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DURHAM COUNTY
ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)

Financial Statements

June 30, 2017 and 2016

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TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8-9
Statements of Cash Flows	10
Notes to Financial Statements	11-25
Supplementary Information:	
OPEB RSI Schedules	26-28
Schedules of Store, Warehouse, and Administrative Expenses	29-30
Reconciliation of Budget to Actual	31-32



Board of Directors
Durham County Alcoholic Beverage Control Board
Durham, North Carolina

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Durham County Alcoholic Beverage Control Board, a component unit of Durham County Government, 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 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 audit 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 Durham County Alcoholic Beverage Control Board, a component unit of Durham County Government, as of June 30, 2017 and 2016, and the respective changes in financial position and 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 Benefit schedules, and the Local Government Employees' Retirement System's Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions on pages 3-6 and 26-28 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 an opinion on the financial statements taken as a whole. The Schedules of Store, Warehouse and Administrative Expenses and Reconciliation of Budget to Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Koonce, Wooten & Haywood, LLP

Durham, North Carolina
August 25, 2017

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Management's Discussion and Analysis
(Unaudited)

This section of Durham County Alcoholic Beverage Control (ABC) Board's (*the Board*) financial report represents management's discussion and analysis of the financial performance of the Board for the years ended June 30, 2017 and 2016. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- Working capital (calculated as current assets less current liabilities) increased approximately 12% over the prior year.
- Change in net position before profit distributions increased 3.99% over the prior year.
- Approximately 9.5 percent of profits before distributions were expended for law enforcement in the current year.
- Over 5 percent (5.3%) of profits before distributions were expended for alcohol education in the current year.
- Over 6 percent (6.47%) of gross sales were distributed to the City of Durham and Durham County governmental units 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 North Carolina 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, capital and related financing and noncapital 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.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Management's Discussion and Analysis
(Unaudited)

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

Financial Analysis of Durham County ABC Board

Net Position is an indicator of the fiscal health of the Board. Assets and deferred outflows exceeded liabilities and deferred inflows by \$10,739,155 in 2017, by \$9,642,099 in 2016, and by \$8,534,444 in 2015. The largest component of net position was the investment in capital assets. It was 50% of the total net position for 2017, 55% for 2016, and 59% for 2015. Following is a summary of the Statement of Net Position:

Table 1
Condensed Statement of Net Position

	June 30, 2017	June 30, 2016	June 30, 2015	<u>\$ Change</u> This Yr Over Last Yr	<u>% Change</u> This Yr Over Last Yr
Current assets	\$ 9,365,414	\$ 7,973,941	\$ 7,521,012	\$ 1,391,473	17.45%
Non-current assets	<u>6,112,687</u>	<u>6,081,730</u>	<u>6,026,123</u>	<u>30,957</u>	<u>0.51%</u>
Total assets	<u>\$ 15,478,101</u>	<u>\$ 14,055,671</u>	<u>\$ 13,547,135</u>	<u>\$ 1,422,430</u>	<u>10.12%</u>
Current liabilities	\$ 3,846,409	\$ 3,055,146	\$ 3,420,387	\$ 791,263	25.90%
Non-current liabilities	<u>1,413,195</u>	<u>1,300,788</u>	<u>1,258,219</u>	<u>112,407</u>	<u>8.64%</u>
Total liabilities	<u>\$ 5,259,604</u>	<u>\$ 4,355,934</u>	<u>\$ 4,678,606</u>	<u>\$ 903,670</u>	<u>20.75%</u>
Net Position					
Net investment in capital assets	\$ 4,954,153	\$ 4,823,397	\$ 4,671,928	\$ 130,756	2.71%
Restricted net position	1,061,280	1,001,653	923,959	59,627	5.95%
Unrestricted net position	<u>4,723,722</u>	<u>3,817,049</u>	<u>2,938,557</u>	<u>906,673</u>	<u>23.75%</u>
Total Net Position	<u>\$ 10,739,155</u>	<u>\$ 9,642,099</u>	<u>\$ 8,534,444</u>	<u>\$ 1,097,056</u>	<u>11.38%</u>

For June 30, 2017, the increase in liabilities over the prior year was due primarily to an increase in net pension liability. The increase in assets over the prior year was due primarily to an increase in cash.

For June 30, 2016, the decrease in liabilities over the prior year was due primarily to a decrease in accounts payable and notes payable. The increase in assets over the prior year was due primarily to an increase in cash and inventory.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Management's Discussion and Analysis
(Unaudited)

Net position as of June 30, 2017 increased by 11.38% from June 30, 2016 compared to a 12.98% increase between 2016 and 2015. Income from operations increased by 3.1% over the prior year and by 10.2% between 2016 and 2015. Following is a summary of the changes in net position:

Table 2
Condensed Statement of Revenues, Expenses, and 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	\$ 36,072,852	\$ 34,129,036	\$ 31,488,457	\$ 1,943,816	5.70%
Less: Taxes on gross sales	8,475,431	8,032,355	7,428,896	443,076	5.52%
Net Sales	<u>27,597,421</u>	<u>26,096,681</u>	<u>24,059,561</u>	<u>1,500,740</u>	
Less: Cost of sales	<u>18,678,906</u>	<u>17,645,529</u>	<u>16,256,886</u>	<u>1,033,376</u>	5.86%
Gross Profit	8,918,515	8,451,152	7,802,675	467,364	5.53%
Less: Operating expenses	<u>4,874,992</u>	<u>4,530,877</u>	<u>4,245,141</u>	<u>344,115</u>	7.59%
Income from Operations	4,043,523	3,920,275	3,557,534	123,248	3.14%
Non-operating expenses, net	<u>(16,999)</u>	<u>(48,097)</u>	<u>(50,964)</u>	<u>31,098</u>	-64.66%
Change in net position Before Distributions	4,026,524	3,872,178	3,506,570	154,347	3.99%
Less: Distributions	<u>2,929,468</u>	<u>2,764,523</u>	<u>2,461,558</u>	<u>164,945</u>	5.97%
Change in Net Position	1,097,056	1,107,655	1,045,012	(10,598)	0.96%
Net Position - Beginning	<u>9,642,099</u>	<u>8,534,444</u>	<u>7,769,756</u>	<u>1,107,655</u>	12.98%
Net Position - Beginning, Restated			<u>7,489,432</u>		
Net Position - Ending	<u>\$ 10,739,155</u>	<u>\$ 9,642,099</u>	<u>\$ 8,534,444</u>	<u>\$ 1,097,056</u>	11.38%

For 2017, gross sales were up \$1,943,816 (+5.70%). This was the net result of an increase in retail sales and mixed beverage sales (sales to permit holders such as bars, restaurants, and hotels).

