

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**

Financial Statements
For the Years Ended June 30, 2017 and 2016

COMBS, 
TENNANT & CARPENTER, P.C.
Certified Public Accountants

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**

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June 30, 2017 and 2016

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**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**

Board of Directors

Mike Tarlton

Donna Dicks

Winston Ammann

Alternates

David Miller

Robin Dunn

Sarah Manning

COMBS,
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INDEPENDENT AUDITORS' REPORT

Board of Directors
High Country Municipal Alcoholic Beverage Control Board
Banner Elk, North Carolina 28604

Report on the Financial Statements

We have audited the accompanying financial statements of the High Country Municipal Alcoholic Beverage Control Board, 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.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 5 and the Local Government Employees' Retirement System's Proportionate Share of Net Pension Liability (Asset) and Schedule of Contributions on pages 19 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

COMBS, TENNANT & CARPENTER, P.C.

COMBS, TENNANT & CARPENTER, P.C.
Certified Public Accountants
Boone, NC

August 18, 2017

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Management's Discussion and Analysis

This section of the High Country Municipal Alcoholic Beverage Control Board's (*the ABC Board*) financial report represents our discussion and analysis of the financial performance of the ABC 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

- The ABC Board operated one location during the period.
- Working capital increased from \$260,878 to \$320,651
- 15.71% of profits were expended for law enforcement and alcohol education in the current year.

Overview of the Financial Statements

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

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

The *Basic Financial Statements* are prepared using the full accrual basis of accounting. They consist of three statements. The first statement is the **Statements of Net Position**. Assets and liabilities are classified between current and long-term. This statement provides a summary of the ABC 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 **Statements of Revenues, Expenses, and Changes in Net Position**. This statement is used in evaluating whether the ABC Board has recovered all of its costs through sales. Its information is used in determining credit worthiness.

The final required statement is the **Statements 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 **Schedules of Store Expenses, Schedules of Administrative Expenses, and a Budget to Actual Reconciliation**.

Financial Analysis of the ABC Board

Net assets are an indicator of the fiscal health of the ABC Board. Assets and deferred outflows exceeded liabilities and deferred inflows by \$914,698 at June 30, 2017, \$882,035 at June 30, 2016 and by \$896,771 at June 30, 2015. The largest component of net position was the investment in capital assets. It was 63.79% of the total net position for 2017, 68.76% for 2016 and 70.32% for 2015. Following is a summary of the Statements of Net Position:

Table 1
Condensed Statements of Net Position

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Current assets	\$ 694,316	\$ 446,663	\$ 640,802	\$ 247,653	55.45%
Non-current assets	583,512	606,493	646,921	(22,981)	-3.79%
Deferred outflows of resources	61,022	23,111	23,642	37,911	164.04%
Total assets and deferred outflows of resources	<u>1,338,850</u>	<u>1,076,267</u>	<u>1,311,365</u>	<u>262,583</u>	<u>24.40%</u>
Current liabilities	365,280	176,089	374,923	189,191	107.44%
Non-current liabilities	56,879	11,938	-	44,941	100.00%
Deferred inflows of resources	1,993	6,205	39,671	(4,212)	-67.88%
Total liabilities and deferred inflows of resources	<u>424,152</u>	<u>194,232</u>	<u>414,594</u>	<u>229,920</u>	<u>118.37%</u>
Net investment in capital assets	583,512	606,493	630,644	(22,981)	-3.79%
Restricted net position	94,426	86,270	81,130	8,156	9.45%
Unrestricted net position	236,760	189,272	184,997	47,488	25.09%
Total net position	<u>\$ 914,698</u>	<u>\$ 882,035</u>	<u>\$ 896,771</u>	<u>\$ 32,663</u>	<u>3.70%</u>

Net position increased by 3.70% from 2016 compared to a 1.64% decrease between 2016 and 2015. Income from operations increased by 16.42% from 2016 and decreased by 2.64% between 2016 and 2015. Following is a summary of the changes in net position:

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

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	\$ Change This Yr Over Last Yr	% Change This Yr Over Last Yr
Operating revenues	\$ 3,219,747	\$ 2,938,873	\$ 2,771,226	\$ 280,874	9.56%
Less: Taxes on gross sales	757,168	691,815	654,880	65,353	9.45%
Net sales	<u>2,462,579</u>	<u>2,247,058</u>	<u>2,116,346</u>	<u>215,521</u>	<u>9.59%</u>
Cost of sales	1,656,924	1,512,278	1,427,749	144,646	9.56%
Gross profit	805,655	734,780	688,597	70,875	9.65%
Less: Operating expenses	482,981	457,626	403,941	25,355	5.54%
Income from operations	322,674	277,154	284,656	45,520	16.42%
Nonoperating revenues and expenses	1,983	1,790	1,508	193	10.78%
Change in net position before distributions	324,657	278,944	286,164	45,713	16.39%
Distributions	291,994	293,680	284,341	(1,686)	-0.57%
Change in net position	32,663	(14,736)	1,823	47,399	321.66%
Net position, beginning	882,035	896,771	905,912	(14,736)	-1.64%
Net position, ending	<u>\$ 914,698</u>	<u>\$ 882,035</u>	<u>\$ 896,771</u>	<u>\$ 32,663</u>	<u>3.70%</u>

