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WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)

Financial Statements

June 30, 2017 and 2016

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Wake County Board of Alcoholic Control  
Raleigh, North Carolina

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Wake County Board of Alcoholic Control, a component unit of Wake County, which comprise the statements of net position as of June 30, 2017 and 2016, 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 opinions 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 from 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 opinion.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Wake County Board of Alcoholic Control, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Post-Employment Benefits and Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered-Employee Payroll, on pages 3 through 5 and 28, the Local Government Employees' Retirement System's Schedule of the Proportionate Share of Net Pension Liability and Schedule of Contributions on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The Schedules of Store Expenses, Warehouse Expenses, 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 basic 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 or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Koonce, Wooten & Haywood, LLP*

Raleigh, North Carolina  
October 24, 2017

## WAKE COUNTY BOARD OF ALCOHOLIC CONTROL Management's Discussion and Analysis

This section of the Wake County Board of Alcoholic Control's (the Board) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2017. This information should be read in conjunction with the audited financial statements included in this report.

### Financial Highlights

- The Board operated twenty-four retail locations and thirteen mixed beverage locations.
- Property and equipment increased approximately 23.9% over the prior year.
- Over 26% of profits were expended for alcohol education and rehabilitation and 5% for law enforcement in the current year.

### Overview of the Financial Statements

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

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

The *Basic Financial Statements* are prepared using the full accrual basis of accounting. They consist of three statements. The first statement 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 investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

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

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

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements.

The ABC Commission requires some schedules in addition to the information required by generally accepted accounting principles. They include a Schedule of Store Expenses, a Schedule of Administrative Expenses, a Schedule of Warehouse Expenses and a Budget to Actual Reconciliation.

### Financial Analysis of the Board

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$41,330,363 in 2017. The largest component of net position was the investment in capital assets. It was 58.6% of the total net position. The Board has retained working capital to finance planned capital expenditures for new retail locations. Following is a summary of the Statement of Net Position:

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Management's Discussion and Analysis

	June 30, 2017	June 30, 2016	June 30, 2015	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Current assets	\$ 30,872,644	\$ 30,224,062	\$ 26,317,235	\$ 648,582	2.1%
Property and equipment	24,210,551	19,533,571	19,303,726	4,676,980	23.9%
Deferred outflows of resources	<u>1,491,927</u>	<u>357,988</u>	<u>317,278</u>	<u>1,133,939</u>	
Total assets and deferred outflows of resources	<u>\$ 56,575,122</u>	<u>\$ 50,115,621</u>	<u>\$ 45,938,239</u>	<u>\$ 6,459,501</u>	12.9%
Current liabilities	\$ 10,673,358	\$ 10,528,520	\$ 9,553,700	\$ 144,838	1.4%
Non-current liabilities	4,505,250	2,328,886	1,893,139	2,176,364	93.5%
Deferred inflows of resources	<u>66,151</u>	<u>153,020</u>	<u>946,786</u>	<u>(86,869)</u>	-56.8%
Total liabilities and deferred inflows of resources	<u>\$ 15,244,759</u>	<u>\$ 13,010,426</u>	<u>\$ 12,393,625</u>	<u>\$ 2,234,333</u>	17.2%
Net position					
Net investment in capital assets	\$ 24,210,551	\$ 19,533,571	\$ 19,303,726	\$ 4,676,980	23.9%
Restricted for working capital	3,823,294	3,558,860	3,253,749	264,434	7.4%
Unrestricted	<u>13,296,518</u>	<u>14,012,764</u>	<u>10,987,139</u>	<u>(716,246)</u>	-5.1%
Total net position	<u>\$ 41,330,363</u>	<u>\$ 37,105,195</u>	<u>\$ 33,544,614</u>	<u>\$ 4,225,168</u>	11.4%

Net position increased by 11.4% from the prior year. Income from operations increased by 7.4% from the prior year. Following is a summary of the changes in net position:

	June 30, 2017	June 30, 2016	June 30, 2015	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Operating revenues	\$ 130,358,564	\$ 121,358,332	\$ 111,070,740	\$ 9,000,232	7.4%
Taxes on sales	(30,952,916)	(28,827,977)	(26,473,276)	(2,124,939)	7.4%
Cost of sales	(66,825,406)	(62,142,335)	(56,810,611)	(4,683,071)	7.5%
Operating expenses	(11,429,923)	(10,250,940)	(9,069,853)	(1,178,983)	11.5%
Non-operating revenues	74,355	19,961	269,153	54,394	272.5%
Distributions	<u>(16,319,167)</u>	<u>(16,596,460)</u>	<u>(13,965,910)</u>	<u>277,293</u>	-1.7%
Change in net position	4,905,507	3,560,581	5,020,243	1,344,926	37.8%
Net position--Beginning	<u>37,105,195</u>	<u>33,544,614</u>	<u>29,039,029</u>	<u>3,560,581</u>	10.6%
Net position--Beginning, Restated	<u>36,424,856</u>	<u>33,544,614</u>	<u>28,524,371</u>	<u>2,880,242</u>	8.6%
Net position--Ending	<u>\$ 41,330,363</u>	<u>\$ 37,105,195</u>	<u>\$ 33,544,614</u>	<u>\$ 4,225,168</u>	11.4%

The increase in gross sales is from \$121,358,332 to \$130,358,564. It is due to price increases and a 3.6% and 5.5% increase in gallon and bottle sales, respectively. Twenty-two percent of sales are from mixed beverages.