For 2016, gross sales were up \$2,640,579 (+8.39%). This was the net result of an increase in retail sales and mixed beverage sales (sales to permit holders such as bars, restaurants, and hotels).

Following is a breakdown of gross 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	\$ 28,517,050	\$ 26,907,391	\$ 24,961,222	\$ 1,609,659	5.98%
Mixed Beverage Sales	7,551,675	7,214,339	6,487,853	337,336	4.68%
Retail Wine Sales	<u>4,127</u>	<u>7,306</u>	<u>39,382</u>	<u>(3,179)</u>	-43.51%
Total Gross Sales	<u>\$ 36,072,852</u>	<u>\$ 34,129,036</u>	<u>\$ 31,488,457</u>	<u>\$ 1,943,816</u>	5.70%

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Management's Discussion and Analysis
(Unaudited)

In 2017, both retail and mixed beverage sales experienced increases compared to 2016.

Capital Assets

Investment in capital assets as of June 30, 2017, totals \$6,112,687 (net of accumulated depreciation).

Major capital asset transactions during the year include the following:

- Building repairs and improvements in the amount of \$213,961.
- New law enforcement equipment in the amount of \$23,506
- New technology and equipment upgrades and replacements in the amount of \$211,024.

Table 3
Capital Assets
(net of depreciation)

	June 30, 2017	June 30, 2016	June 30, 2015	\$ Change	% Change
				This Yr Over Last Yr	This Yr Over Last Yr
Land	\$ 2,255,345	2,255,345	2,255,345	\$	0.00%
Work in progress		11,832	70,571	(11,832)	-100.00%
Buildings and improvements	3,022,471	3,043,782	3,000,253	(21,311)	-0.70%
Vehicles	45,155	37,321	21,404	7,834	20.99%
Furniture and equipment	443,162	372,426	332,298	70,736	18.99%
Law Enforcement	346,554	361,024	346,252	(14,470)	-4.01%
Total	<u>\$ 6,112,687</u>	<u>\$ 6,081,730</u>	<u>\$ 6,026,123</u>	<u>\$ 30,957</u>	0.51%

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

Debt Administration

The largest component of long-term liabilities is notes payable. It decreased by \$488,647 from the prior year.

Requests for Information

This report is intended to provide a summary of the financial condition of the Durham County ABC Board. Questions or requests for additional information should be addressed to Rufus Sales, General Manager, Durham County Alcoholic Beverage Control Board, 2634 Durham Chapel Hill Boulevard, Durham, North Carolina 27707.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,272,293	\$ 4,816,563
Inventories	2,781,338	2,914,619
Prepaid expenses	311,783	242,759
Total current assets	9,365,414	7,973,941
Noncurrent assets:		
Capital assets:		
Land	2,255,345	2,255,345
Depreciable capital assets, net	3,510,788	3,465,361
Law enforcement, net	346,554	361,024
Total noncurrent assets	6,112,687	6,081,730
Total assets	\$ 15,478,101	\$ 14,055,671
 DEFERRED OUTFLOWS OF RESOURCES - Pension Deferrals	 \$ 558,485	 \$ 138,952
LIABILITIES		
Current liabilities:		
Accounts payable	990,884	574,000
Distributions payable	1,130,354	1,155,278
State taxes payable	678,670	632,886
Accrued expenses:		
Liabilities	340,922	281,616
Payroll and related costs	58,980	166,190
Sales tax payable	158,028	145,453
Current portion of long-term debt	488,571	99,723
Total current liabilities	3,846,409	3,055,146
Noncurrent liabilities:		
Long-term debt, net of current portion	669,963	1,158,610
Accrued vacation	117,568	108,311
Net pension liability	625,664	142,178
Total noncurrent liabilities	1,413,195	1,409,099
Total liabilities	\$ 5,259,604	\$ 4,464,245
 DEFERRED INFLOWS OF RESOURCES - Pension Deferrals	 \$ 37,827	 \$ 88,279
NET POSITION:		
Net investment in capital assets	\$ 4,954,153	\$ 4,823,397
Restricted for working capital:	1,061,280	1,001,653
Unrestricted	4,723,722	3,817,049
Total net position	\$ 10,739,155	\$ 9,642,099

