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

Financial Statements

June 30, 2018 and 2017

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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, 2018 and 2017, 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, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinion 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 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 financial position of the Wake County Board of Alcoholic Control, as of June 30, 2018 and 2017, 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, the Other Post-Employment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll 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
September 13, 2018

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 years ended June 30, 2018 and 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 10.2% over the prior year.
- Over 25% 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 \$41,803,514 in 2018. The largest component of net position was the investment in capital assets. It was 63.8% 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, 2018	June 30, 2017	June 30, 2016	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Current assets	\$ 34,618,926	\$ 30,872,644	\$ 30,224,062	\$ 3,746,282	12.1%
Property and equipment	26,685,061	24,210,551	19,533,571	2,474,510	10.2%
Deferred outflows of resources	<u>1,385,318</u>	<u>1,491,927</u>	<u>357,988</u>	<u>(106,609)</u>	
Total assets and deferred outflows of resources	<u>\$ 62,689,305</u>	<u>\$ 56,575,122</u>	<u>\$ 50,115,621</u>	<u>\$ 6,114,183</u>	10.8%
Current liabilities	\$ 11,626,947	\$ 10,673,358	\$ 10,528,520	\$ 953,589	8.9%
Non-current liabilities	8,643,894	4,505,250	2,328,886	4,138,644	91.9%
Deferred inflows of resources	<u>614,950</u>	<u>66,151</u>	<u>153,020</u>	<u>548,799</u>	829.6%
Total liabilities and deferred inflows of resources	<u>\$ 20,885,791</u>	<u>\$ 15,244,759</u>	<u>\$ 13,010,426</u>	<u>\$ 5,641,032</u>	37.0%
Net position					
Net investment in capital assets	\$ 26,685,061	\$ 24,210,551	\$ 19,533,571	\$ 2,474,510	10.2%
Restricted for working capital	4,072,514	3,823,294	3,558,860	249,220	6.5%
Unrestricted	<u>11,045,939</u>	<u>13,296,518</u>	<u>14,012,764</u>	<u>(2,250,579)</u>	-16.9%
Total net position	<u>\$ 41,803,514</u>	<u>\$ 41,330,363</u>	<u>\$ 37,105,195</u>	<u>\$ 473,151</u>	1.1%

Net position increased by 1.1% from the prior year. Income from operations increased by 6.5% from the prior year. Following is a summary of the changes in net position:

	June 30, 2018	June 30, 2017	June 30, 2016	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Operating revenues	\$ 138,891,419	\$ 130,358,564	\$ 121,358,332	\$ 8,532,855	6.5%
Taxes on sales	(33,006,048)	(30,952,916)	(28,827,977)	(2,053,132)	6.6%
Cost of sales	(70,990,914)	(66,825,406)	(62,142,335)	(4,165,508)	6.2%
Operating expenses	(12,734,318)	(11,429,923)	(10,250,940)	(1,304,395)	11.4%
Non-operating revenues	222,557	74,355	19,961	148,202	199.3%
Distributions	<u>(17,305,692)</u>	<u>(16,319,167)</u>	<u>(16,596,460)</u>	<u>(986,525)</u>	6.0%
Change in net position	5,077,004	4,905,507	3,560,581	171,497	3.5%
Net position--Beginning	<u>41,330,363</u>	<u>37,105,195</u>	<u>33,544,614</u>	<u>4,225,168</u>	11.4%
Net position--Beginning, Restated	<u>36,726,510</u>	<u>36,424,856</u>	<u>33,544,614</u>	<u>301,654</u>	0.8%
Net position--Ending	<u>\$ 41,803,514</u>	<u>\$ 41,330,363</u>	<u>\$ 37,105,195</u>	<u>\$ 473,151</u>	1.1%

Gross sales increased from \$130,358,564 to \$138,891,419 due to price increases and a 5.6% and 7.3% increase in gallon and bottle sales, respectively. Twenty-five percent of sales are from mixed beverages.

Distributions to municipalities and Wake County increased by \$748,362; an increase of 7.0% due to an increase 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, 2018	June 30, 2017	June 30, 2016	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Retail Liquor Sales	\$ 103,414,161	\$ 97,615,804	\$ 91,231,570	\$ 5,798,357	5.9%
Mixed Beverage Sales	35,266,572	32,543,601	29,940,577	2,722,971	8.4%
Retail Wine Sales	210,686	199,159	186,185	11,527	5.8%
Total Sales	<u>\$ 138,891,419</u>	<u>\$ 130,358,564</u>	<u>\$ 121,358,332</u>	<u>\$ 8,532,855</u>	6.5%

Capital Assets and Debt Administration

Investment in capital assets as of June 30, 2018 totals \$26,685,061 (net of accumulated depreciation).

