

Independent Auditor's Report

Town of Troutman ABC

as of

June 30, 2017

Prepared By:

*M. David McKenzie, PLLC
Certified Public Accountant*

Town of Troutman ABC Board

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M David McKenzie, CPA, PLLC
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Town of Troutman ABC Board
Troutman, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Troutman ABC Board, a component unit of the Town of Troutman, which comprise the Statement of Net Position as of June 30, 2017, and the related Statement of Revenues, Expenses and Changes in Net Position, and cash flows for the year 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 the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of Troutman ABC Board as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

M. David McKenzie, CPA, PLLC

Mooreville, North Carolina

August 7, 2017

Management's Discussion and Analysis

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

Financial Highlights

- Store operations began in December. Revenue was \$708,099
- Total profit distributions, including law enforcement and alcohol education expenditures, totaled approximately \$1,276.
- Total assets were \$965,708.
- Total liabilities were \$728,582.

Overview of the Financial Statements

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

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

The *Basic Financial Statements* are prepared using the full accrual basis of accounting. They consist of 3 statements. The first statement is the statement of net assets. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Board's 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 assets. This statement is used in evaluating whether the Board has recovered all of its costs through sales. Its information is used in determining credit worthiness.

The final required statement is the statement of cash flows. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing activities. Based on this data, the user can determine the sources of cash, 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, and a Schedule of Warehouse Expenses.

Management's Discussion and Analysis – continued

Financial Analysis of the ABC Board

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$237,125 in 2017. The largest component of net assets is the investment in capital assets (net of depreciation) which represented 315% of net assets. Following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Position

	6/30/2017	6/30/2016	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Current assets	\$ 218,176	\$ -	\$ 218,176	-
Non-current assets	747,532	-	747,532	-
Total assets	965,708	-	965,708	-
Current liabilities	103,239	-	103,239	-
Non-current liabilities	625,522	-	625,522	-
Total liabilities	728,760	-	728,760	-
Invested in capital assets, net of related debt	122,532	-	122,532	-
Restricted net assets	21,111	-	21,111	-
Unrestricted net assets	93,304	-	93,304	-
Total net assets	236,947	-	236,947	-

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

	6/30/2017	6/30/2016	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Operating Revenues	\$ 708,099	\$ -	\$ 708,099	-
Less: Taxes on Gross Sales	159,419	-	159,419	-
Net Sales	548,690	-	548,690	-
Cost of Sales	377,199	-	377,199	-

Gross Profit	171,490	-	171,490	-
Less: Operating Expenses	127,182	-	127,182	-
Income from Operations	44,308	-	44,308	-
Non-Operating Revenues and Expenses	(13,907)	-	(13,907)	-
Change in Net Position Before Distributions	30,401	-	30,401	-
Distributions	1,276	-	1,276	-
Donated Land	208,000	-	208,000	-
Change in Net Position	236,947	-	236,947	-
Net Position, Beginning	-	-	-	-
Net Position, Ending	236,947	-	236,947	-

Following is a breakdown of sales by source:

	6/30/2017	6/30/2016	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Retail Liquor Sales	\$ 703,327	\$ -	\$ 703,327	-
Mixed Beverage Sales	2,077	-	2,077	-
Retail Wine Sales	2,695	-	2,695	-
Total Sales	\$ 708,099	\$ -	\$ 708,099	-

Capital Asset and Debt Administration

Capital Assets

Investment in capital assets as of June 30, 2017 totaled \$747,532 net of accumulated depreciation.

Table 3
Capital Assets (net of depreciation)

	6/30/2017	6/30/2016	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Buildings	\$ 487,301	\$ -	\$ 487,301	-
Land	208,000	-	208,000	-
Store equipment	65,605	-	65,605	-

Total Capital Assets	760,906	-	760,906	-
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Debt Administration

Long-term debt consists of compensated absences payable to Board employees and notes payable associated with a second store.