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

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

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE:		
Liquor sales-regular	\$ 28,517,050	\$ 26,907,391
Mixed beverage sales	7,551,675	7,214,339
Wine sales	4,127	7,306
Total gross sales	<u>36,072,852</u>	<u>34,129,036</u>
DEDUCT TAXES ON GROSS SALES:		
State excise tax	7,750,917	7,318,908
Mixed beverage tax (Revenue)	572,413	563,853
Mixed beverage tax (Human Resources)	57,241	55,299
Rehabilitation tax	94,573	93,785
Wine sales tax	287	510
Total taxes on gross sales	<u>8,475,431</u>	<u>8,032,355</u>
NET SALES	<u>27,597,421</u>	<u>26,096,681</u>
DEDUCT COST OF SALES:		
Cost of liquor sold	18,676,471	17,640,574
Cost of wine sold	2,435	4,955
Total cost of sales	<u>18,678,906</u>	<u>17,645,529</u>
GROSS PROFIT ON SALES	<u>8,918,515</u>	<u>8,451,152</u>
DEDUCT OPERATING EXPENSES:		
Store expenses	3,164,010	2,966,894
Warehouse and delivery expenses	520,145	425,048
Administrative expenses	907,052	879,265
Depreciation expenses	283,785	259,670
Total operating expenses	<u>4,874,992</u>	<u>4,530,877</u>
INCOME FROM OPERATIONS	<u>4,043,523</u>	<u>3,920,275</u>
NON-OPERATING REVENUES AND EXPENSES:		
Interest income	323	329
Interest expense	(39,730)	(48,426)
Other income	113,119	
Loss on disposal of assets	(90,711)	
Total non-operating revenues and expenses	<u>(16,999)</u>	<u>(48,097)</u>
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	<u>4,026,524</u>	<u>3,872,178</u>
DEDUCT:		
Law Enforcement	382,715	344,528
Alcohol education/rehabilitation	213,420	197,795
Total distributions	<u>596,135</u>	<u>542,323</u>
CHANGE IN NET POSITION BEFORE PROFIT DISTRIBUTIONS (Forward)	<u>3,430,389</u>	<u>3,329,855</u>

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

	<u>2017</u>	<u>2016</u>
CHANGE IN NET POSITION		
BEFORE PROFIT DISTRIBUTIONS (Forwarded)	\$ <u>3,430,389</u>	\$ <u>3,329,855</u>
PROFIT DISTRIBUTIONS:		
City of Durham	233,333	222,200
County of Durham	<u>2,100,000</u>	<u>2,000,000</u>
Total profit distributions	<u>2,333,333</u>	<u>2,222,200</u>
CHANGE IN NET POSITION	1,097,056	1,107,655
NET POSITION - Beginning of year	<u>9,642,099</u>	<u>8,534,444</u>
NET POSITION - End of year	<u>\$ 10,739,155</u>	<u>\$ 9,642,099</u>

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

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 36,072,852	\$ 34,129,036
Cash payments to suppliers for goods and services and taxes on sales	(19,957,942)	(20,157,518)
Cash payments to employees for services	(2,838,406)	(2,493,547)
Sales taxes paid	(8,417,072)	(7,953,550)
Other operating receipts	113,119	
Net cash provided by operating activities	4,972,551	3,524,421
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(448,147)	(356,161)
Interest paid on loans	(39,730)	(48,426)
Principal paid on loan maturities	(99,799)	(95,862)
Net cash used by capital and related financing activities	(587,676)	(500,449)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Law enforcement distributions	(382,715)	(344,528)
Alcohol education distributions	(213,420)	(197,795)
Profit distributions to primary government	(2,333,333)	(2,222,200)
Net cash used by non-capital financing activities	(2,929,468)	(2,764,523)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	323	329
Net cash provided by investing activities	323	329
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,455,730	259,778
CASH AND CASH EQUIVALENTS - Beginning of year	4,816,563	4,556,785
CASH AND CASH EQUIVALENTS - End of year	\$ 6,272,293	\$ 4,816,563
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from Operations	\$ 4,043,523	\$ 3,920,275
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	326,479	300,554
Other income	113,119	
Changes in assets and liabilities		
Inventories	133,281	(261,373)
Prepaid expenses	(69,024)	(118,255)
Accounts payable	416,884	(403,944)
State taxes payable	45,784	65,524
Accrued liabilities	34,382	33,947
Accrued payroll and related costs	(97,953)	30,515
Accrued sales tax payable	12,575	13,281
Net pension asset and liability	483,486	328,655
Deferred inflows and outflows of resources for pensions	(469,985)	(384,758)
Net cash provided by operating activities	\$ 4,972,551	\$ 3,524,421

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

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
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 Durham County Alcoholic Beverage Control Board (the Board), a component unit of Durham County Government, North Carolina reporting entity, is a corporate body with powers outlined by North Carolina General Statutes Chapter 18B-701. The County's governing body appoints the Board.

The Board is required by State Statute to distribute a portion of its surpluses to the General Fund of the County and its municipalities, which represents a financial benefit to the County and its municipalities. 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 Pasquotank Act in 1937, and implemented by a county wide vote on May 15, 1937, at which time the Durham County Commissioners appointed three individuals to serve on the Board with terms of three years. In 2001 the County Commissioners added two more individuals to serve on the Board bringing the total to five Board members.

The Board, as provided by North Carolina Alcoholic Beverage Control laws, operates eight retail liquor stores, one mixed beverage location, and three combination retail/mixed beverage stores 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 the same profits for alcohol education and rehabilitation purposes.

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.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
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 and liability, 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.

Assets, Liabilities, and Net Position

A. 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 and loan 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 one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Board's agent in the Board's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the 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 that collateralizes public deposits under the Pooling Method. The Board has no formal policy regarding custodial credit risk for deposits; however, it is the current informal policy to follow State requirements.

At June 30, 2017 and 2016, the Board's deposits had a carrying amount of \$6,244,833 and \$4,788,488, respectively, and a bank balance of \$5,951,337 and \$5,789,048, respectively. All of the bank balance was either insured by federal depository insurance or collateralized under the pooling method described above.

B. Cash and Cash Equivalents:

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

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies (Concluded)

C. Inventories:

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

D. Capital Assets:

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

	Balance 06/30/16	Increases	Decreases	Balance 6/30/2017
Capital assets not being depreciated				
Land	\$ 2,255,345	\$	\$	\$ 2,255,345
Work in progress	11,832		11,832	
Total capital assets not being depreciated	<u>2,267,177</u>		<u>11,832</u>	<u>2,255,345</u>
Capital assets being depreciated				
Buildings and improvements	4,791,598	213,961	105,401	4,900,158
Furniture/Equipment	1,407,497	203,180	157,077	1,453,600
Vehicles	95,669	15,000		110,669
Law enforcement	640,026	28,179		668,205
Total capital assets being depreciated	<u>6,934,790</u>	<u>460,320</u>	<u>262,478</u>	<u>7,132,632</u>
Total capital assets	9,201,967	460,320	274,310	9,387,977
Less accumulated depreciation				
Buildings and improvements	1,747,816	145,553	15,682	1,877,687
Furniture/Equipment	1,035,071	131,111	155,744	1,010,438
Vehicles	58,348	7,166		65,514
Law enforcement	279,002	42,649		321,651
Total Accumulated Depreciation	<u>3,120,237</u>	<u>326,479</u>	<u>171,426</u>	<u>3,275,290</u>
Capital assets-net	<u>\$ 6,081,730</u>			<u>\$ 6,112,687</u>

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

E. 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.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A Component Unit of Durham County Government)
 Notes to Financial Statements
 June 30, 2017 and 2016

2. Net Position (Continued)

Restricted for law enforcement – This applies only when the Board employs its own ABC officer.