Distributions to municipalities and Wake County were decreased by \$194,347, a decrease of 1.8% due to a slight decrease in amounts appropriated to Wake County in the current fiscal year to meet the maximum working capital requirement.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Management's Discussion and Analysis

Following is a breakdown of sales by source:

	June 30, 2017	June 30, 2016	June 30, 2015	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Retail Liquor Sales	\$ 97,615,804	\$ 91,231,570	\$ 83,565,633	\$ 6,384,234	7.0%
Mixed Beverage Sales	32,543,601	29,940,577	27,321,272	2,603,024	8.7%
Retail Wine Sales	199,159	186,185	183,835	12,974	7.0%
Total Sales	<u>\$ 130,358,564</u>	<u>\$ 121,358,332</u>	<u>\$ 111,070,740</u>	<u>\$ 9,000,232</u>	7.4%

### Capital Assets and Debt Administration

Investment in capital assets as of June 30, 2017 totals \$24,210,551 (net of accumulated depreciation).

Major capital asset transactions during the year include the following:

- Construction costs on additions to the warehouse in the amount of \$1,634,458
- Construction costs on a new building for Store #7 in the amount of \$1,393,949
- Land purchased for a new location for Store #14 in the amount of \$1,059,460
- Land purchased for Store #26 in the amount of \$723,888

	Capital Assets (Net of Depreciation)			\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
	June 30, 2017	June 30, 2016	June 30, 2015		
Land	\$ 12,018,200	\$ 10,234,852	\$ 10,234,852	\$ 1,783,348	17.4%
Buildings	10,948,130	7,948,467	8,135,315	2,999,663	37.7%
Leasehold improvements	409,013	464,750	156,705	(55,737)	-12.0%
Furniture/equipment	632,074	671,134	669,029	(39,060)	-5.8%
Vehicles	203,134	214,368	107,825	(11,234)	-5.2%
Total	<u>\$ 24,210,551</u>	<u>\$ 19,533,571</u>	<u>\$ 19,303,726</u>	<u>\$ 4,676,980</u>	23.9%

Additional information on the ABC Board's capital assets can be found in Note 1.J of the Basic Financial Statements.

### Debt Administration

The Board does not have any long-term debt.

### Economic Factors

The Board plans to address growth in the area by opening new locations, some of which have been identified, in the upcoming fiscal year.

### Requests for Information

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

Ms. Danielle Brigman  
Finance Director  
Wake County Board of Alcoholic Control  
1212 Wicker Drive  
Raleigh, NC 27604

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Statements of Net Position  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21,565,853	\$ 21,313,652
Inventories	9,035,979	8,593,969
Prepaid expenses	270,812	316,441
Total current assets	<u>30,872,644</u>	<u>30,224,062</u>
NONCURRENT ASSETS:		
Capital assets (net of accumulated depreciation)	<u>24,210,551</u>	<u>19,533,571</u>
Total assets	<u>\$ 55,083,195</u>	<u>\$ 49,757,633</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,491,927</u>	<u>\$ 357,988</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	5,494,416	5,748,958
Distributions payable	1,502,783	1,276,988
Liquor sales tax payable	365,466	315,948
Sales and excise taxes payable	2,588,795	2,374,415
Law enforcement reserve	368,428	462,614
Accrued liabilities	353,470	349,597
Total current liabilities	<u>10,673,358</u>	<u>10,528,520</u>
Noncurrent liabilities		
Net pension liability - LGERS	1,589,841	294,409
Total pension liability - LEO	678,628	
Other post-employment benefits obligation	2,236,781	2,034,477
Total noncurrent liabilities	<u>4,505,250</u>	<u>2,328,886</u>
Total liabilities	<u>15,178,608</u>	<u>12,857,406</u>
DEFERRED INFLOWS OF RESOURCES	<u>66,151</u>	<u>153,020</u>
<b>NET POSITION:</b>		
Net investment in capital assets	24,210,551	19,533,571
Restricted for working capital	3,823,294	3,558,860
Unrestricted	<u>13,296,518</u>	<u>14,012,764</u>
Total net position	<u>\$ 41,330,363</u>	<u>\$ 37,105,195</u>