Table 4
Summary of Changes in Long Term Debt

	6/30/2017	6/30/2016	\$ Change This Yr Over Last Yr	%Change This Yr Over Last Yr
Compensated Absences	\$ 522	\$ -	\$ 522	-
Notes Payable	625,000	-	625,000	-
Total Long Term Debt	625,522	-	625,522	-

Economic Factors

The area in which the Board operates is beginning to show slight improvement from the economic downturn affecting the area.

Requests for Information

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

Ms. Evalyn Wall, Manager
Troutman ABC Board
511 N. Main St.
Troutman, NC

Town of Troutman ABC Board
(A component unit of the Town of Troutman Government)
Statement of Net Position
As of June 30, 2017

		2017
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 121,192.80	
Inventory	96,983.05	
Total Current Assets		\$ 218,175.85
Non-current Assets		
Property, Plant & Equipment		
Net of Accumulated Depreciation		747,531.90
Total Assets		\$ 965,707.75
Liabilities		
Current Liabilities		
Accounts Payable	\$ 65,523.10	
Payroll Taxes Payable	3,874.18	
Mixed Beverage Tax (DHR) Payable	3.18	
Alcohol Taxes Payable	24,336.00	
Alcohol Taxes (Iredell County) Payable	343.84	
Wine/Mixer Tax Payable	29.87	
Sales Tax Payable	7,674.34	
Due to Law Enforcement & Rehab Payable	1,454.00	
Total Current Liabilities		\$ 103,238.51
Non-Current Liabilities		
Compensated Absences Payable	521.82	
Notes Payable	625,000.00	
Total Non-current Liabilities		625,521.82
Total Liabilities		728,760.33
Net Position		
Invested in Capital Assets		
net of related debt	122,531.90	
Restricted:		
Minimum Working Capital	21,111.00	
Unrestricted	93,304.52	
Total Net Position		236,947.42
Total Liabilities and Net Position		\$ 965,707.75

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

Town of Troutman ABC Board
(A component unit of the Town of Troutman Government)
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

		2017
Operating Revenue		
Liquor Sales - Regular	\$ 703,326.50	
Mixed Beverage Sales	2,077.00	
Wine Sales	2,695.15	
Total Gross Sales		\$ 708,098.65
Deduct Taxes on Gross Sales		
State Excise Tax	156,773.00	
Mixed Beverage Tax - Revenue	217.00	
Mixed Beverage Tax - Human Resources	21.58	
Rehabilitation Tax	2,220.97	
Wine Sales Tax	186.63	
Total Taxes		159,419.18
Net Sales		548,679.47
Deduct Cost of Sales		
Cost of Liquor and Wine Sold		377,199.24
Gross Profit on Sales		171,480.23
Deduct Operating Expenses		
Store Expenses	113,797.61	
Depreciation Expenses	13,373.99	
Total Operating Expenses		127,171.60
Income From Operations		44,308.63
Non-Operating Revenues (Expenses)		
Interest Expense	(13,909.08)	
Interest Income	1.87	
Total Non-Operating Revenues (Expenses)		(13,907.21)
Change in Net Position Before Distributions		30,401.42
Deduct		
Law Enforcement	606.00	
Alcohol Education	848.00	
Total Distributions		1,454.00

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

Town of Troutman ABC Board
(A component unit of the Town of Troutman Government)
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Change in Net Position Before Profit Distributions	28,947.42
Profit Distributions	
Town of Troutman	-
Total Profit Distributions	-
Change in Net Position	28,947.42
Net Position, Beginning of Year	-
Donated Land	208,000.00
Net Position End of Year	\$ 236,947.42

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

Town of Troutman ABC Board
(A component unit of the Town of Troutman Government)
Statement of Cash Flows
For the Year ended June 30, 2017