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

Restricted for working capital – North Carolina Alcoholic Beverage Control Commission Rule [.0902] defines working capital as the total of cash, investments and inventory less all unsecured liabilities. An ABC Board shall set its working capital requirements at not less than two weeks' average gross sales of the last fiscal year (legally required minimum) or greater than three 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 net position that does not meet the definition of *restricted* or *net investment in capital assets*.

3. Pension Plan Obligations and Other Post-Employment Benefits

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.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A Component Unit of Durham County Government)
 Notes to Financial Statements
 June 30, 2017 and 2016

3. Pension Plan Obligations and Other Post-Employment Benefits (Continued)

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.

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% of compensation for law enforcement officers and 7.36% for general employees. Actuarially determined, this amount, 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 \$160,184 and \$130,609 for the years ended June 30, 2017 and June 30, 2016, respectively.

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 years 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 \$625,664 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 asset 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 0.0295%, which was a decrease of 0.0022% from its proportion measured as of June 30, 2015.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

3. Pension Plan Obligations and Other Post-Employment Benefits (Continued)

For the year ended June 30, 2017, the Board recognized pension expense of \$163,333. At June 30, 2017, 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	\$ 11,755	\$ 21,924
Changes of assumptions	42,852	
Net difference between projected and actual earnings on pension plan investments	337,573	
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,159	15,903
Employer contributions subsequent to the measurement date *	160,146	
	<u>\$ 558,485</u>	<u>\$ 37,827</u>

* Amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date.

\$160,146 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability 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	
2017	\$ 53,210
2018	53,306
2019	164,366
2020	89,630
2021	
Thereafter	<u>\$ 360,512</u>

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 7.35 percent, including inflation and productivity factor
Investment rate of return	2.71 percent, net of pension plan investment expense, including

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

3. Pension Plan Obligations and Other Post-Employment Benefits (Continued)

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 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 of 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.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

3. Pension Plan Obligations and Other Post-Employment Benefits (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 7.25 percent, as well as what the Board's proportionate share of what 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:

	Current		
	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
ABC Board's proportionate share of the net pension liability (asset)	\$ 1,484,993	\$ 625,664	\$ (92,111)

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.

Death Benefits:

The Board has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contribution membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Board has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the Post Employment benefit amount and the other benefit amount. The Board considers these contributions to be immaterial.

Supplemental Retirement Income Plan for Law Enforcement Officers

A. Plan Description:

The Board contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A Component Unit of Durham County Government)
 Notes to Financial Statements
 June 30, 2017 and 2016

3. Pension Plan Obligations and Other Post-Employment Benefits (Continued)

B. Funding Policy:

Article 12E of G.S. Chapter 143 required the Board to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ending June 30, 2017 were \$23,499, which consisted of \$5,947 from the Board and \$17,552 from the law enforcement officers. Contributions for the year ending June 30, 2016 were \$30,068, which consisted of \$5,666 from the Board and \$24,402 from the law enforcement officers.

Other Post-Employment Benefits (OPEB)

A. Plan Description:

From 1997 until January 16, 2007 the Board had a policy to provide health insurance benefits to retirees. Retirees with at least 30 years of service were provided health insurance at no cost to the retiree through continuing enrollment (employee-only coverage) in the Board's health insurance plan until age 65. At age 65, a supplemental health insurance policy was provided at the Board's cost for the retiree's lifetime. This benefit was also available under certain early retirement elections, but with early retirement the benefit was paid for fully by the retiree and ceased at age 65. On January 16, 2007 the Board terminated the health insurance benefit for future retirees under a 12 year transition plan that will end on June 30, 2019. During the transition plan period (January 16, 2007 to June 30, 2019) retirees may participate in the Board's health insurance plan by paying either a portion or all of the premium but the benefit ceases at age 65. Health benefits for future retirees will be fully eliminated for retirements beyond the fiscal year ending June 30, 2019.

B. Funding Policy:

Retiree health insurance benefits have been funded on a pay as you go basis so no funds are set aside to pay these benefits.

C. Summary of Significant Accounting Policies:

Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. The expenditures are paid as they come due.

D. Annual OPEB Cost and Net OPEB Obligation:

Unfunded accrued actuarial liability (UAAL) has been computed at \$721,062 at June 30, 2017 and \$715,543 at June 30, 2016. The Board has elected to use a 30 year amortization period. When the UAAL of \$721,062 is divided by 30 years the amortized payment is calculated at \$24,035. This payment is then adjusted for the present value of interest of \$1,622 which is added to this payment to bring the total amortized payment to \$25,657. The actual amount the Board spent during the year ended June 30, 2017 was \$43,347 and for June 30, 2016 was \$47,349. The Board has elected not to record the resulting difference of \$17,690 for June 30, 2017 as an asset on the financial statements.

E. Actuarial Methods and Assumptions:

The Board's Annual Required Contribution and OPEB Obligation were calculated as required by the Government Accounting Standards Board (GASB) Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. The Board's plan has less than 100 plan members so the calculations used the Alternative Method allowed by GASB and did not involve an actuarial valuation.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

3. Pension Plan Obligations and Other Post-Employment Benefits (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 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, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	3
	3
	3

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. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized as expenses when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in 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, nonemployer contributing entities, the plan administrator, and plan members

C. Contributions:

The Board is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Board's obligation to make these payments was established and may be amended by the North Carolina General Assembly.