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

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUE:		
Liquor sales--regular	\$ 97,615,804	\$ 91,231,570
Mixed beverage sales	32,543,601	29,940,577
Wine sales	199,159	186,185
Total gross sales	130,358,564	121,358,332
DEDUCT TAXES ON GROSS SALES:		
State excise tax	27,716,408	25,785,945
Mixed beverage tax (Revenue)	2,632,352	2,468,976
Mixed beverage tax (Human Resources)	263,235	246,898
Rehabilitation tax	328,328	314,385
Wine sales tax	12,593	11,773
Total taxes on gross sales	30,952,916	28,827,977
NET SALES	99,405,648	92,530,355
DEDUCT COST OF SALES:		
Cost of liquor sold	66,668,577	61,996,100
Cost of wine sold	156,829	146,235
Total cost of sales	66,825,406	62,142,335
GROSS PROFIT ON SALES	32,580,242	30,388,020
DEDUCT OPERATING EXPENSES:		
Store expenses	8,913,596	8,061,741
Warehouse and delivery expenses	541,533	433,972
Administrative expenses	1,368,380	1,156,781
Depreciation expenses	606,414	598,446
Total operating expenses	11,429,923	10,250,940
INCOME FROM OPERATIONS	21,150,319	20,137,080
NON-OPERATING REVENUES:		
Interest income	70,393	19,961
Other income	3,962	
Total non-operating revenues	74,355	19,961
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	21,224,674	20,157,041
DEDUCT:		
Law enforcement	919,693	891,841
Alcohol education	4,681,000	4,791,798
CHANGE IN NET POSITION BEFORE PROFIT DISTRIBUTIONS	15,623,981	14,473,402
PROFIT DISTRIBUTIONS		
Municipalities	4,218,474	3,907,821
Wake County	6,500,000	7,005,000
Total profit distributions	10,718,474	10,912,821
CHANGE IN NET POSITION	4,905,507	3,560,581
NET POSITION--Beginning of year	37,105,195	33,544,614
NET POSITION--Beginning of year, Restated	36,424,856	33,544,614
NET POSITION--End of Year	\$ 41,330,363	\$ 37,105,195

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

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 137,191,664	\$ 127,744,387
Cash payments to suppliers for goods and services and taxes on sales	(103,441,260)	(95,642,516)
Cash payments to employees for services	(5,316,313)	(4,787,046)
Other operating revenues	3,962	4,047
Liquor sales taxes paid	(6,783,582)	(6,338,940)
Net cash provided by operating activities	21,654,471	20,979,932
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	(5,321,050)	(864,593)
Net cash used for capital and related financing activities	(5,321,050)	(864,593)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Law enforcement distributions	(883,747)	(859,589)
Law enforcement asset forfeiture receipts	5,509	117,670
Law enforcement forfeiture expenditure	(99,696)	(103,214)
Alcohol education distributions	(4,581,000)	(5,041,798)
Profit distributions	(10,592,679)	(10,862,352)
Net cash used for non-capital financing activities	(16,151,613)	(16,749,283)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	70,393	19,961
Net cash provided by investing activities	70,393	19,961
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	252,201	3,386,017
<b>CASH AND CASH EQUIVALENTS--Beginning of year</b>	21,313,652	17,927,635
<b>CASH AND CASH EQUIVALENTS--End of year</b>	\$ 21,565,853	\$ 21,313,652
<b>RECONCILIATION OF CHANGE IN NET POSITION BEFORE DISTRIBUTIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Change in net position before distributions	\$ 21,224,674	\$ 20,157,041
Adjustments to reconcile change in position before distributions to net cash provided by operating activities:		
Loss on sale of capital assets		4,047
Depreciation	606,414	598,446
Interest income	(70,393)	(19,961)
Other post-employment benefits expense	202,304	141,338
Changes in assets and liabilities:		
Inventories	(442,010)	(615,175)
Accounts receivable		1,016
Prepaid expenses	45,629	(295,114)
Net pension asset		388,466
Accounts payable	(254,542)	846,949
Accrued liabilities	267,771	312,946
Net pension liability - LGERS	1,295,432	294,409
Deferred outflows of resources for pensions	(1,133,939)	(40,710)
Deferred inflows of resources for pensions	(86,869)	(793,766)
Net cash provided by operating activities	\$ 21,654,471	\$ 20,979,932

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

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

A. Principles Used in Determining the Scope of the Entity for Financial Reporting:

The Wake County Board of Alcoholic Control (the Board), a component unit of Wake County, is a corporate body with powers outlined by General Statutes Chapter 18B-701. The County's governing body appoints the Board.

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

B. Organizational History:

The Board was organized under the provisions of the Alcoholic Beverage Control Act of 1937 and implemented by a countywide election held June 23, 1937. The county commissioners appoint five individuals to serve on the ABC Board.