	2017	
Cash flows from operating activities		
Cash received from customers	\$ 757,537.08	
Payments for inventory costs	(405,160.79)	
Payments for operating expenses	(111,120.45)	
Taxes paid	(178,249.94)	
Other		
Net cash provided (used) by operating activities		63,005.90
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(552,905.89)	
Proceeds from borrowings	625,000.00	
Interest paid on loans and contracts	(13,909.08)	
Net cash provided (used) by capital and related financing activities		58,185.03
Cash flows from non-capital financing activities		
Law enforcement distributions	-	
Alcohol education distributions	-	
Net cash provided (used) by non-capital financing activities		-
Cash flows from investing activities		
Interest earned	1.87	
Net cash provided (used) by investing activities		1.87
Net increase (decrease) in cash		121,192.80
Cash at beginning of year		-
Cash at end of year		\$ 121,192.80
Reconciliation of income from operations to net cash provided (used) by operating activities		
Income from operations		\$ 44,308.63
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:		
Depreciation	13,373.99	
Changes in assets and liabilities		
(Increase) in Inventory	(96,983.05)	
Increase in Accounts Payable	102,306.33	
Total Adjustments		18,697.27
Net cash provided (used) by operating activities		\$ 63,005.90

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

Town of Troutman ABC Board
Notes to the Financial Statements

1. **Summary of Significant Accounting Policies**

- A. Principles used in determining the scope of the entity for financial reporting.

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

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

- B. Organizational History

The Board was organized under the provisions of Senate Bill #1092, Chapter 509 of the North Carolina Legislature, General Assembly of 1973 and implemented by a City wide election held July 10, 2014. The Troutman Town Council appointed five individuals to serve on the Board with terms of three years, on a staggered basis.

The Board, as provided by North Carolina Alcoholic Beverage Control laws, operates a retail liquor store. 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 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 assets 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. As permitted, the Board has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its proprietary operation, unless those pronouncements conflict with or contradict GASB pronouncements.

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 certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

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 when due and the ABC Board has a legal requirement to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value. At June 30, 2017 the Board had no participants.

G. Assets, Liabilities and Net Assets

Deposits

All deposits of the Town of Troutman ABC Board are made in Board-designated official depositories but are not collateralized as required by 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.

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

At June 30, 2017 the ABC Board's deposits had a carrying value of \$117,992.80 and a bank balance of \$109,802.59. The Board maintains accounts at a single institution. Bank balances up to \$250,000 at each institution are covered by federal depository insurance. As of June 30, 2017 the Board had no uninsured balances. Amounts in excess of the federal depository insurance limits are collateralized under the Pooling Method.

Investments

State law G.S. 159-30(c) authorizes the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC registered (2a-7) money market mutual fund.

At June 30, 2017 the Town of Troutman ABC Board had no investments.

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated				
Land	\$ 0.00	208,000.00		\$ 208,000.00
Total capital assets not being depreciated	0.00	0.00	0.00	208,000.00
Capital assets being depreciated				
Buildings	0.00	487,300.71		487,300.71
Furniture, Fixtures and Equipment	0.00	65,605.18		65,605.18
Total capital assets being depreciated	0.00	552,905.89	0.00	552,905.89
Less accumulated depreciation for:				
Buildings	0.00	7,288.68		7,288.68
Furniture, Fixtures & Equipment	0.00	6,085.31		6,085.31
Total capital assets being depreciated	0.00	13,373.99	0.00	13,373.99
Capital Assets, net	\$ 0.00	\$747,531.90	\$ -	\$747,531.90

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

Net Position

Net position may consist of the following:

1. Net investment in capital assets – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather that portion of debt is included in the same net assets component as the unspent proceeds.
2. Restricted for law enforcement - this applies only when the ABC Board employs its own ABC officer.
3. Restricted for capital improvements – State law [G.S. 18B-805(d)] requires approval of the appointing authority to establish this account. As of June 30, 2017, no such account had been established.
4. 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 nor greater than four months' average gross sales of the last fiscal year. Average gross sales means gross receipts from the sale of alcoholic beverages less distributions required by G.S. 18B-805(b), (2), (3) and (4).
5. Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

2. **Stewardship, Compliance and Accountability**

Noncompliance with N.C. General Statutes

At June 30, 2017 there were no instances of noncompliance with N.C. General Statutes.