The Board has chosen not to have an actuarial study performed because the liability is considered to be immaterial.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

4. Law Enforcement Division

The statements of Net Position of the Board include land, building improvements, equipment, and motor vehicles of the Law Enforcement Division. However, the depreciation expense for these assets is charged directly to the Law Enforcement Division so as to properly reflect the Division's expenses.

5. Lease Commitments

The Board has leased one store property under a lease agreement which expires February 2021, and its home office location under a lease agreement which expires May 2022. Each lease requires a minimum monthly rental payment. Rent expense for the years ended June 30, 2017 and 2016 was \$79,294 and \$64,704, respectively.

The lease payment schedule is as follows:

Year Ending June 30		
2018		\$ 132,232
2019		135,848
2020		139,580
2021		121,100
2022		43,328
		\$ 572,088

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, 2017 and 2016 amounted to \$117,568 and \$108,311, respectively. The current portion of the accumulated vacation pay is not considered to be material.

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. Local Distributions of Income

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

The Board has made distributions for the years ending June 30 as follows:

Store Location	2017	2016
90% County of Durham	\$ 2,100,000	\$ 2,000,000
10% City of Durham	\$ 233,333	\$ 222,200

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

8. Law Enforcement and Alcohol Education Expenses

The Board is required by law to expend at least 5% of its profits for law enforcement purposes. Profits are defined by law for these calculations as change in net position before law enforcement and educational expenses, less the 3.5% markup provided in G.S. 18B-804(b)(5) and the bottle charge provided for in G.S. 18B-804(b)(6b).

	2017	2016
Profit before distributions	\$ 4,026,524	\$ 3,872,178
Less: 3½% tax and bottle charge	904,274	947,606
Profit subject to expense percentages	<u>\$ 3,122,250</u>	<u>\$ 2,924,572</u>
Law enforcement expenditures--Actual	\$ 382,715	\$ 344,528
(Percentage of profit)	12.26%	11.78%
Provision for alcohol education and rehabilitation--Actual	\$ 213,420	197,795
(Percentage of profit)	6.84%	6.76%

9. Disbursement of Taxes Included in Selling Price

A state excise tax at the rate of 30% on the liquor (net sales) price is charged monthly on sales (excluding wine sales). Transactions for this account for the year are summarized as follows:

	2017	2016
Taxes payable July 1	\$ 574,532	\$ 514,458
Taxes collected during the year	7,882,073	7,882,073
Taxes remitted to Department of Revenue	<u>(7,837,990)</u>	<u>(7,821,999)</u>
Taxes payable June 30	<u>\$ 618,615</u>	<u>\$ 574,532</u>

The excise tax is computed in accordance with G.S. 18B-805(i), and is included in State Taxes Payable in the Statements of Net Position.

The accrued North Carolina excise tax at June 30, 2017, was remitted to the North Carolina Department of Revenue on July 15, 2017.

An additional bottle charge as provided for in G.S. 18B-804(b)(6b) 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 for alcohol education and rehabilitation.

For the fiscal year ended June 30, 2017, payments to the County and its municipalities were based on the following bottle sales:

Regular bottles	1,466,434 at 5 cents =	\$ 73,322
Mixed beverage bottles	294,486 at 5 cents =	14,724
Miniature bottles	652,734 at 1 cent =	<u>6,527</u>
Total payment for the year		<u>\$ 94,573</u>

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

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

For the fiscal year ended June 30, 2016, payments to the County and its municipalities were based on the following bottle sales:

Regular bottles	1,459,986 at 5 cents =	\$	72,999
Mixed beverage bottles	289,460 at 5 cents =		14,473
Miniature bottles	631,280 at 1 cent =		<u>6,313</u>
Total payment for the year		\$	<u><u>93,785</u></u>

A “mixed beverage tax” as provided for in G.S.18B-804(b)(8) 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 Health and Human Services.

The mixed beverage tax for the year was:

	2017	2016
Department of Revenue (50%)	\$ <u>572,413</u>	\$ <u>563,853</u>
Department of Health and Human Services (5%)	57,241	55,299
Profit retained and remitted to local government (45%)	515,172	508,554
	\$ <u><u>1,144,826</u></u>	\$ <u><u>1,127,706</u></u>

10. Bailment Surcharge Collected

The total amount of surcharge collected for the fiscal years June 30, 2017 and 2016 was \$243,177 and \$239,288, respectively. The current rate is \$1.40 per case.

11. Liquor Sales Tax

The total amount of sales tax collected by the Board and remitted to the Department of Revenue for the fiscal years June 30, 2017 and 2016 was \$1,992,283 and \$1,879,592, respectively. The current sales tax rate is 7%. This tax is collected as agent for the State in each sales transaction and remitted each month to the State. This tax is not shown in the Schedule of Revenues, Expenses, and Changes in Net Position.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

12. Retail Outlets

The ABC Board operated eight retail outlets, five of which also sold mixed beverages:

Store #	Store Address	Gross Sales		Change in Net Position	
		Year Ended June 30,		Year Ended June 30,	
		2017	2016	2017	2016
1	1930 Holloway St.	\$ 3,801,022	\$ 3,656,585	\$ 572,314	\$ 528,193
3	2806 Hillsborough Rd.	6,171,813	5,944,047	1,047,479	1,039,114
4	2121 T.W. Alexander Dr.	2,697,979	2,526,309	262,446	277,562
8	5234 Roxboro Rd.	2,510,802	2,407,912	285,750	281,863
10	5202 Highway 55	5,467,829	5,077,220	908,975	845,114
11	3620 Chapel Hill Blvd.	7,788,495	7,132,454	1,341,181	1,208,169
12	3318 Guess Rd.	3,625,032	3,373,419	496,217	476,321
14	4717 Hope Valley Rd.	4,009,880	4,011,090	606,769	617,597
		<u>\$ 36,072,852</u>	<u>\$ 34,129,036</u>	<u>\$ 5,521,131</u>	<u>\$ 5,273,933</u>

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)).