The Board, as provided by North Carolina Alcoholic Beverage Control laws, operates twenty-four retail liquor stores and thirteen mixed beverage locations and through its law enforcement division, investigates violations of such laws. North Carolina General Statute [18B-805(c)(2)(3)] requires that the Board expend at least 5% of profits for law enforcement and at least 7% of profits for alcohol education and rehabilitation purposes. The Board is also required to distribute 27% of the profits after all other required appropriations to the cities and towns in Wake County.

C. Basis of Presentation:

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided 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.

D. Basis of Accounting:

The financial statements have been prepared using the accrual basis of accounting. All sales are made by cash, check, debit or credit card and recorded at the time of sale. Other revenues are recorded when earned. Expenses are recognized when incurred.

E. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and other post-employment benefit expenses. Actual results may differ from those estimates.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies (Continued)

F. Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and addition to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The ABC Board's employer contributions are recognized when due and the ABC Board has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

G. Deposits:

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

All of the Board's deposits are either insured or collateralized by using the pooling method. 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 Board, these deposits are considered to be held by the Board agent in the 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 Board or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the 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 under the pooling method.

At June 30, 2017, the Board's deposits had a carrying amount of \$21,550,353 and a bank balance of \$21,090,282. All of the bank balance was either insured by federal depository insurance or collateralized under the pooling method described above.

At June 30, 2016, the Board's deposits had a carrying amount of \$21,298,152 and a bank balance of \$21,698,471. All of the bank balance was either insured by federal depository insurance or collateralized under the pooling method described above.

H. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Board considers all highly liquid investments with a maturity of six months or less when purchased to be cash equivalents.

I. Inventories:

Inventories are valued at current replacement cost which approximates the lower of cost (FIFO) or market.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets:

Capital Asset activity for the year ended June 30, 2017 was as follows:

	Useful Life	Balance 06/30/16	Increases	Decreases	Balance 06/30/17
Capital assets not being depreciated					
Land		\$ 10,234,852	\$ 1,783,348	\$	\$ 12,018,200
Capital assets being depreciated					
Buildings	30 Years	11,566,004	3,378,230		14,944,234
Furniture/Equipment	6 Years	2,102,350	123,554	19,853	2,206,051
Vehicles	6 Years	427,284	34,208	34,705	426,787
Leasehold Improvements	10 Years	594,363			594,363
Total capital assets being depreciated		14,690,001	3,535,992	54,558	18,171,435
Less accumulated depreciation for:					
Buildings		3,617,537	378,567		3,996,104
Furniture/Equipment		1,431,216	162,614	19,853	1,573,977
Vehicles		212,916	45,442	34,705	223,653
Leasehold Improvements		129,613	55,737		185,350
Total capital assets being depreciated, net		9,298,719	\$ 2,893,632	\$ 0	12,192,351
Capital Assets, net		\$ 19,533,571			\$ 24,210,551

K. Long-Lived Assets:

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

2. 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.

*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. A Board shall set its working capital requirements at not less than two weeks' average gross sales of the last fiscal year or greater than two months' average gross sales of the last fiscal year. Average gross sales means gross receipts from the sale of alcoholic beverages less distributions required by State law [G.S. 18B-805(b), (2), (3), and (4)].

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

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

3. Pension Plan Obligations

***Local Government Employees' Retirement System***

A. Plan Description:

The Board is a participating employer in the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

B. Benefits Provided:

LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached aged 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains on the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
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3. Pension Plan Obligations (Continued)

C. Contributions:

Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2017 was 8.00% of compensation for law enforcement officers and 7.35% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$381,405 for the year ended June 30, 2017.

D. Refunds of Contributions:

Board employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five year of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2017, the Board reported a liability of \$1,589,841 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Board's proportion was 0.07491%, which was a decrease (or increase) of (0.00931)% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Board recognized pension expense of \$456,210. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 29,870	\$ 55,710
Changes of assumptions	108,890	-
Net difference between projected and actual earnings on pension plan investments	878,982	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	82,158	-
Employer contributions subsequent to the measurement date	381,405	-
	<u>\$ 1,481,305</u>	<u>\$ 55,710</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

3. Pension Plan Obligations (Continued)

\$381,405 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2018	\$	170,885
2019		170,967
2020		437,125
2021		265,213
	\$	1,044,190

**Actuarial Assumptions:**

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent	
Salary increases	3.5 to 7.75 percent, including inflation and productivity factor	
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation	

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

Valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
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3. Pension Plan Obligations (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<u>Asset Allocation</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

**Discount Rate:**

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments on the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate:**

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Board's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Board's proportionate share of the net pension liability (asset)	\$ 3,773,435	\$ 1,589,841	\$ (234,059)

**Pension Plan Fiduciary Net Position:**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

3. Pension Plan Obligations (Continued)

***Law Enforcement Officers Special Separation Allowance***

A. Plan Description:

The Board administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Board's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S., Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Board are covered by the Separation Allowance. At June 30, 2017 and 2016, the Separation Allowance's membership consisted of:

	Law Enforcement Officers	
	2017	2016
Retirees receiving benefits	2	2
Active plan members	6	6
	8	8

A separate report was not issued for the plan.