3. **Pension Plan Obligations**

A. Local Government Employees' Retirement System

Plan Description. The Town of Troutman ABC Board is expected to be a participating employer in the state wide Local Governmental 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, or by calling (919) 981-5454 or at www.osc.nc.gov.

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, 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 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 age 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 increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full 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.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The ABC 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 ABC Board's contractually required contribution rate for the year ended June 30, 2017 was 0.00% of compensation for law enforcement officers and 0.00% for general employees, actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the ABC Board were \$0.00 for the year ended June 30, 2017.

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 no liability for its proportionate share of the net pension liability. The net pension asset was measured at June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension asset 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, 2015, the Board's proportion was 0.000% which was an increase of 0.000% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2017, the Board recognized plan expense of \$0.00. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to measurement date	-	-

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

Future Amortization

Year ended June 30,	
2018	-
2019	-
2020	-
2021	-
2022	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	4.25-8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment Expenses, including inflation.

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant white papers, 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, 2014 are summarized in the following table:

<u>Asset Class</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	<u>6.0%</u>	<u>4.0%</u>
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 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 assumption of 3.19%. 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.

Sensitivity of the Board’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Board’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	Current Discount Rate		
	1% Decrease	7.25%	1% Increase
	6.25%	7.25%	8.25%
Sensitivity of the net pension liability (asset) to changes in discount rate	-	-	-

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Financial Report (CAFR) for the State of North Carolina.

B. Law Enforcement Officers’ Special Separation Allowance

Plan Description.

The ABC Board administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the ABC Board’s qualified sworn law enforcement officers. 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 authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Board has no participants in the Plan.

A separate report was not issued for the Plan.

The Separation allowance has no assets accumulated in a trust that does not meet the following criteria which are outlined in GASB Statements 67 and 68:

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

Summary of Significant Accounting Policies:

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

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

C. Section 401(k) Plan

The Board does not currently maintain a 401(k) Plan.

4. **Notes Payable**

The Board has a note payable with a bank secured by real estate. At June 30, 2017 the outstanding balance was \$625,000.00. Monthly payments are for interest only for the first 24 months. The note bears interest at a rate of 3.47% per annum. Maturity is April, 2022. Interest expense was \$13,909.08.

Maturities are as follows:

2018	\$ 3,620.89
2019	22,169.98
2020	22,951.64
2021	23,760.84
Beyond	552,496.65

The Board has a line of credit with a bank that is unsecured. At June 30, 2017 the outstanding balance was \$0.00. The note bears interest at prime + 0.25% per annum and matures October 1, 2019.

5. **Vacation and Sick Leave Compensation**

The Town of Troutman ABC 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 was \$521.82. The current portion of the accumulated vacation pay is not considered material.

6. **Distributions of Income**

The Board made distributions for the current year as follows:

Town of Troutman (100%)	\$ 0.00
-------------------------	---------

State law [G.S. 18B-805] requires that the minimum distributions 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 elected to maintain working capital in the mid-range between

required minimum and maximum working capital amounts. The Board retained \$28,947.42 in profits to meet this target.

7. **Law Enforcement and Alcohol Education Expenses**

The Board is required by law to expend at least 5% of its profits for law enforcement and not less than 7% for alcohol education (alcohol education requirement follows local enabling act). Profits are defined by law for the calculations as income before law enforcement and educational expenses, less 3 ½% markup provided in G.S. 18B-804(b)(5) and the bottle charge provided for in G.S. 18B-804(b)(6b).