Major capital asset transactions during the year include the following:

- Construction costs on a new building for Store #14 in the amount of \$1,230,201
- Construction costs on a new building for Store #26 in the amount of \$1,677,923
- Land purchased for Store #6 in the amount of \$1,054,347
- Sold old Store #7 for proceeds of \$618,750 and disposed of costs of \$611,726
- Sold old Store #14 for proceeds of \$643,985 and disposed of costs of \$959,014

	Capital Assets (Net of Depreciation)			\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
	June 30, 2018	June 30, 2017	June 30, 2016		
Land	\$ 12,522,176	\$ 12,018,200	\$ 10,234,852	\$ 503,976	4.2%
Buildings	12,864,599	10,948,130	7,948,467	1,916,469	17.5%
Leasehold improvements	400,605	409,013	464,750	(8,408)	-2.1%
Furniture/equipment	693,122	632,074	671,134	61,048	9.7%
Vehicles	204,559	203,134	214,368	1,425	0.7%
Total	<u>\$ 26,685,061</u>	<u>\$ 24,210,551</u>	<u>\$ 19,533,571</u>	<u>\$ 2,474,510</u>	10.2%

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,800,068	\$ 21,565,853
Inventories	9,687,209	9,035,979
Prepaid expenses	1,131,649	270,812
Total current assets	<u>34,618,926</u>	<u>30,872,644</u>
NONCURRENT ASSETS:		
Capital assets (net of accumulated depreciation)	<u>26,685,061</u>	<u>24,210,551</u>
Total assets	<u>\$ 61,303,987</u>	<u>\$ 55,083,195</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals	\$ 1,150,497	\$ 1,491,927
OPEB deferrals	234,821	
Total deferred outflows of resources	<u>\$ 1,385,318</u>	<u>\$ 1,491,927</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 6,144,892	\$ 5,494,416
Distributions payable	1,516,475	1,502,783
Liquor sales tax payable	420,713	365,466
Sales and excise taxes payable	2,789,273	2,588,795
Law enforcement reserve	343,450	368,428
Accrued liabilities	412,144	353,470
Total current liabilities	<u>11,626,947</u>	<u>10,673,358</u>
Noncurrent liabilities		
Net pension liability--LGERS	1,276,413	1,589,841
Total pension liability--LEO	728,918	678,628
Total OPEB liability	6,638,563	2,236,781
Total noncurrent liabilities	<u>8,643,894</u>	<u>4,505,250</u>
Total liabilities	<u>20,270,841</u>	<u>15,178,608</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	48,098	66,151
OPEB deferrals	566,852	
Total deferred inflows of resources	<u>\$ 614,950</u>	<u>\$ 66,151</u>
NET POSITION:		
Net investment in capital assets	\$ 26,685,061	\$ 24,210,551
Restricted for working capital	4,072,514	3,823,294
Unrestricted	<u>11,045,939</u>	<u>13,296,518</u>
Total net position	<u>\$ 41,803,514</u>	<u>\$ 41,330,363</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE:		
Liquor sales--regular	\$ 103,414,161	\$ 97,615,804
Mixed beverage sales	35,266,572	32,543,601
Wine sales	210,686	199,159
Total gross sales	<u>138,891,419</u>	<u>130,358,564</u>
DEDUCT TAXES ON GROSS SALES:		
State excise tax	29,558,258	27,716,408
Mixed beverage tax (Revenue)	2,833,100	2,632,352
Mixed beverage tax (Human Resources)	283,310	263,235
Rehabilitation tax	318,058	328,328
Wine sales tax	13,322	12,593
Total taxes on gross sales	<u>33,006,048</u>	<u>30,952,916</u>
NET SALES	<u>105,885,371</u>	<u>99,405,648</u>
DEDUCT COST OF SALES:		
Cost of liquor sold	70,830,001	66,668,577
Cost of wine sold	160,913	156,829
Total cost of sales	<u>70,990,914</u>	<u>66,825,406</u>
GROSS PROFIT ON SALES	<u>34,894,457</u>	<u>32,580,242</u>
DEDUCT OPERATING EXPENSES:		
Store expenses	9,723,340	8,913,596
Warehouse and delivery expenses	634,256	541,533
Administrative expenses	1,659,164	1,368,380
Depreciation expenses	717,558	606,414
Total operating expenses	<u>12,734,318</u>	<u>11,429,923</u>
INCOME FROM OPERATIONS	<u>22,160,139</u>	<u>21,150,319</u>
NON-OPERATING REVENUES:		
Interest income	64,125	70,393
Other income	158,432	3,962
Total non-operating revenues	<u>222,557</u>	<u>74,355</u>
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	22,382,696	21,224,674
DEDUCT:		
Law enforcement	1,038,960	919,693
Alcohol education	4,799,896	4,681,000
CHANGE IN NET POSITION BEFORE PROFIT DISTRIBUTIONS	<u>16,543,840</u>	<u>15,623,981</u>
PROFIT DISTRIBUTIONS		
Municipalities	4,466,836	4,218,474
Wake County	7,000,000	6,500,000
Total profit distributions	<u>11,466,836</u>	<u>10,718,474</u>
CHANGE IN NET POSITION	5,077,004	4,905,507
NET POSITION--Beginning of year	<u>41,330,363</u>	<u>37,105,195</u>
NET POSITION--Beginning of year, Restated	<u>36,726,510</u>	<u>36,424,856</u>
NET POSITION--End of Year	<u>\$ 41,803,514</u>	<u>\$ 41,330,363</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 Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 146,130,346	\$ 137,191,664
Cash payments to suppliers for goods and services and taxes on sales	(110,460,045)	(103,441,260)
Cash payments to employees for services	(5,965,917)	(5,316,313)
Other operating revenues	4,441	3,962
Liquor sales taxes paid	(7,183,680)	(6,783,582)
Net cash provided by operating activities	22,525,145	21,654,471
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(4,354,978)	(5,321,050)
Proceeds from sale of assets	1,271,658	
Net cash used for capital and related financing activities	(3,083,320)	(5,321,050)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Law enforcement distributions	(993,714)	(883,747)
Law enforcement asset forfeiture receipts	19,014	5,509
Law enforcement forfeiture expenditure	(43,995)	(99,696)
Alcohol education distributions	(4,899,896)	(4,581,000)
Profit distributions	(11,353,144)	(10,592,679)
Net cash used for non-capital financing activities	(17,271,735)	(16,151,613)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	64,125	70,393
Net cash provided by investing activities	64,125	70,393
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,234,215	252,201
CASH AND CASH EQUIVALENTS--Beginning of year	21,565,853	21,313,652
CASH AND CASH EQUIVALENTS--End of year	\$ 23,800,068	\$ 21,565,853
RECONCILIATION OF CHANGE IN NET POSITION BEFORE DISTRIBUTIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net position before distributions	\$ 22,382,696	\$ 21,224,674
Adjustments to reconcile change in position before distributions to net cash provided by operating activities:		
Gain on sale of capital assets	(153,991)	
Depreciation	717,558	606,414
Interest income	(64,125)	(70,393)
Changes in assets and liabilities:		
Inventories	(651,230)	(442,010)
Prepaid expenses	(860,837)	45,629
Accounts payable	650,476	(254,542)
Accrued liabilities and other payables	314,399	267,771
Net pension liability--LGERS	(313,428)	1,295,432
Total pension liability--LEO	50,290	
Total OPEB liability	(202,071)	202,304
Deferred outflows of resources--Pensions	341,430	(1,133,939)
Deferred outflows of resources--OPEB	(234,821)	
Deferred inflows of resources--Pensions	(18,053)	(86,869)
Deferred inflows of resources--OPEB	566,852	
Net cash provided by operating activities	\$ 22,525,145	\$ 21,654,471