Following is a breakdown of sales by source:

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>This Yr Over Last Yr</u>	<u>This Yr Over Last Yr</u>
Retail Liquor Sales	\$ 2,500,772	\$ 2,300,055	\$ 2,183,742	\$ 200,717	8.73%
Mixed Beverage Sales	710,904	630,671	580,026	80,233	12.72%
Retail Wine Sales	<u>8,071</u>	<u>8,147</u>	<u>7,458</u>	<u>(76)</u>	<u>-0.93%</u>
Total Sales	\$ 3,219,747	\$ 2,938,873	\$ 2,771,226	\$ 280,874	9.56%

The percentage of mixed beverage sales to the total increased by 0.62% in 2017 and increased by 0.53% in 2016 compared to 2015.

Capital Asset and Debt Administration **Capital Assets**

Investment in capital assets as of June 30, 2017, totals \$583,512 (net of accumulated depreciation).

No major capital asset transactions occurred during the year.

	Capital Assets (net of depreciation)			\$ Change	% Change
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>This Yr Over Last Yr</u>	<u>This Yr Over Last Yr</u>
Building and improvements	\$ 551,294	\$ 573,047	\$ 594,801	\$ (21,753)	-3.80%
Machinery and equipment	41	686	1,916	(645)	-94.02%
Furniture and fixtures	-	583	1,750	(583)	-100.00%
Construction in progress	-	-	-	-	0.00%
Land	<u>32,177</u>	<u>32,177</u>	<u>32,177</u>	<u>-</u>	<u>0.00%</u>
Total	\$ 583,512	\$ 606,493	\$ 630,644	\$ (22,981)	-3.79%

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

Debt Administration

As of June 30, 2017, the ABC Board had no outstanding debt.

Request 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:

Sara Brewer, Manager
High Country Municipal ABC Board
PO Box 1508
Banner Elk, NC 28604

BASIC FINANCIAL STATEMENTS

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**

Statements of Net Position
As of June 30, 2017 and 2016

<u>Assets</u>	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 404,589	\$ 178,535
Inventories	281,342	258,432
Prepaid expenses	8,385	9,696
Total current assets	694,316	446,663
Noncurrent assets:		
Net pension asset	-	-
Plant and equipment (net of accumulated depreciation)	583,512	606,493
Total assets	\$ 1,277,828	\$ 1,053,156
 <u>Deferred Outflows of Resources</u>		
Deferred outflows of resources related to pensions	\$ 61,022	\$ 23,111
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable - trade	162,250	90,616
Accounts payable - other	115,620	7,502
Accrued salaries	7,808	7,965
Accrued vacation	7,978	10,528
Law enforcement payable	-	(3,111)
Alcohol education payable	7,874	(1,161)
Distributions payable	63,750	63,750
Total current liabilities	365,280	176,089
Non-current liabilities:		
Net pension liability	56,879	11,938
Total liabilities	422,159	188,027
 <u>Deferred Inflows of Resources</u>		
Deferred inflows of resources related to pensions	1,993	6,205
 Net Position:		
Net investment in capital assets	583,512	606,493
Restricted for working capital	94,426	86,270
Unrestricted	236,760	189,272
Total net position	\$ 914,698	\$ 882,035

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

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**
Statements of Revenues, Expenses and Changes in Net Position
For the Twelve Months Ended June 30, 2017 and 2016