Expenditure of Alcoholism funds distributed under G.S. 18B-805(b)(4) and G.S. 18B-805(c)(3) are to be spent for the treatment of alcoholism or substance abuse. G.S. 18B-805(h) requires that the minutes of the board of county commissioners or local board spending such funds shall describe the activity for which the funds are to be spent. Any agency or person receiving funds from the county commissioners or local board shall submit an annual report to the board or county commissioners or local board from which the funds were received, describing how the funds were spent.

	<u>2017</u>	<u>2016</u>
Profit Before Distributions	\$ 30,401	\$ -
Less: 3 1/2% Tax and Bottle Charge	<u>18,284</u>	<u>-</u>
Profit Subject to Expense Percentage	12,117	-
Law Enforcement - Actual	606	-
(Percentage of Profit)	5.00%	-
Provision for Alcohol Education	848	-
(Percentage of Profit)	7.00%	-

8. **Disbursements of Taxes Included in Selling Price**

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

Taxes payable 7/01/16	\$	0.00
Taxes collected during the year		156,773.00
Taxes remitted to Department of Revenue		132,437.00
Taxes payable 6/30/17		24,336.00

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

The accrued North Carolina excise tax at June 30, 2017 was remitted to the North Carolina Department of Revenue on July 3, 2017.

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	40,421 @ \$0.05	\$2,021.05
Mixed Beverage Bottles	111 @ \$0.05	193.88
Miniature Bottles	19,388 @ \$0.01	<u>5.55</u>
		<u>\$2,220.48</u>

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

The mixed beverage tax for the year was:

Department of Revenue (50%)	\$ 217.50
Department of Human Resources (5%)	21.75
Profit Retained (45%)	<u>195.75</u>
Total	<u>\$ 435.00</u>

10. **Surcharge Collected**

The total amount of Surcharge collected for the fiscal year was \$5,844. The current rate is \$1.40 per case sold.

11. The Town of Troutman ABC Board operated a single retail outlet:

511 North Main Street, Troutman, NC

12. The Town of Troutman ABC Board is required by the Alcoholic Beverage Control Commission rule .0902 to set its working capital requirements at not less than two weeks average gross sales of the last fiscal year. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805(b)(2), (3) and (4).

The Town of Troutman ABC Board's position on this requirement is as follows:

Minimum Amount	\$ 21,111.00
Maximum Amount	137,219.00
Actual Amount	114,594.00

The Board has met the minimum amount of working capital.

13. **Liquor Sales Tax**

The total amount of sales tax collected by the ABC Board and remitted to the Department of Revenue for the fiscal year was \$49,428.37. The current rate is 7%.

14. **Breakage Expense**

Breakage expense absorbed by the Board for the year was \$0.00.

15. **Risk Management**

The Town of Troutman ABC 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 ABC Board has property, general liability, auto liability, workmen's compensation and employee health coverage. The Board also has liquor legal liability.

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.

The Board maintains surety bonds on all Board members, General Manager and Financial Officer in accordance with G.S. 18B-700(i). Each is covered against loss up to \$50,000.

Supplementary Information

**(The following schedules are information the
ABC Commission requires.)**

Town of Troutman ABC Board
Schedule of Store Expenses
For the Fiscal Years Ended June 30, 2017 and June 30, 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Salaries & Wages	\$ 62,122.76	\$ 0.00
Payroll Tax Expense	5,778.04	0.00
Insurance	13,078.68	0.00
Interest Expense	13,909.08	0.00
Cash Over/(Short)	(25.00)	0.00
Repairs & Maintenance	6,354.55	0.00
Utilities	3,498.30	0.00
Telephone	1,842.04	0.00
Store Supplies	3,662.53	0.00
Credit Card Expense	9,035.20	0.00
Bank Charges	750.00	0.00
Training	150.00	0.00
Office & Postage	4,595.81	0.00
Miscellaneous	280.95	0.00
Maintenance Agreements	1,347.67	0.00
Professional Fees	677.50	0.00
Dues & Subscriptions	410.00	0.00
	<hr/>	<hr/>
Total Store Expenses	<u>\$ 127,468.11</u>	<u>\$ 0.00</u>

