carrying amount of \$151,220, of which \$1,288 is held in petty cash funds, and a bank balance of \$125,478. All of the bank balance was covered by federal depository insurance.

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	\$ 221,985	\$ 1,257,913
Equipment & furniture	5 - 15 yrs.	101,175	42,192	58,983
		<u>\$ 1,581,073</u>	<u>\$ 264,177</u>	<u>\$ 1,316,896</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 Position (continued)

Net Position

Net Position consists of the following:

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

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 7.67%, of annual covered payroll. The contribution requirements of members and of the ABC Board are established and may be amended by the North Carolina General Assembly. The ABC Board's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$4,456, \$4,186, and \$3,353, 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, 2013 and 2012 is \$7,353 and \$7,366, respectively.

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 position before law enforcement and educational expenses, less the 3 ½% 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	\$ 76,491
Less: 3 1/2% tax and bottle charge	<u>(63,042)</u>
Profit subject to expenses percentages	\$ 13,449
Law enforcement expenditures	\$ 672
-actual percentage of profit	5%
Provision for alcohol education and rehabilitation	\$ 941
-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 7/1/2012	\$ 41,181
Taxes collected during the year	480,568
Taxes remitted to Department of Revenue	<u>(481,613)</u>
Taxes payable 6/30/2013	<u>\$ 40,136</u>

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

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

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 124,476 @ 5 cents	\$6,224
Mixed Beverage Bottles 4,139 @ 5 cents	207
Miniature Bottles 45,567 @ 1 cent	<u>455</u>
Total payment for the year	<u>\$6,886</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%)	\$7,822
Department of Human Resources (5%)	722
Profit Retained (45%)	<u>7,101</u>
Total	<u>\$15,645</u>

Note 6. Surcharge Collected

The total amount of surcharge collected for the fiscal year was \$11,139. (The rate is 80 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 \$146,378. 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	\$	64,770
Maximum Amount	\$	421,005
Actual Amount	\$	64,533

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

Note 9. 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 the employees designated as the general manager and finance officer are bonded in the amount of \$50,000 by a corporate surety.

Note 10. Commitments

The ABC Board entered into an agreement on March 28, 2013 to purchase a forklift for use in their warehouse. As of the date of these financial statements, the Store has not taken delivery of this forklift or paid for it.

Supplementary Information

**Town of Weaverville ABC Board
Schedules of Store Expenses
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Building Repairs and Maintenance	\$ 18,386	\$ 19,419
Equipment Repairs and Maintenance	150	-
Maintenance Agreement	3,248	1,749
Security	185	1,423
Group Insurance	17,886	16,310
Insurance	7,366	5,838
Payroll	170,634	165,851
Payroll Taxes	12,482	12,183
Supplies	5,397	6,026
Telephone	2,091	2,921
Utilities	5,997	7,225
Cash over/short	15	(3)
Total Store Expenses	<u>\$ 243,837</u>	<u>\$ 238,942</u>

See independent auditor's report.

**Town of Weaverville ABC Board
Schedules of Administrative Expenses
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Retirement Expense	\$ 4,456	\$ 4,186
Bank Charges	25,487	25,902
Travel	456	282
Office Supplies	2,136	2,767
Postage	270	530
Professional Services	12,053	11,972
Dues and Subscriptions	424	260
Board Member Expense	5,958	7,455
Outside Services	15,199	16,217
Training	240	120
Licenses and Permits	131	-
Data Processing	-	60
Miscellaneous	2,531	-
Total Administrative Expenses	<u>\$ 69,341</u>	<u>\$ 69,751</u>

See independent auditor's report.

Town of Weaverville ABC Board
Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2013

	2013 Original Budget	2013 Revised Budget	2013 Actual	Variance Positive (Negative)
Revenues:				
Operating Revenues:				
Liquor Sales – Regular	\$ -	\$ -	\$ 2,084,056	\$ -
Mixed Beverage Sales	-	-	96,563	-
Wine/Mixer Sales	-	-	8,529	-
Total	2,070,000	2,070,000	2,189,148	119,148
Non-Operating Revenues/(Expenses):				
Interest Income			207	
Miscellaneous			-	
Total revenues	2,070,000	2,070,000	2,189,355	119,355
Expenditures:				
Taxes Based on Revenue:				
State Excise Tax			480,568	
Mixed Beverage Tax (Revenue)			7,822	
Mixed Beverage Tax (Human resources)			722	
Rehabilitation Tax			6,886	
Wine/Mixer Sales Tax			597	
Total	446,051	446,051	496,595	(50,544)
Cost of Goods Sold	1,110,320	1,110,320	1,161,939	(51,619)
Operating Expenses:				
Salaries and benefits	226,330	226,330	220,670	5,660
Board member expense	6,000	6,000	5,958	42
Utilities	8,200	8,200	8,088	112
Repairs & maintenance	27,000	27,000	21,969	5,031
Office/store supplies	10,300	10,300	7,803	2,497
Insurance – general & bonds	6,000	6,000	7,366	(1,366)
Travel	1,900	1,900	456	1,444
Professional fees	11,000	11,000	12,293	(1,293)
Credit card fees	28,500	28,500	25,487	3,013
Dues and subscriptions		-	555	(555)
Cash over/short		-	15	(15)
Contingencies	5,000	5,000	2,531	2,469
Total	330,230	330,230	313,191	17,039
Capital outlay:	11,500	11,500	354	11,146
Debt service:	127,500	127,500	126,709	791
Total expenditures	2,025,601	2,025,601	2,098,788	(73,187)
Distributions:				
Law enforcement	1,784	1,784	672	1,112
Alcohol education & rehab.	4,573	4,573	941	3,632
Municipal	25,000	25,000	-	25,000
Total	31,357	31,357	1,613	29,744
Total expenditures & distributions	2,056,958	2,056,958	2,100,401	(43,443)
Revenues over expenditures	13,042	13,042	88,954	75,912
Other financing (uses):				
Working capital retained	13,042	13,042	2,390	10,652
(Unrestricted funds)	-	-	72,488	72,488
Revenues over expenditures and other financing (uses)	\$ -	\$ -	\$ 14,076	\$ 14,076
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Depreciation			\$ (70,825)	
Capital expenditures			354	
Decrease in compensated absences			13	
Principal portion of debt payments			56,382	
Total			(14,076)	
Change in net position			\$ 74,878	

See independent auditor's report.