Minimum amount	\$ 1,061,280
Maximum amount	\$ 6,898,323
Actual amount	\$ 5,558,619

The Board has met the minimum amount of working capital required by ABC law as shown above.

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 commercial property, general liability, auto liability, workmen's compensation, data breach, flood, wind & hail, public officials liability/employment practice 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 and the employees designated as the general manager and finance officer are bonded in the amount of \$50,000, secured by a corporate surety.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Notes to Financial Statements
June 30, 2017 and 2016

15. Long-Term Debt

A summary of long-term debt is as follows at June 30:

	2017	2016
Note payable to a bank payable in 83 monthly payments of interest and principal totaling \$4,760 and one balloon payment of \$401,759 due on April 1, 2018. Interest is fixed at 3.57%. The note is secured by a deed of trust on property and the proceeds are to be used for store expansions and renovations.	\$ 427,312	\$ 468,388
Note payable to a bank payable in 72 monthly payments of interest and principal totaling \$7,264 and one balloon payment of \$672,680 due on August 1, 2018. Interest is fixed at 3.68%. The note is secured by a deed of trust on property and the proceeds are to be used for store expansions and renovations.	731,222	789,945
	1,158,534	1,258,333
Less: Current portion of debt	488,571	99,723
Total long-term debt	\$ 669,963	\$ 1,158,610

Estimated maturities on long-term debt as of June 30, 2016 are as follows:

Year Ending June 30	
2018	\$ 488,571
2019	669,963
	\$ 1,158,534

SUPPLEMENTARY INFORMATION

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
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>	<u>2015</u>	<u>2014</u>
ABC Board's proportion of the net pension liability (asset) (%)	0.0295%	0.0317%	0.2890%	0.0298%
ABC Board's proportion of the net pension liability (asset) (\$)	\$ 625,664	\$ 142,178	\$ (186,477)	\$ 419,474
ABC Board's covered-employee payroll	\$ 2,164,634	\$ 1,919,632	\$ 1,863,329	\$ 1,854,330
ABC Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	28.90%	7.41%	-10.01%	22.62%
Plan fiduciary net position as a percentage of the total pension liability **	91.45%	98.09%	102.64%	94.35%

* 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.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
ABC Board's Contributions
Required Supplementary Information
Last four fiscal years

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 160,184	\$ 130,609	\$ 139,597	\$ 139,150
Contributions in relation to the contractually required contribution	<u>160,147</u>	<u>130,609</u>	<u>139,597</u>	<u>139,150</u>
Contribution deficiency (excess)	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ABC Board's covered-employee payroll	\$ 2,164,634	\$ 1,919,632	\$ 1,863,329	\$ 1,854,330
Contributions as a percentage of covered-employee payroll	7.40%	6.80%	7.49%	7.50%

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A Component Unit of Durham County Government)
 Other Post-Employment Benefit Obligation
 Required Supplementary Information
Schedules of Funding Progress

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)
6/30/2017	\$	\$ 721,062	\$ 721,062	0.00%	\$ 2,164,634	33.3%
6/30/2016		715,543	715,543	0.00%	1,919,632	37.3%
6/30/2015		859,775	859,775	0.00%	1,968,568	43.7%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2017	\$ 25,657	168.9%
6/30/2016	25,376	186.6%
6/30/2015	30,367	182.2%

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
SCHEDULE OF STORE, WAREHOUSE AND ADMINISTRATIVE EXPENSES
Year Ended June 30, 2017