B. Summary of Significant Accounting Policies:

*Basis of Accounting* – The Board has chosen to fund the Separation Allowance on a pay as you go basis. The financial statements of the Board are prepared using the accrual basis of accounting. Benefits are recognized as expenses when due and payable in accordance with the terms of the plan. Administration expenses are recognized as incurred.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 73:

- Contributions to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditors or employers

C. Actuarial Assumptions:

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 7.35 percent, including inflation and productivity factor
Discount rate	2.71 percent

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
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3. Pension Plan Obligations (Continued)

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

D. Contributions:

The Board is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to pay benefits and administration costs on a pay as you go basis. There were no contributions made to the plan by employees. The Board's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Board paid \$25,634 as benefits came due for the reporting period.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2017, the Board reported a total pension liability of \$678,628. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Board recognized pension expense of \$8,730.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	10,441
Board benefit payments and plan administrative expense made subsequent to the measurement date	10,622	-
	\$ 10,622	\$ 10,441
Year Ending June 30		
2018		\$ (3,154)
2019		(3,154)
2020		(3,154)
2021		(979)
		\$ (10,441)

\$10,622 paid as benefits came due during the year were reported as deferred outflows of resources.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

3. Pension Plan Obligations (Continued)

*Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate.* The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 3.86%, as well as what the Board's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86%) or 1-percentage-point higher (4.86%) than the current rate:

	1% Decrease (2.86%)	Current Discount Rate (3.86%)	1% Increase (4.86%)
Total Pension Liability	\$ 726,810	\$ 678,628	\$ 634,041

Schedule of Changes in Total Pension Liability  
Law Enforcement Officers' Special Separation Allowance

Beginning balance	\$ 680,339
Service Cost	17,216
Interest on the total pension liability	23,769
Changes in benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes in assumptions or other inputs	(13,595)
Benefit payments	(29,101)
Ending balance of the total pension liability	\$ 678,628

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and health). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

***Supplemental Retirement Income Plan***

A. Plan Description:

All full-time employees of the Board participate in the Supplemental Retirement Income Plan of North Carolina (401K), a defined contribution pension plan. Participation begins at the date of employment. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Board contributes each month an amount equal to 5% of each employee's salary and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
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3. Pension Plan Obligations (Continued)

The Board's contributions were calculated using a covered payroll amount of \$5,143,216. Total contributions for the year ended June 30, 2017, were \$349,867, which consisted of \$257,342 from the Board and \$92,525 in voluntary contributions from the employees. The Board's required contributions and the employees' voluntary contributions represented 5.00% and 1.80% of the covered payroll amount, respectively. Contributions for the prior year, 2016, were \$310,393, which consisted of \$236,610 from the Board and \$73,783 in voluntary contributions. The Board's required contributions and the employees' voluntary contributions in 2016 represented 5.01% and 1.56% of the covered payroll amount, respectively.

***Death Benefits***

The Board provides group term life insurance through a commercial carrier to all full-time employees. The death benefit is equal to the employee's gross annual salary but may not exceed \$50,000.

***Other Post-Employment Benefits***

A. Plan Description:

Under the terms of a Board resolution, the Board administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of May 1, 2002, this plan provides postemployment healthcare benefits to retirees of the Board, provided they have at least 25 years of creditable service with the Board. Prior to May 1, 2002, employees qualified for similar level benefits after at least fifteen years of creditable service with the Board. The Board pays the full cost of coverage for these benefits through private insurers. The Board of Directors may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	37	2
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	101	7
	138	9

B. Funding Policy:

The Board pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Board resolution that can be amended by the Board of Directors. The Board has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 8.76% of annual covered payroll. For the current year, the Board contributed \$235,492 or 3.68% of annual covered payroll. The Board obtains healthcare coverage through private insurers. There were no contributions made by employees, except for dependent coverage in the amount of \$23,313. The Board obligation to contribute to the HCB Plan is established and may be amended by the Board.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

3. Pension Plan Obligations (Continued)

C. Summary of Significant Accounting Policies:

No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

D. Annual OPEB Cost and Net OPEB Obligation:

The Board's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation for the healthcare benefits:

	2017	2016
Annual required contribution	\$ 434,159	\$ 358,977
Interest on net OPEB obligation	81,372	75,726
Adjustment to annual required contribution	(77,735)	(72,341)
Annual OPEB cost	<u>437,796</u>	<u>362,362</u>
Contributions made	235,492	221,024
Increase in net OPEB obligation	<u>202,304</u>	<u>141,338</u>
Net OPEB obligation, beginning of year	<u>2,034,477</u>	<u>1,893,139</u>
Net OPEB obligation, end of year	<u>\$ 2,236,781</u>	<u>\$ 2,034,477</u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 437,796	53.79%	\$ 2,236,781
2016	\$ 362,362	61.00%	\$ 2,034,477
2015	\$ 357,762	41.32%	\$ 1,893,139

E. Funded Status and Funding Progress:

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$6,446,481. The covered payroll (annual payroll of active employees covered by the plan) was \$4,690,604, and the ratio of the UAAL to the covered payroll was 137 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

3. Pension Plan Obligations (Concluded)

F. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.75 to 5.00 percent annually. Both rates included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015, was 30 years.