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Operating revenue:		
Liquor sales	\$ 2,500,772	\$ 2,300,055
Mixed beverage sales	710,904	630,671
Wine sales	8,071	8,147
	<u>3,219,747</u>	<u>2,938,873</u>
Total gross sales		
Deduct taxes on gross sales:		
State excise tax	688,396	628,948
Mixed beverage tax (Revenue)	55,039	50,229
Mixed beverage tax (Human Resources)	5,504	5,023
Rehabilitation tax (County)	7,664	7,102
Wine Sales tax	565	513
	<u>757,168</u>	<u>691,815</u>
Total taxes		
Net sales	2,462,579	2,247,058
Deduct cost of sales	1,656,924	1,512,278
Gross profit on sales	<u>805,655</u>	<u>734,780</u>
Deduct operating expenses:		
Store expenses	432,586	402,072
Administrative expenses	27,413	31,403
Depreciation	22,982	24,151
	<u>482,981</u>	<u>457,626</u>
Total operating expenses		
Income from operations	<u>322,674</u>	<u>277,154</u>
Nonoperating revenues and expenses:		
Interest income	1,983	1,790
Interest expense	-	-
	<u>1,983</u>	<u>1,790</u>
Total nonoperating revenues (expenses)		
Change in net position before distributions	<u>324,657</u>	<u>278,944</u>
Deduct:		
Law enforcement	(20,512)	(9,867)
Alcohol education	(16,482)	(13,813)
	<u>287,663</u>	<u>255,264</u>
Change in net position before profit distributions		
Profit distributions:		
Town of Banner Elk	85,000	90,000
Town of Seven Devils	85,000	90,000
Town of Sugar Mountain	85,000	90,000
	<u>255,000</u>	<u>270,000</u>
Total profit distributions		
Change in net position	<u>32,663</u>	<u>(14,736)</u>
Net position, beginning of period	882,035	896,771
Restatement	-	-
Net position, beginning of period, restated	<u>882,035</u>	<u>896,771</u>
Net position, end of period	<u>\$ 914,698</u>	<u>\$ 882,035</u>

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

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**
Statements of Cash Flows
For the Twelve Months Ended June 30, 2017 and 2016

	<u>2017</u>	<u>June 30</u> <u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,219,747	\$ 2,938,873
Payments for inventory costs	(1,679,834)	(1,505,766)
Payments for operating expenses	(359,890)	(624,322)
Taxes paid	(676,103)	(691,815)
	503,920	116,970
Cash flows from non-capital financing activities:		
Distributions to Town	(255,000)	(270,000)
Distributions- Alcohol education	(7,448)	(17,047)
Distributions- Law enforcement	(17,401)	(16,968)
	(279,849)	(304,015)
Cash flows from investing activities:		
Interest income	1,983	1,790
	1,983	1,790
Net cash provided (used) by investing activities	1,983	1,790
Net increase (decrease) in cash and cash equivalents	226,054	(185,255)
Cash and cash equivalents, beginning of period	178,535	363,790
Cash and cash equivalents, end of period	\$ 404,589	\$ 178,535
Reconciliation of income from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 322,674	\$ 277,154
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:		
Depreciation	22,982	24,151
Changes in assets and liabilities:		
(Increase) decrease in inventories	(22,910)	6,512
(Increase) decrease in prepaid expenses	1,311	2,372
(Increase) decrease in net pension asset	-	16,277
(Increase) decrease in deferred outflows of resources	(37,911)	531
Increase (decrease) in accounts payable	179,752	(190,000)
Increase (decrease) in accrued salaries	(157)	2,440
Increase (decrease) in accrued vacation	(2,550)	(939)
Increase (decrease) in net pension liability	44,941	11,938
Increase (decrease) in deferred inflows of resources	(4,212)	(33,466)
	181,246	(160,184)
Total adjustments	181,246	(160,184)
Net cash provided (used) by operating activities	\$ 503,920	\$ 116,970

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

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**

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 High Country Municipal Alcoholic Beverage Control Board is a corporate body with powers outlined by General Statutes [Chapter 18B-701].

The ABC Board is required by State Statute to distribute its surpluses to the General Fund of the towns of Banner Elk, Seven Devils and Sugar Mountain, which represents a financial benefit to the Towns. Until such time as cumulative surplus distributions total \$700,000, the percentage to be distributed to each town was Seven Devils 50%, Banner Elk 30%, and Sugar Mountain 20%. Due to Seven Devils having the largest economic benefit, High Country Municipal ABC Board was reported as a discretely presented component unit in the Town of Seven Devils' financial statements. Beginning after the cumulative distributions to all three towns totaled \$700,000, the consolidated ABC board began paying equal shares (33 1/3%) to the general funds of the three towns. This occurred in December of 2003. Subsequently, High Country Municipal ABC Board is no longer presented as a component unit in the Town of Seven Devils' financial statements.

- B. Organizational History** - The Board was organized by resolutions of the Town of Banner Elk on September 29, 1998, the Town of Seven Devils on October 5, 1998, and the Village of Sugar Mountain on September 28, 1998, pursuant to G.S. 18B605. The Board is comprised of three members and an alternate for each member, one member and one alternate to be appointed by the governing body of each town.