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

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

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-five 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, 2018 and 2017

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 additions 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, 2018, the Board's deposits had a carrying amount of \$23,784,068 and a bank balance of \$22,242,236. All of the bank balance was either insured by federal depository insurance or collateralized under the pooling method described above.

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.

H. Cash and Cash Equivalents:

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

I. Inventories:

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

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets:

Capital Asset activity for the year ended June 30, 2018 was as follows:

	Useful Life	Balance 06/30/17	Increases	Decreases	Balance 06/30/18
Capital assets not being depreciated					
Land		\$ 12,018,200	\$ 1,054,347	\$ 550,371	\$ 12,522,176
Capital assets being depreciated					
Buildings	30 Years	14,944,234	2,963,222	1,020,369	16,887,087
Furniture/Equipment	6 Years	2,206,051	234,532	136,958	2,303,625
Vehicles	6 Years	426,787	90,528	130,786	386,529
Leasehold Improvements	10 Years	594,363	48,960		643,323
Total capital assets being depreciated		18,171,435	3,337,242	1,288,113	20,220,564
Less accumulated depreciation for:					
Buildings		3,996,104	479,453	453,069	4,022,488
Furniture/Equipment		1,573,977	173,484	136,958	1,610,503
Vehicles		223,653	52,499	94,182	181,970
Leasehold Improvements		185,350	57,368		242,718
Total capital assets being depreciated, net		12,192,351	\$ 2,574,438	\$ 603,904	14,162,885
Capital Assets, net		\$ 24,210,551			\$ 26,685,061

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: (1) four months of the last fiscal year for boards with gross sales less than \$1,500,000; (2) three months of the latest fiscal year for boards with gross sales greater than or equal to \$1,500,000 and less than \$50,000,000; and (3) two months' of the latest fiscal year for boards with gross sales equal to or greater than \$50,000,000. 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)].