4. Lease Commitments

The Board leases five of its retail stores under operating leases. Lease commitments are as follows:

Year Ending June 30	
2018	\$ 326,358
2019	290,183
2020	294,064
2021	271,022
2022	238,527
Thereafter	651,717
	\$ 2,071,871

5. Vacation and Sick Leave Compensation

Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2017 and 2016, amounted to \$294,981 and \$262,067, respectively.

Employees can accumulate an unlimited amount of sick leave. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

6. Distributions of Income

The Board has made distributions since inception as follows:

	<u>Current Year</u>	<u>Total to Date</u>
Cities and towns of Wake County	\$ 4,218,474	\$ 61,521,105
Wake County	\$ 6,500,000	\$ 128,529,968

State law [G.S.18B-805(e)] requires that the entire profit, after deducting amounts required for law enforcement and alcohol education and retaining proper working capital, be paid quarterly to the county.

7. Law Enforcement and Alcohol Education Expenses

The 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 3½% 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	\$ 21,224,674
Less: 3½% tax and bottle charge	<u>3,561,909</u>
Profit subject to expense percentages	<u><u>\$ 17,662,765</u></u>
Law enforcement expenditures--Actual (Percentage of profit)	\$ 919,693 5.21%
Provision for alcohol education and rehabilitation--Actual (Percentage of profit)	\$ 4,681,000 26.50%

8. 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 July 1, 2016	\$ 2,130,797
Taxes collected during the year	27,729,000
Taxes remitted to Department of Revenue	<u>(27,530,620)</u>
Taxes payable June 30, 2017	<u><u>\$ 2,329,177</u></u>

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

The accrued North Carolina excise tax at June 30, 2017, was remitted to the North Carolina Department of Revenue on July 14, 2017.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
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8. Disbursement of Taxes Included in Selling Price (Continued)

A bottle charge of one cent on each bottle containing 50 milliliters or less and five cents on each bottle containing more than 50 milliliters is collected and distributed monthly to the county commissioners for alcohol education and rehabilitation. For the fiscal year, payments to the County were based on the following bottle sales:

Regular bottles	4,737,266 at 5 cents	=	\$	236,863
Mixed beverage bottles	1,338,971 at 5 cents	=		66,949
Miniature bottles	2,451,618 at 1 cent	=		<u>24,516</u>
Total payment for the year			\$	<u><u>328,328</u></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%)	\$	2,632,352
Department of Human Resources (5%)		263,235
Profit retained (45%)		<u>2,369,117</u>
Total	\$	<u><u>5,264,704</u></u>

9. Bailment Surcharge Collected

The total amount of surcharge collected for the fiscal year was \$911,617. The current rate is 1.40 cents per case sold.

10. Liquor Sales Tax

The total amount of sales tax collected by the Board and remitted to the Department of Revenue for the fiscal year was \$6,833,100. The sales tax rate is 7%.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
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11. Retail Outlets

The Board operated twenty-four retail outlets. Mixed beverage location results are included in the totals below:

			Gross Sales	Change in Net Position
Store No. 1	7112 Sandy Forks Road	Raleigh	\$ 9,715,509	\$ 1,724,446
Store No. 2	Wellington Park Shopping Center	Cary	5,316,789	823,197
Store No. 3	Davis Drive	Morrisville	4,579,041	676,382
Store No. 4	Mission Valley Shopping Center	Raleigh	3,005,513	275,240
Store No. 5	N. Arendell Avenue	Zebulon	2,622,361	300,056
Store No. 6	6816 Davis Circle	Raleigh	4,719,043	697,632
Store No. 7	4244 NW Cary Parkway	Cary	3,902,333	543,873
Store No. 8	417 Woodburn Road	Raleigh	6,826,447	871,936
Store No. 9	1222 New Bern Avenue	Raleigh	2,027,306	202,817
Store No. 10	2649 Appliance Court	Raleigh	5,588,351	825,188
Store No. 11	3320 Olympia Drive	Raleigh	3,911,121	523,556
Store No. 12	1793 West Williams Street	Apex	4,677,429	690,689
Store No. 13	1941 Cinema Drive	Fuquay-Varina	3,586,541	416,517
Store No. 14	881 Falcate Drive	Wake Forest	6,368,868	1,041,327
Store No. 15	665 Cary Towne Boulevard	Cary	7,170,690	1,185,533
Store No. 17	6301 Town Center Drive	Raleigh	6,969,103	1,110,432
Store No. 18	200 New Rand Road	Garner	4,138,918	543,447
Store No. 19	1601-61 Cross Link Road	Raleigh	2,277,022	204,412
Store No. 20	7336 Creedmoor Road	Raleigh	5,037,781	742,953
Store No. 21	704 Money Court	Knightdale	3,568,825	456,670
Store No. 22	1415 Highway 55 South	Apex	2,093,094	164,170
Store No. 23	7911 ACC Boulevard	Raleigh	6,460,604	1,076,107
Store No. 24	Village Walk Drive	Holly Springs	4,274,481	602,794
Store No. 25	Vineyard Pine Lane	Rolesville	2,200,814	213,580