The ABC Board, as provided by North Carolina Alcoholic Beverage Control laws, operates one liquor store, and through its law enforcement division, investigates violations of such laws. North Carolina General Statute [18B-805(c)(2)(3)] requires that the ABC board expend at least 5% of profits for law enforcement and at least 7% of the same profits for alcohol education and rehabilitation purposes.

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

G. Assets, Liabilities, and Net Position -

Deposits - All deposits of the High Country Municipal Alcoholic Beverage Control Board are made in board-designated official depositories and are collateralized as required by State Law [G.S. 159-31]. The ABC Board may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the ABC Board may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

All of the ABC Board's deposits are 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 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 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. The Board has no policy regarding custodial credit risk for deposits.

At June 30, 2017, the ABC Board's deposits had a carrying amount of \$404,589 and a bank balance of \$362,779. \$250,000 of the bank balance was covered by federal depository insurance and the remainder was covered under the pooling method.

At June 30, 2016, the ABC Board's deposits had a carrying amount of \$45,731 and a bank balance of \$209,009. All of the bank balance was covered by federal depository insurance.

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.

The ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by either quoted market prices, significant other observable inputs, or significant unobservable inputs. Non-participating interest earning contracts and the NCCMT, an SEC registered 2a7 external investment pool, are measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued based at fair value as determined by significant other observable inputs. At June 30, 2017 the ABC Board's NCCMT investment was \$0. At June 30, 2016, the ABC Board's NCCMT investment was \$132,804.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the High Country Municipal Alcoholic Beverage Control Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 32,177	\$ -	\$ -	\$ 32,177
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>32,177</u>	-	-	<u>32,177</u>
Capital assets being depreciated:				
Building and improvements	817,217	-	-	817,217
Machinery and equipment	37,375	-	-	37,375
Furniture and fixtures	45,946	-	-	45,946
Total capital assets being depreciated	<u>900,538</u>	-	-	<u>900,538</u>
Less accumulated depreciation for:				
Building and improvements	244,170	21,753	-	265,923
Machinery and equipment	36,689	645	-	37,334
Furniture and fixtures	45,362	584	-	45,946
Total accumulated depreciation	<u>326,222</u>	<u>\$ 22,982</u>	<u>\$ -</u>	<u>349,203</u>
Total capital assets being depreciated, net	<u>574,316</u>			<u>551,335</u>
Capital assets, net	<u>\$ 606,493</u>			<u>\$ 583,512</u>

Net Position – Net position may consist of the following:

- 1) **Net Investment in Capital Assets** – This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- 2) **Restricted for law enforcement** - this applies only when the ABC Board employs its own ABC officer.
- 3) **Restricted for capital improvements** - G.S. 18B-805(d) requires approval of the appointing authority to establish this amount.
- 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 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 G.S. 18B-805(b), (2), (3) and (4).
- 5) **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*.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There were no instances of material matters of noncompliance with federal and state General Statute requirements.

3. **PENSION PLAN OBLIGATIONS**

Local Government Employee's Retirement System

Plan Description. The ABC 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 government 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 Government 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 (910)-981-5454, or at 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, 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 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 benefit increases. Increases are contingent upon actuarial gains of the plan.

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

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 7.30% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the ABC Board were \$16,015 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 a liability of \$56,879 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, 2015. 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 0.0027% which was an increase of 0.0056% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Board recognized pension expense of \$18,647. 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	1,069	1,993
Changes of assumptions	3,896	-
Net difference between projected and actual earnings on pension plan investments	31,447	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,505	-
Employer contributions subsequent to the measurement date	16,105	
Total	<u>\$ 61,022</u>	<u>\$ 1,993</u>

\$16,015 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 8,670
2019	8,651
2020	15,998
2021	9,605
2022	-
Thereafter	-
	<u>\$ 42,924</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	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

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

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

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

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

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
ABC Board's proportionate share of the net pension liability (asset)	134,999	56,879	(8,374)

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.

4. LONG-TERM INDEBTEDNESS:

The Board had no long-term debt outstanding at June 30, 2017.

5. VACATION AND SICK LEAVE

ABC Board employees may accumulate up to forty days earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2017 and 2016 amounted to approximately \$7,978 and \$10,528, respectively, and is reflected in the financial statements.

Employees can accumulate an unlimited amount of sick leave. Sick leave does not vest but unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefits purposes. Since the Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

6. DISTRIBUTIONS OF INCOME

The Board has made the following distributions since its inception:

<u>This Year</u>	<u>To Date</u>
\$ 255,000	\$ 3,972,502

State law [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.