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

2. Net Position (Continued)

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*.

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.

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
June 30, 2018 and 2017

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, 2018 was 8.25% of compensation for law enforcement officers and 7.58% 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 \$447,394 for the year ended June 30, 2018.

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, 2018, the Board reported a liability of \$1,276,413 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. 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, 2017 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, 2017, the Board's proportion was 0.08355%, which was a decrease (or increase) of 0.00864% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Board recognized pension expense of \$473,955. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 73,533	\$ 36,131
Changes of assumptions	182,289	
Net difference between projected and actual earnings on pension plan investments	309,914	
Changes in proportion and differences between employer contributions and proportionate share of contributions	108,607	
Employer contributions subsequent to the measurement date	447,394	
	<u>\$ 1,121,737</u>	<u>\$ 36,131</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

3. Pension Plan Obligations (Continued)

\$447,394 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2019	\$	105,524
2020		402,947
2021		212,042
2022		(82,301)
	\$	638,212

Actuarial Assumptions:

The total pension liability in the December 31, 2016 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 8.10 percent, including inflation and productivity factor	
Investment rate of return	7.20 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.

The actuarial assumptions used in the December 31, 2016 valuation 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
June 30, 2018 and 2017

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, 2017 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 2017 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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<u>Current</u>		
	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Board's proportionate share of the net pension liability (asset)	\$ 3,831,819	\$ 1,276,413	\$ (856,545)

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, 2018 and 2017

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, 2018 and 2017, the Separation Allowance’s membership consisted of:

	Law Enforcement Officers	
	2018	2017
Retirees receiving benefits	1	2
Active plan members	7	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 Governmental Accounting Standards Board (GASB) Statement 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, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

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, 2017.

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 \$21,245 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, 2018, the Board reported a total pension liability of \$728,918. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was rolled forward to June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Board recognized pension expense of \$33,678.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 4,680
Changes of assumptions	28,760	7,287
Board benefit payments and plan administrative expense made subsequent to the measurement date		
	\$ 28,760	\$ 11,967
Year Ending June 30		
2019		\$ 2,318
2020		2,318
2021		4,493
2022		5,472
2023		2,192
		\$ 16,793

No 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, 2018 and 2017

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 3.16% would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16%) or 1-percentage-point higher (4.16%) than the current rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
Total Pension Liability	\$ 782,314	\$ 728,918	\$ 679,550

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

Beginning balance	\$ 678,628
Service Cost	16,198
Interest on the total pension liability	25,785
Changes in benefit terms	
Differences between expected and actual experience in the measurement of the total pension liability	(5,744)
Changes in assumptions or other inputs	35,296
Benefit payments	(21,245)
Ending balance of the total pension liability	\$ 728,918

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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

3. Pension Plan Obligations (Continued)

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 26,561	\$ 33,678	\$ 60,239
Pension Liability	1,276,413	728,918	2,005,331
Proportionate share of the net pension liability	0.08355%	N/A	
Deferred of Outflows of Resources			
Differences between expected and actual experience	73,533		73,533
Changes of assumptions	182,289	28,760	211,049
Net difference between projected and actual earnings on plan investments	309,914		309,914
Changes in proportion & differences between contributions & proportionate share of contributions	108,607		108,607
Benefit payments & administrative costs paid subsequent to the measurement date	447,394		447,394
Deferred of Inflows of Resources			
Differences between expected and actual experience	36,131	4,680	40,811
Changes of assumptions		7,287	7,287
Net difference between projected and actual earnings on plan investments			
Changes in proportion and differences between contributions & proportionate share of contributions			

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.

The Board's contributions were calculated using a covered payroll amount of \$5,851,653. Total contributions for the year ended June 30, 2018, were \$396,237, which consisted of \$293,041 from the Board and \$103,196 in voluntary contributions from the employees. The Board's required contributions and the employees' voluntary contributions represented 5.01% and 1.76% of the covered payroll amount, respectively. Contributions for the prior year, 2017, were \$349,867, which consisted of \$257,342 from the Board and \$92,525 in voluntary contributions. The Board's required contributions and the employees' voluntary contributions in 2017 represented 5.00% and 1.80% of the covered payroll amount, respectively.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

3. Pension Plan Obligations (Continued)

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 \$150,000.