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

Town of Troutman ABC Board
Schedule of Revenues and Expenditures - Budget and Actual
For the Year ended June 30, 2017

	2017 Original Budget	2017 Revised Budget	2017 Actual	Variance Positive (Negative)
Revenues:				
Operating Revenues:				
Liquor Sales - Regular			\$ 703,287	
Mixed Beverage Sales			2,077	
Wine/Mixer Sales			2,744	
Total	\$ 465,807	\$ 690,900	708,108	17,208
Non-Operating Revenues:				
Interest	-	-	2	2
Other	-	-	-	-
Total	-	-	2	2
Total Revenues	465,807	690,900	708,110	17,210
Expenditures				
Taxes Based on Revenue				
State Excise Tax		154,500	156,773	(2,273)
Mixed Beverage Tax (Revenue)		275	217	58
Mixed Beverage Tax (Human Resources)		35	22	13
Rehabilitation Tax		2,200	2,221	(21)
Wine/Mixer Sales Tax		190	187	3
Total	107,136	157,200	159,419	(2,219)
Cost of Goods Sold	251,536	366,177	377,199	(11,022)
Operating Expenses				
Salaries & Benefits	44,890	56,200	62,123	(5,923)
Payroll Taxes	3,367	16,500	5,778	10,722
Employee Benefits	3,350	6,000	-	6,000
Board Costs	-	-	-	-
Utilities	6,700	3,400	3,498	(98)
Telephone/Internet	804	1,650	1,842	(192)
Insurance	3,498	3,275	13,079	(9,804)
Repairs & Maintenance	-	1,400	6,355	(4,955)
Maintenance Agreements	-	1,300	1,348	(48)
Delivery	-	12,000	-	12,000
Computer/Network/Data Processing	-	1,200	-	1,200
Bank & Credit Card Fees	3,726	8,900	9,785	(885)
Store & Office Expenses	2,100	2,400	8,258	(5,858)
Professional Fees	3,000	3,600	678	2,923
Travel, Training & Conferences	2,000	600	399	201
Dues & Subscriptions	-	150	410	(260)
Postage	50	360	-	360
Security System	-	-	-	-
Miscellaneous	3,000	175	256	(81)
Total	76,485	119,110	113,808	5,302

Capital Outlay

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

Town of Troutman ABC Board
Schedule of Revenues and Expenditures - Budget and Actual
For the Year ended June 30, 2017

	2017 Original Budget	2017 Revised Budget	2017 Actual	Variance Positive (Negative)
Building, Furniture, Fixtures & Equipment	-	-	-	-
Donated Land	-	-	(208,000)	208,000
From Construction Loan	-	-	-	-
From Administrative Reserves	-	-	-	-
Total	-	-	(208,000)	208,000
Debt Service				
Principal Payments on Construction Loan	-	-	-	-
Interest Payments on Construction Loan	20,379	12,750	13,909	(1,159)
Total	20,379	12,750	13,909	(1,159)
Total Expenditures	455,536	655,237	456,335	(9,098)
Distributions				
Law Enforcement	1,359	874	606	268
Alcohol Education	-	1,245	848	397
Town of Troutman	-	-	-	-
Total	1,359	2,119	1,454	665
Total Expenditures & Distributions	456,895	657,356	457,789	(8,433)
Revenues over Expenses	8,912	33,544	250,321	25,643
Other Financing (Uses)				
Working Capital Retained	-	-	-	-
Working Capital (Used) Added	-	-	-	-
Unrestricted Funds	-	-	-	-
Total	-	-	-	-
Revenues over Expenditures and Other Financing Uses	8,912	33,544	250,321	25,643
Reconciliation from Budgetary Basis (modified accrual) to Full Accrual				
Increase in Accrued Vacation Pay			-	
Depreciation			13,374	
Total			13,374	
Change in Net assets			\$ 236,947	

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