12. Working Capital

The 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	\$ 3,823,294
Maximum amount	\$ 16,567,608
Actual amount	\$ 17,691,693

The Board has exceeded the maximum amount of working capital by \$1,124,085 at June 30, 2017. In years where working capital is in excess of the maximum, the excess will be distributed to the County in the following year.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
Notes to Financial Statements  
June 30, 2017 and 2016

13. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has property, general liability, auto liability, workmen's compensation and employee health coverage. The Board also has liquor legal liability coverage.

There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 18B-700(i), each board member is bonded in the amount of \$100,000, secured by a corporate surety.

In accordance with G.S. 18B-803(b) and (c), the store manager and employees are bonded for \$100,000.

14. Change in Accounting Principles/Restatement

The Board implemented Governmental Accounting Standards Board (GASB) Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB statement 68, and Amendments to Certain Provisions of GASB 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Board to record beginning total law enforcement officers pension liability and the effects on net position of contributions made by the Board during the measurement period (calendar year ending December 31, 2016). As a result, net position for the governmental activities decreased by \$680,339.

SUPPLEMENTARY INFORMATION

ABC BOARD'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
ABC Board's Proportionate Share of Net Pension Liability (Asset)  
Required Supplementary Information  
Last Four Fiscal Years\*

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>
ABC Board's proportion of the net pension liability (asset) (%)	0.0749%	0.0656%
ABC Board's proportion of the net pension liability (asset) (\$)	\$ 1,589,841	\$ 294,409
ABC Board's covered-employee payroll	\$ 4,723,244	\$ 4,231,409
ABC Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.66%	6.96%
Plan fiduciary net position as a percentage of the total pension liability**	91.45%	98.09%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\*This will be the same percentage for all participant employers in the LGERS plan.

<u>2015</u>	<u>2014</u>
-0.0659%	0.0676%
\$ (388,466)	\$ 814,840
\$ 4,233,328	\$ 4,083,474
-9.18%	19.95%
102.64%	94.35%

## ABC BOARD'S CONTRIBUTIONS

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
 (A Component Unit of Wake County)  
 ABC Board's Contributions  
 Required Supplementary Information  
 Last Four Fiscal Years

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 381,405	\$ 322,641
Contributions in relation to the contractually required contribution	<u>381,405</u>	<u>322,641</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
ABC Board's covered-employee payroll	<u>\$ 5,143,216</u>	<u>\$ 4,723,244</u>
Contributions as a percentage of covered-employee payroll	7.42%	6.83%

<u>2015</u>	<u>2014</u>
\$ 301,840	\$ 300,182
<u>301,840</u>	<u>300,182</u>
\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
\$ <u><u>4,231,409</u></u>	\$ <u><u>4,233,328</u></u>
7.13%	7.09%

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Other Post-Employment Benefit Obligation  
Schedule of Funding Progress  
June 30, 2017 and 2016

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) Projected Unit Credit ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( ( b - a ) / c )
12/31/2009	\$ 0	\$ 5,142,086	\$ 5,142,086	0.00%	\$ 3,795,945	135.5%
12/31/2012	\$ 0	\$ 4,950,631	\$ 4,950,631	0.00%	\$ 3,970,648	124.7%
12/31/2015	\$ 0	\$ 6,446,481	\$ 6,446,481	0.00%	\$ 4,690,604	137.4%