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 June 30, 2017, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	43	1
Terminated plan members entitled to but not yet receiving benefits		
Active plan members	114	7
	157	8

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.

C. Total OPEB Liability:

The Board's total OPEB (Other Post Employment Benefit) liability of \$6,638,563 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, average, including inflation
Discount rate	3.56 percent
Healthcare cost trend rates:	
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2017 decreasing to an ultimate rate of 5.00% by 2020

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 the measurement date.

Changes in the Total OPEB Liability

Balance at July 1, 2017	\$ 7,294,157
Changes for the year:	
Service cost	274,518
Interest on net OPEB obligation	215,881
Changes of benefit terms	
Differences between expected and actual experience	(5,130)
Changes in assumptions or other inputs	(660,134)
Benefit payments	(245,908)
Employer contributions	(234,821)
Net changes	<u>(655,594)</u>
Balance at June 30, 2018	<u>\$ 6,638,563</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using the discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate:

	Current		
	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB Liability	\$ 7,912,291	\$ 6,638,563	\$ 5,645,069

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Current		
	1% Decrease	Discount Rate	1% Increase
Total OPEB Liability	\$ 5,594,617	\$ 6,638,563	\$ 8,001,299

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

3. Pension Plan Obligations (Concluded)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Board recognized OPEB expense of \$129,961. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 4,371
Changes of assumptions		562,481
Benefit payments & administrative costs made subsequent to the measurement date	234,821	
	<u>\$ 234,821</u>	<u>\$ 566,852</u>

\$234,821 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	\$ (57,644)
2020	(57,644)
2021	(57,644)
2022	(57,644)
2023	(57,644)
Thereafter	(43,811)
	<u>\$ (332,031)</u>

4. Commitments

The Board entered into a contract to build store no. 26 and had a remaining commitment on the contract at June 30, 2018 of \$83,317.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

5. Leases

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

Year Ending June 30	
2019	\$ 392,553
2020	398,471
2021	366,322
2022	320,149
2023	267,342
Thereafter	411,780
	\$ 2,156,617

6. 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, 2018 and 2017, amounted to \$356,163 and \$294,981, 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.

7. Distributions of Income

The Board has made distributions since inception as follows:

	Current Year	Total to Date
Cities and towns of Wake County	\$ 4,466,836	\$ 65,987,941
Wake County	\$ 7,000,000	\$ 135,529,968

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.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

8. 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	\$ 22,382,696
Less: 3½% tax and bottle charge	3,790,160
Profit subject to expense percentages	\$ 18,592,536
Law enforcement expenditures--Actual	\$ 1,038,960
(Percentage of profit)	5.59%
Provision for alcohol education and rehabilitation--Actual	\$ 4,799,896
(Percentage of profit)	25.82%

9. 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, 2017	\$ 2,329,177
Taxes collected during the year	29,544,819
Taxes remitted to Department of Revenue	(29,350,415)
Taxes payable June 30, 2018	\$ 2,523,581

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

The accrued North Carolina excise tax at June 30, 2018, was remitted to the North Carolina Department of Revenue on July 9, 2018.

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	4,224,170 at 5 cents	=	\$ 211,209
Mixed beverage bottles	1,439,586 at 5 cents	=	71,979
Miniature bottles	3,486,970 at 1 cent	=	34,870
Total payment for the year			\$ 318,058

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.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

9. Disbursement of Taxes Included in Selling Price (Continued)

The mixed beverage tax for the year was:

Department of Revenue (50%)	\$ 2,833,100
Department of Human Resources (5%)	283,310
Profit retained (45%)	<u>2,549,790</u>
 Total	 \$ <u><u>5,666,200</u></u>

10. Bailment Surcharge Collected

The total amount of surcharge collected for the fiscal year was \$960,116. The current rate is 1.40 cents per case sold.

11. 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 \$7,238,927. The sales tax rate is 7%.