	Store 1	Store 3	Store 4	Store 8	Store 9	Store 10	Store 11	Store 12	Store 14	Subtotal	Warehouse	Administrative	Total
Salaries and wages	\$ 186,533	\$ 251,787	\$ 177,865	\$ 164,972	\$ 114,376	\$ 227,604	\$ 177,828	\$ 215,286	\$ 188,938	\$ 1,705,189	\$ 246,787	\$ 478,498	\$ 2,430,474
FICA taxes	13,400	18,951	12,736	12,398	7,924	17,321	12,439	16,346	14,121	125,636	18,133	33,645	177,414
Pension expense	12,519	17,990	11,635	10,906	5,088	13,666	10,941	15,750	12,295	110,790	16,671	35,872	163,333
401(K) expense	3,088	3,596	2,399	3,417	1,431	3,394	3,427	3,745	3,255	27,752	4,058	11,148	42,958
Life insurance	428	645	432	430	159	623	405	542	460	4,124	624	1,270	6,018
Hospital insurance	21,493	29,083	19,211	19,457	7,188	28,918	16,922	16,724	19,747	178,743	22,203	77,370	278,316
Disability insurance	1,593	2,419	1,618	1,610	598	2,113	1,511	2,044	1,714	15,220	2,344	4,799	22,363
Dental insurance	1,179	1,514	1,315	1,027	559	1,414	971	1,208	1,625	10,812	1,258	2,526	14,596
Rent	-	-	79,294	-	-	-	-	-	-	79,294	-	11,927	91,221
Utilities	14,534	11,896	4,756	15,931	4,638	10,147	9,207	10,242	8,873	90,224	15,868	6,255	112,347
Telephone	1,550	2,280	2,059	1,837	2,274	2,311	2,986	1,927	1,458	18,682	4,247	14,291	37,220
Credit card expenses	34,597	60,296	40,966	32,352	-	54,888	59,730	47,968	63,457	394,254	-	-	394,254
Insurance - general	11,704	10,731	5,704	10,131	5,173	14,411	10,763	8,919	11,120	88,656	15,104	21,737	125,497
Supplies	13,630	18,676	10,240	9,216	1,959	17,168	16,571	12,895	15,000	115,355	5,871	6,617	127,843
Travel expense	313	392	1,239	689	188	349	19	705	669	4,563	33	16,988	21,584
Temporary help	-	-	-	-	-	-	-	-	-	-	109,189	4,704	113,893
Maintenance agreements	6,342	7,625	5,447	6,049	11,866	7,587	5,852	5,530	7,667	63,965	9,557	26,524	100,046
Building maintenance	3,553	5,052	4,429	4,214	2,376	4,219	6,856	8,969	5,399	45,067	5,879	3,660	54,606
Postage	-	-	-	-	-	-	-	-	-	-	-	2,750	2,750
Professional services	-	-	-	-	-	-	-	-	-	-	-	116,777	116,777
Dues and subscriptions	-	-	-	-	-	-	-	-	-	-	-	4,300	4,300
Per diem - Board members	-	-	-	-	-	-	-	-	-	-	-	12,000	12,000
Yard maintenance	3,350	3,350	-	3,350	-	3,350	3,350	3,650	3,050	23,450	3,350	-	26,800
Security - alarm contracts	3,717	3,868	3,916	3,782	3,145	4,177	4,090	3,812	3,608	34,115	699	175	34,989
Vehicle expense	-	-	-	-	-	-	-	-	-	-	31,486	1,550	33,036
Gas and oil	-	-	-	-	-	-	-	-	-	-	5,311	730	6,041
Waste disposal	2,474	616	16	496	2,481	2,333	3,541	2,421	2,742	17,120	960	54	18,134
Advertising	-	-	-	-	-	-	-	-	-	-	-	1,990	1,990
Bottled water	319	571	399	326	-	475	339	351	251	3,031	452	410	3,893
Staff training and development	-	-	-	-	-	-	-	-	-	-	-	2,651	2,651
Minor equipment	665	641	1,014	601	336	146	2,843	1,145	577	7,968	61	5,834	13,863
	<u>336,981</u>	<u>451,979</u>	<u>386,690</u>	<u>303,191</u>	<u>171,759</u>	<u>416,614</u>	<u>350,591</u>	<u>380,179</u>	<u>366,026</u>	<u>3,164,010</u>	<u>520,145</u>	<u>907,052</u>	<u>4,591,207</u>
Depreciation	<u>27,365</u>	<u>30,482</u>	<u>17,297</u>	<u>24,100</u>	<u>1,817</u>	<u>30,454</u>	<u>60,189</u>	<u>20,127</u>	<u>21,543</u>	<u>233,374</u>	<u>22,698</u>	<u>27,713</u>	<u>283,785</u>
	<u>\$ 364,346</u>	<u>\$ 482,461</u>	<u>\$ 403,987</u>	<u>\$ 327,291</u>	<u>\$ 173,576</u>	<u>\$ 447,068</u>	<u>\$ 410,780</u>	<u>\$ 400,306</u>	<u>\$ 387,569</u>	<u>\$ 3,397,384</u>	<u>\$ 542,843</u>	<u>\$ 934,765</u>	<u>\$ 4,874,992</u>

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
SCHEDULE OF STORE, WAREHOUSE AND ADMINISTRATIVE EXPENSES
Year Ended June 30, 2016

	Store 1	Store 3	Store 4	Store 8	Store 9	Store 10	Store 11	Store 12	Store 14	Subtotal	Warehouse	Administrative	Total
Salaries and wages	\$ 199,721	\$ 237,266	\$ 153,212	\$ 162,953	\$ 98,908	\$ 206,841	\$ 186,374	\$ 179,616	\$ 190,054	\$ 1,614,945	\$ 178,615	\$ 474,010	\$ 2,267,570
FICA taxes	14,596	17,868	11,240	11,519	6,859	14,726	13,763	13,855	14,141	118,567	13,029	33,977	165,573
Pension expense	5,836	7,210	4,564	4,833	2,124	6,149	5,318	5,854	5,052	46,940	5,109	17,731	69,780
401(K) expense	1,482	2,035	2,565	2,658	1,089	2,191	3,025	3,304	2,113	20,462	2,623	7,372	30,457
Life insurance	454	572	376	362	151	507	409	450	396	3,677	492	1,356	5,525
Hospital insurance	21,555	24,034	19,138	20,159	7,509	24,590	19,822	14,629	18,536	169,972	24,237	86,757	280,966
Disability insurance	1,608	2,008	1,320	1,275	531	1,780	1,432	1,583	1,394	12,931	1,726	4,785	19,442
Dental insurance	1,178	1,086	718	716	500	885	1,081	794	872	7,830	1,096	2,364	11,290
Rent	-	-	64,704	-	-	-	-	-	-	64,704	-	-	64,704
Utilities	13,301	11,698	4,162	14,471	3,279	10,124	8,084	10,948	7,989	84,056	13,189	9,674	106,919
Telephone	1,471	1,367	1,575	1,076	1,510	1,670	1,785	1,455	1,155	13,064	4,311	18,317	35,692
Credit card expenses	35,546	56,991	39,743	31,972	-	53,585	58,279	46,291	62,284	384,691	-	-	384,691
Insurance - general	10,696	8,508	4,397	8,790	4,033	12,392	9,551	8,137	9,274	75,778	11,590	15,934	103,302
Supplies	14,252	20,377	10,216	9,372	2,291	18,104	18,009	13,080	15,280	120,981	2,117	5,690	128,788
Travel expense	634	327	2,459	780	315	406	308	1,474	1,043	7,746	150	14,564	22,460
Temporary help	-	-	-	-	-	-	-	-	-	-	121,747	15,863	137,610
Maintenance agreements	5,864	8,731	6,064	6,552	11,654	8,269	6,226	5,777	8,227	67,364	6,643	23,439	97,446
Building maintenance	6,863	2,591	5,560	5,625	1,432	9,437	14,711	23,435	2,760	72,414	4,353	8,256	85,023
Postage	-	-	-	-	-	-	-	-	-	-	-	2,522	2,522
Professional services	-	-	-	-	-	-	-	-	-	-	-	107,785	107,785
Dues and subscriptions	-	-	-	-	-	-	-	-	-	-	-	4,443	4,443
Per diem - Board members	-	-	-	-	-	-	-	-	-	-	-	12,600	12,600
Yard maintenance	2,993	2,993	-	2,993	-	2,993	2,993	2,993	2,993	20,951	2,993	-	23,944
Security - alarm contracts	3,839	4,144	3,611	3,509	2,993	3,600	3,690	3,558	3,405	32,349	1,164	-	33,513
Vehicle expense	-	-	-	-	-	-	-	-	-	-	22,615	1,597	24,212
Gas and oil	-	-	-	-	-	-	-	-	-	-	3,654	1,423	5,077
Waste disposal	2,033	613	-	493	2,337	2,195	3,426	2,057	2,386	15,540	851	-	16,391
Advertising	-	-	-	-	-	-	-	-	-	-	-	2,927	2,927
Bottled water	295	480	246	492	-	405	569	198	457	3,142	483	-	3,625
Staff training and development	-	-	-	-	-	-	-	-	-	-	-	4,113	4,113
Minor equipment	1,018	220	300	883	751	380	4,393	238	607	8,790	2,261	1,766	12,817
	<u>345,235</u>	<u>411,119</u>	<u>336,170</u>	<u>291,483</u>	<u>148,266</u>	<u>381,229</u>	<u>363,248</u>	<u>339,726</u>	<u>350,418</u>	<u>2,966,894</u>	<u>425,048</u>	<u>879,265</u>	<u>4,271,207</u>
Depreciation	<u>27,199</u>	<u>29,219</u>	<u>16,101</u>	<u>22,952</u>	<u>1,796</u>	<u>29,477</u>	<u>43,366</u>	<u>19,420</u>	<u>20,468</u>	<u>209,998</u>	<u>22,900</u>	<u>26,772</u>	<u>259,670</u>
	<u>\$ 372,434</u>	<u>\$ 440,338</u>	<u>\$ 352,271</u>	<u>\$ 314,435</u>	<u>\$ 150,062</u>	<u>\$ 410,706</u>	<u>\$ 406,614</u>	<u>\$ 359,146</u>	<u>\$ 370,886</u>	<u>\$ 3,176,892</u>	<u>\$ 447,948</u>	<u>\$ 906,037</u>	<u>\$ 4,530,877</u>