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Schedules of Store Expenses  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Wages and salaries	\$ 4,457,595	\$ 4,022,410
Payroll taxes	337,540	302,741
Employee retirement	524,731	304,592
Group insurance	750,728	705,543
Insurance and bond premiums	200,070	197,262
Repairs to equipment	179,432	186,438
Repairs to buildings	138,464	95,950
Rent	381,615	363,005
Heat, lights and water	233,581	232,799
Telephone	72,990	66,673
General supplies expense	317,658	252,936
Credit card service charges	<u>1,319,192</u>	<u>1,331,392</u>
Total store expenses	<u>\$ 8,913,596</u>	<u>\$ 8,061,741</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Schedules of Warehouse Expenses  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Wages and salaries	\$ 301,629	\$ 212,794
Payroll taxes	22,912	15,804
Employee retirement	41,259	17,369
Group insurance	47,991	39,730
Insurance and bond premiums	17,083	17,732
Repairs to equipment	12,711	19,370
Repairs to building	4,503	1,729
Heat, lights and water	7,678	6,259
Telephone	3,572	3,344
General supplies expense	64,056	86,143
Motor vehicle expense	<u>18,139</u>	<u>13,698</u>
Total warehouse expenses	<u>\$ 541,533</u>	<u>\$ 433,972</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Schedules of Administrative Expenses  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Wages and salaries	\$ 590,003	\$ 538,146
Payroll taxes	42,876	39,496
Employee retirement	77,925	42,999
Group insurance	303,922	228,898
Insurance and bond premiums	15,779	23,097
Repairs to equipment	1,702	11,601
Repairs to buildings	1,321	1,132
Professional fees	36,270	47,730
Heat, lights and water	7,487	5,991
Telephone	6,190	10,918
General supplies expense	66,011	45,388
Programming		4,100
Stationary and printing	4,555	6,602
Travel	8,935	6,248
Association dues	3,100	3,097
Other post-employment benefits expense	<u>202,304</u>	<u>141,338</u>
Total administrative expenses	<u>\$ 1,368,380</u>	<u>\$ 1,156,781</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
(A Component Unit of Wake County)  
Reconciliation of Budget to Actual  
June 30, 2017

	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>				
Operating Revenues:				
Liquor sales-regular	\$ 95,352,612	\$ 95,352,612	\$ 97,615,804	\$ 2,263,192
Mixed beverage sales	31,789,088	31,789,088	32,543,601	754,513
Wine sales	181,000	181,000	199,159	18,159
Total sales	<u>127,322,700</u>	<u>127,322,700</u>	<u>130,358,564</u>	<u>3,035,864</u>
Non-operating revenues:				
Interest income	15,000	15,000	70,393	55,393
Other income (expense)	(28,000)	(28,000)	3,962	31,962
Total revenues	<u>127,309,700</u>	<u>127,309,700</u>	<u>130,432,919</u>	<u>3,123,219</u>
Expenditures:				
Taxes based on revenue:				
Beverage and sales taxes	27,915,100	27,915,100	28,057,329	(142,229)
Mixed beverage taxes	3,352,250	3,352,250	2,895,587	456,663
Total expenditures	<u>31,267,350</u>	<u>31,267,350</u>	<u>30,952,916</u>	<u>314,434</u>
Cost of goods sold	<u>67,116,610</u>	<u>67,116,610</u>	<u>66,825,406</u>	<u>291,204</u>
<b>OPERATING EXPENSES:</b>				
Salaries	5,452,000	5,452,000	5,349,227	102,773
Payroll taxes	411,920	411,920	395,930	15,990
Employee retirement	607,040	607,040	643,915	(36,875)
Health Insurance	1,138,000	1,138,000	1,102,641	35,359
Insurance and bond	338,800	338,800	232,932	105,868
Depreciation	750,000	750,000	606,414	143,586
Repairs to equipment	450,740	450,740	193,845	256,895
Repairs to buildings	236,110	236,110	144,288	91,822
Rent	405,800	405,800	381,615	24,185
Professional fees	70,000	70,000	36,270	33,730
Utilities	324,700	324,700	248,746	75,954
Telephone	92,200	92,200	82,752	9,448
Stationary and printing	10,000	10,000	4,555	5,445
Supplies	497,292	497,292	447,725	49,567
Vehicle expense	25,000	25,000	18,139	6,861
Travel	12,000	12,000	8,939	3,061
Credit card expense	1,890,000	1,890,000	1,319,192	570,808
Administrative expense	20,000	20,000	3,096	16,904
Unemployment taxes	64,800	64,800	7,398	57,402
Unfunded employee benefits	250,000	250,000	202,304	47,696
Contingency	165,000	165,000		165,000
Total operating expenses	<u>13,211,402</u>	<u>13,211,402</u>	<u>11,429,923</u>	<u>1,781,479</u>
<b>DISTRIBUTIONS:</b>				
Law Enforcement	1,071,180	1,071,180	919,693	151,487
Alcohol education	4,900,000	4,900,000	4,681,000	219,000
Cities and Towns	3,800,000	3,800,000	4,218,474	(418,474)
Wake County	3,500,000	3,500,000	6,500,000	(3,000,000)
Total distributions	<u>13,271,180</u>	<u>13,271,180</u>	<u>16,319,167</u>	<u>(3,047,987)</u>
Revenues over expenditures	<u>\$ 2,443,158</u>	<u>\$ 2,443,158</u>	<u>\$ 4,905,507</u>	<u>\$ 2,462,349</u>