12. Retail Outlets

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

			<u>Gross Sales</u>	<u>Change in Net Position</u>
Store No. 1	7112 Sandy Forks Road	Raleigh	\$ 10,300,510	\$ 1,794,412
Store No. 2	Wellington Park Shopping Center	Cary	5,399,125	809,034
Store No. 3	Davis Drive	Morrisville	5,073,001	740,921
Store No. 4	Mission Valley Shopping Center	Raleigh	3,086,608	260,700
Store No. 5	N. Arendell Avenue	Zebulon	2,726,715	307,479
Store No. 6	6816 Davis Circle	Raleigh	4,934,311	730,770
Store No. 7	3615 SW Cary Parkway	Cary	4,234,859	507,856
Store No. 8	417 Woodburn Road	Raleigh	7,065,487	903,996
Store No. 9	1222 New Bern Avenue	Raleigh	2,092,527	196,620
Store No. 10	2649 Appliance Court	Raleigh	5,742,724	803,816
Store No. 11	3320 Olympia Drive	Raleigh	4,174,241	515,175
Store No. 12	1793 West Williams Street	Apex	4,809,456	666,847
Store No. 13	1941 Cinema Drive	Fuquay-Varina	3,782,312	439,457
Store No. 14	11360 Capital Boulevard	Wake Forest	7,070,567	1,099,048
Store No. 15	665 Cary Towne Boulevard	Cary	7,617,447	1,217,929
Store No. 17	6301 Town Center Drive	Raleigh	7,219,209	1,109,261
Store No. 18	200 New Rand Road	Garner	4,469,290	574,690
Store No. 19	1601-61 Cross Link Road	Raleigh	2,381,283	190,291
Store No. 20	7336 Creedmoor Road	Raleigh	5,059,663	712,297
Store No. 21	704 Money Court	Knightdale	3,853,569	454,835
Store No. 22	1415 Highway 55 South	Apex	2,292,173	200,605
Store No. 23	7911 ACC Boulevard	Raleigh	7,012,780	1,149,545
Store No. 24	Village Walk Drive	Holly Springs	4,725,664	669,500
Store No. 25	Vineyard Pine Lane	Rolesville	2,507,073	272,685

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
Notes to Financial Statements
June 30, 2018 and 2017

13. 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	\$	4,072,514
Maximum amount	\$	17,647,562
Actual amount	\$	13,986,804

The Board has met the minimum amount of working capital.

14. 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.

15. Change in Accounting Principles/Restatement

The Board implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in the fiscal year ending June 30, 2018. The implementation of the statement required the Board to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Board related to OPEB during the measurement period. Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position decreased \$4,603,853.

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 Five Fiscal Years*

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>
ABC Board's proportion of the net pension liability (asset) (%)	0.0836%	0.0749%
ABC Board's proportion of the net pension liability (asset) (\$)	\$ 1,276,413	\$ 1,589,841
ABC Board's covered-employee payroll	\$ 5,143,216	\$ 4,723,244
ABC Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	24.82%	33.66%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.45%

* 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>2016</u>	<u>2015</u>	<u>2014</u>
0.0656%	-0.0659%	0.0676%
\$ 294,409	\$ (388,466)	\$ 814,840
\$ 4,231,409	\$ 4,233,328	\$ 4,083,474
6.96%	-9.18%	19.95%
98.09%	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 Five Fiscal Years

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 447,394	\$ 381,405
Contributions in relation to the contractually required contribution	<u>447,394</u>	<u>381,405</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
ABC Board's covered-employee payroll	<u>\$ 5,851,653</u>	<u>\$ 5,143,216</u>
Contributions as a percentage of covered-employee payroll	7.65%	7.42%

	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$	322,641	\$ 301,840	\$ 300,182
	<u>322,641</u>	<u>301,840</u>	<u>300,182</u>
\$	<u>-</u>	\$ <u>-</u>	<u>-</u>
\$	<u>4,723,244</u>	\$ <u>4,231,409</u>	<u>4,233,328</u>
	6.83%	7.13%	7.09%

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
(A Component Unit of Wake County)
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2018

Service Cost	\$	274,518
Interest		215,881
Changes of benefit terms		
Differences between expected and actual experience		(5,130)
Changes of assumptions		(660,134)
Benefit payments		(245,908)
Employer contributions		(234,821)
Net change in total OPEB liability		<u>(655,594)</u>
Total OPEB liability - beginning		7,294,157
Total OPEB liability - ending	\$	<u><u>6,638,563</u></u>
Covered payroll		
Total OPEB liability as a percentage of covered payroll		

Notes to Schedule

Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period.
The following are the discount rates used in each period:

Fiscal Year	Rate
2018	3.56%

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
 (A Component Unit of Wake County)
 Schedule of Changes in Total Pension Liability
 Law Enforcement Officers' Special Separation Allowance
 June 30, 2018

Beginning balance	\$ 678,628
Service Cost	16,198
Interest	25,785
Changes of benefit terms	
Differences between expected and actual experience	(5,744)
Changes of assumptions	35,296
Benefit payments	(21,245)
Ending balance of the total pension liability	\$ <u><u>728,918</u></u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
 (A Component Unit of Wake County)
 Schedule of Total Pension Liability as a Percentage of Covered Payroll
 Law Enforcement Officers' Special Separation Allowance
 For the Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 728,918	\$ 678,628
Covered payroll	525,891	454,238
Total pension liability as a percentage of covered payroll	138.6%	149.4%

Notes to Schedule:

The ABC Board has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
(A Component Unit of Wake County)
Schedules of Store Expenses
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Wages and salaries	\$ 4,972,740	\$ 4,457,595
Payroll taxes	376,000	337,540
Employee retirement	560,316	524,731
Group insurance	763,191	750,728
Insurance and bond premiums	256,845	200,070
Repairs to equipment	130,848	179,432
Repairs to buildings	101,721	138,464
Rent	388,824	381,615
Heat, lights and water	243,124	233,581
Telephone	85,936	72,990
General supplies expense	364,022	317,658
Credit card service charges	<u>1,479,773</u>	<u>1,319,192</u>
Total store expenses	<u>\$ 9,723,340</u>	<u>\$ 8,913,596</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
(A Component Unit of Wake County)
Schedules of Warehouse Expenses
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Wages and salaries	\$ 342,054	\$ 301,629
Payroll taxes	25,525	22,912
Employee retirement	44,385	41,259
Group insurance	53,794	47,991
Insurance and bond premiums	19,585	17,083
Repairs to equipment	16,610	12,711
Repairs to building	20,443	4,503
Heat, lights and water	7,948	7,678
Telephone	7,287	3,572
General supplies expense	71,625	64,056
Motor vehicle expense	<u>25,000</u>	<u>18,139</u>
Total warehouse expenses	<u>\$ 634,256</u>	<u>\$ 541,533</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
(A Component Unit of Wake County)
Schedules of Administrative Expenses
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Wages and salaries	\$ 712,306	\$ 590,003
Payroll taxes	50,989	42,876
Employee retirement	89,510	77,925
Group insurance	331,015	303,922
Insurance and bond premiums	16,035	15,779
Repairs to equipment	43,402	1,702
Repairs to buildings	6,736	1,321
Professional fees	64,491	36,270
Heat, lights and water	8,965	7,487
Telephone	8,277	6,190
General supplies expense	47,653	66,011
Stationary and printing	7,051	4,555
Travel	11,271	8,935
Association dues	3,113	3,100
Contingency	128,389	
Other post-employment benefits expense	129,961	202,304
	<u>1,659,164</u>	<u>1,368,380</u>
Total administrative expenses	\$ <u>1,659,164</u>	\$ <u>1,368,380</u>

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
(A Component Unit of Wake County)
Schedule of Distributions of Profits
For the Year Ended June 30, 2018

Distribution	Recipient	Amount	Date of Distribution	Restrictions on Use
Law Enforcement	Wake ABC Law Enforcement	\$ 1,038,960	7/1/17 - 6/30/18	Law Enforcement
Alcohol Education				
	Alice Aycock Poe Center	75,000	04/30/18	Alcohol Education
	Boys and Girls Club	135,000	03/31/18	Alcohol Education
	Community Success Initiative	35,000	12/15/17	Alcohol Education
	Emmaus House	50,000	09/29/17	Alcohol Education
	Fellowship Home of Raleigh	45,000	09/29/17	Alcohol Education
	Fellowship Home of Raleigh	10,000	05/31/18	Alcohol Education
	Healing Transitions Int'l	1,200,000	07/31/17	Alcohol Education
	Healing Transitions Int'l	10,000	05/31/18	Alcohol Education
	Interact	68,500	03/31/18	Alcohol Education
	MADD	69,111	10/31/17	Alcohol Education
	NCSU-Student Services	(3,000)	12/29/17	Alcohol Education
	Neighbor To Neighbor	75,000	02/28/18	Alcohol Education
	North Carolina Theatre	25,000	04/30/18	Alcohol Education
	Occonechee Council BSA	35,000	01/31/18	Alcohol Education
	Oxford House, Inc.	35,000	04/30/18	Alcohol Education
	Raleigh Rescue Mission	550,000	08/31/17	Alcohol Education
	Saint Augustine University	67,940	12/15/17	Alcohol Education
	Shaw University	59,110	12/15/17	Alcohol Education
	SouthLight	850,000	01/31/18	Alcohol Education
	Town of Apex	23,200	11/30/17	Alcohol Education
	Town of Rolesville	22,035	11/30/17	Alcohol Education
	Triangle Family Services	125,000	02/28/18	Alcohol Education
	Urban Ministries of Wake Cty	50,000	09/29/17	Alcohol Education
	Wake Co ATC/Wakebrook	1,000,000	07/14/17	Alcohol Education
	Wake County Recovery Court	100,000	02/28/18	Alcohol Education
	Wake County Recovery Court	10,000	05/31/18	Alcohol Education
	Wake County Sheriff's Dept.	10,000	03/31/18	Alcohol Education
	Wake County Sheriff's Dept.	18,000	06/29/18	Alcohol Education
	Women's Center of Wake Cty	40,000	11/30/17	Alcohol Education
	Women's Center of Wake Cty	10,000	05/31/18	Alcohol Education
Total		\$ 4,799,896		
Municipality*				
	Angier	\$ 2,020	7/1/17 - 6/30/18	None
	Apex	241,580	7/1/17 - 6/30/18	None
	Cary	996,188	7/1/17 - 6/30/18	None
	Clayton	1	7/1/17 - 6/30/18	None
	Durham	2,245	7/1/17 - 6/30/18	None
	Fuquay Varina	117,253	7/1/17 - 6/30/18	None
	Garner	129,522	7/1/17 - 6/30/18	None
	Holly Springs	165,377	7/1/17 - 6/30/18	None
	Knightdale	62,350	7/1/17 - 6/30/18	None
	Morrisville	178,248	7/1/17 - 6/30/18	None
	Raleigh	2,298,440	7/1/17 - 6/30/18	None
	Rolesville	31,637	7/1/17 - 6/30/18	None
	Wake Forest	182,889	7/1/17 - 6/30/18	None
	Wendell	21,110	7/1/17 - 6/30/18	None
	Zebulon	37,976	7/1/17 - 6/30/18	None
Total		\$ 4,466,836		