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Reconciliation of Budget to Actual
June 30, 2017

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Operating Revenues:				
Liquor sales-regular	\$ 28,062,382	28,312,383	\$ 28,517,050	\$ 204,667
Mixed beverage sales	7,722,013	7,722,013	7,551,675	(170,338)
Wine sales	-	-	4,127	4,127
Total sales	<u>35,784,395</u>	<u>36,034,396</u>	<u>36,072,852</u>	<u>38,456</u>
Non-operating revenues:				
Interest income	288	288	323	35
Other income			113,119	113,119
Total revenues	<u>35,784,683</u>	<u>36,034,684</u>	<u>36,186,294</u>	<u>151,610</u>
EXPENDITURES:				
Total Taxes based on revenue:				
State excise tax	7,693,645	7,693,645	7,750,917	(57,272)
Mixed beverage tax (Revenue)	679,537	679,537	572,413	107,124
Mixed beverage tax (Human Resources)	69,498	69,498	57,241	12,257
Rehabilitation tax	135,981	135,981	94,573	41,408
Wine/mixer sales tax	-	-	287	(287)
Total taxes based on revenue	<u>8,578,661</u>	<u>8,578,661</u>	<u>8,475,431</u>	<u>103,230</u>
Cost of goods sold	<u>18,744,828</u>	<u>18,744,828</u>	<u>18,678,906</u>	<u>65,922</u>
OPERATING EXPENSES:				
Personnel expenses	3,062,323	3,230,937	3,135,472	95,465
Facilities expenses	388,028	411,028	375,088	35,940
Supplies and materials	149,784	149,784	148,349	1,435
Contract/professional services	236,600	253,565	230,670	22,895
Repairs and maintenance	135,660	147,660	139,177	8,483
Credit card fees	400,139	400,139	394,254	5,885
Travel, training and development	62,560	62,560	24,235	38,325
Other operating expenses	152,035	152,035	148,550	3,485
Miscellaneous-contingency	66,000	55,000		55,000
Total operating expense	<u>4,653,129</u>	<u>4,862,708</u>	<u>4,595,795</u>	<u>266,913</u>
Debt Service	144,300	144,300	139,529	4,771
Capital Outlay	<u>324,300</u>	<u>716,475</u>	<u>448,147</u>	<u>268,328</u>
Total expenditures	<u>32,445,218</u>	<u>33,046,972</u>	<u>32,337,808</u>	<u>709,164</u>

(Continued)

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A Component Unit of Durham County Government)
Reconciliation of Budget to Actual
June 30, 2016

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
DISTRIBUTIONS:				
Law Enforcement	\$ 425,571	\$ 436,867	\$ 382,715	\$ 54,152
Alcohol education/rehabilitation	211,127	211,127	213,420	(2,293)
County and Municipal	1,606,977	2,333,333	2,333,333	-
Total distributions	<u>2,243,675</u>	<u>2,981,327</u>	<u>2,929,468</u>	<u>51,859</u>
Total expenditures and distributions	34,688,893	36,028,299	35,267,276	761,023
Revenues over (under) expenditures	1,095,790	6,385	919,018	912,633
Other financing sources (uses):				
Working capital retained	<u>(1,095,790)</u>	<u>(6,385)</u>	<u> </u>	<u> </u>
Revenues over expenditures and other financing uses	<u>\$</u>	<u>\$</u>	<u>\$ 919,018</u>	<u>\$ 912,633</u>

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

Reconciling Items:

Increase in net pension liability	(483,486)
Decrease in deferred outflows of resources	419,533
Decrease in deferred inflows of resources	50,452
Pension expense	(163,333)
Depreciation	(283,785)
Loss on disposal of assets	90,711
Capital outlay	448,147
Debt service	99,799
Total	<u>178,038</u>

Change in Net Position \$ 1,097,056