*Payments to municipalities are made quarterly.

WAKE COUNTY BOARD OF ALCOHOLIC CONTROL
(A Component Unit of Wake County)
Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2018

	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES:				
Operating Revenues:				
Liquor sales-regular	\$ 97,183,141	\$ 97,183,141	\$ 103,414,161	\$ 6,231,020
Mixed beverage sales	32,816,859	32,816,859	35,266,572	2,449,713
Wine sales	182,000	182,000	210,686	28,686
Total sales	<u>130,182,000</u>	<u>130,182,000</u>	<u>138,891,419</u>	<u>8,709,419</u>
Non-operating revenues:				
Interest income	55,000	55,000	64,125	9,125
Other income (expense)	(59,500)	(59,500)	158,432	217,932
Total revenues	<u>130,177,500</u>	<u>130,177,500</u>	<u>139,113,976</u>	<u>8,936,476</u>
Expenditures:				
Taxes based on revenue:				
Beverage and sales taxes	28,625,000	28,625,000	29,889,638	(1,264,638)
Mixed beverage taxes	3,162,500	3,162,500	3,116,410	46,090
Total expenditures	<u>31,787,500</u>	<u>31,787,500</u>	<u>33,006,048</u>	<u>(1,218,548)</u>
Cost of goods sold	<u>68,820,600</u>	<u>68,820,600</u>	<u>70,990,914</u>	<u>(2,170,314)</u>
OPERATING EXPENSES:				
Salaries	6,308,000	6,308,000	6,027,100	280,900
Payroll taxes	476,672	476,672	443,763	32,909
Employee retirement	741,832	741,832	694,211	47,621
Health Insurance	1,148,000	1,148,000	1,148,000	
Insurance and bond	338,800	338,800	292,465	46,335
Depreciation	815,000	815,000	717,558	97,442
Repairs to equipment	450,740	450,740	190,860	259,880
Repairs to buildings	202,110	202,110	128,900	73,210
Rent	409,000	409,000	388,824	20,176
Professional fees	85,000	85,000	64,491	20,509
Utilities	333,000	333,000	260,037	72,963
Telephone	101,500	101,500	101,500	
Stationary and printing	10,000	10,000	7,051	2,949
Supplies	554,800	554,800	483,300	71,500
Vehicle expense	25,000	25,000	25,000	
Travel	15,000	15,000	11,271	3,729
Credit card expense	1,500,000	1,500,000	1,479,773	20,227
Administrative expense	15,000	15,000	3,113	11,887
Unemployment taxes	39,000	39,000	8,751	30,249
Unfunded employee benefits	275,000	275,000	129,961	145,039
Contingency	165,000	165,000	128,389	36,611
Total operating expenses	<u>14,008,454</u>	<u>14,008,454</u>	<u>12,734,318</u>	<u>1,274,136</u>
DISTRIBUTIONS:				
Law Enforcement	1,165,410	1,165,410	1,038,960	126,450
Alcohol education	4,900,000	4,900,000	4,799,896	100,104
Cities and Towns	4,000,000	4,000,000	4,466,836	(466,836)
Wake County	3,000,000	3,000,000	7,000,000	(4,000,000)
Total distributions	<u>13,065,410</u>	<u>13,065,410</u>	<u>17,305,692</u>	<u>(4,240,282)</u>
Revenues over expenditures	<u>\$ 2,495,536</u>	<u>\$ 2,495,536</u>	<u>\$ 5,077,004</u>	<u>\$ 2,581,468</u>