7. LAW ENFORCEMENT AND ALCOHOL EDUCATION EXPENSES

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

Profits before distributions	\$ 324,657
Less: 3 1/2% tax and bottle charge	<u>89,199</u>
Profit subject to expense percentages	<u>\$ 235,458</u>
Law enforcement expenditures	<u>\$ 20,512</u>
-actual (percent of profit)	<u>8.71%</u>
Provision for alcohol education and rehabilitation	<u>\$ 16,482</u>
-actual(percentage of profit)	<u>7.00%</u>

8. DISBURSEMENT OF TAXES INCLUDED IN SELLING PRICE

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

Taxes payable 7/1/2016	\$	-
Taxes collected during the year	\$	688,396
Taxes remitted to Department of Revenue	\$	607,331
Taxes payable 06/30/2017	\$	81,065

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 period, payments to the county were based on the following bottle sales:

Regular Bottles	117,736	@ 5 cents =	\$	5,887
Mixed Beverage Bottles	28,205	@ 5 cents =		1,410
Miniature Bottles	36,692	@ 1 cent =		<u>367</u>
Total payments for the year		=	\$	<u>7,664</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 period was:

Department of Revenue (50%)	\$	55,039
Department of Human Resources (5%)		5,504
Profit Retained (45%)		<u>49,535</u>
Total	\$	<u>110,078</u>

9. SURCHARGE COLLECTED:

The total amount of Surcharge collected for the period was \$22,454. (The rate increased May 1, 2015 from 80 cents per case sold to \$1.40 per case sold.)

10. LIQUOR SALES TAX:

The total amount of sales tax collected by High Country Municipal Alcoholic Beverage Control Board and remitted to the Department of Revenue for the period was \$174,546. The current sales tax rate is 7%.

11. MAINTENANCE OF WORKING CAPITAL

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

The board's position on this requirement is as follows:

Minimum Amount	\$	94,426
Maximum Amount	\$	613,768
Actual Amount	\$	320,651

The board has met the minimum amount of working capital.

12. RISK MANAGEMENT

The High Country Municipal Alcoholic Beverage Control Board is exposed to various risks of loss related to torts; thefts 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.

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.

13. RELATED ORGANIZATIONS

Effective November 1, 1998, the Alcoholic Beverage Control Boards of the towns of Seven Devils, Banner Elk, and Sugar Mountain were merged into the High Country Municipal Alcoholic Beverage Control Board. Profits from the High Country Municipal Alcoholic Beverage Control Board are distributed pursuant to an agreement signed by the three towns.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 18, 2017, the date on which the financial statements were available to be issued.

**REQUIRED
SUPPLEMENTARY INFORMATION**

**High Country Municipal Alcoholic Beverage Control Board
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) (%)	0.0027%	0.0027%	(0.0028%)	0.0021%
ABC Board's proportion of the net pension liability (asset) (\$)	\$ 56,879	\$ 11,938	\$ (16,277)	\$ 25,313
ABC Board's covered-employee payroll	\$ 220,744	\$ 211,760	\$ 200,262	\$ 202,953
ABC Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.77%	5.64%	-8.13%	12.47%
Plan fiduciary net position as a percentage of the total pension liability	91.45%	98.09%	102.64%	94.35%

**High Country Municipal Alcoholic Beverage Control Board
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	\$ 16,105	\$ 14,378	\$ 14,519	\$ 14,349
Contributions in relation to the contractually required contribution	16,105	14,378	14,519	14,349
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ABC Board's covered employee payroll	\$ 220,744	\$ 211,760	\$ 200,262	\$ 202,953
Contributions as a percentage of covered-employee payroll	7.30%	6.79%	7.25%	7.07%

SUPPLEMENTARY INFORMATION

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**
Schedules of Expenses by Store
For the Twelve Months Ended June 30, 2017 and 2016

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Salaries	\$ 230,111	\$ 221,558
Dues and subscriptions	893	544
Utilities	6,651	6,598
Telephone	1,985	2,107
Insurance- general	11,737	12,284
Employee benefits	75,515	59,005
Bank charges	39,173	34,951
Supplies	4,898	4,017
Payroll taxes	17,887	17,135
Maintenance and repairs	13,436	12,733
Equipment lease	30,300	31,140
	<u>\$ 432,586</u>	<u>\$ 402,072</u>

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**
Schedules of Administrative Expenses
For the Twelve Months Ended June 30, 2017 and 2016

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Professional fees	\$ 13,509	\$ 10,190
Director fees	8,575	9,275
Office expense	2,229	8,610
Conferences & meetings	3,100	3,328
	<u>\$ 27,413</u>	<u>\$ 31,403</u>

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL 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)
Operating revenue:				
Liquor sales - regular	\$ 2,441,816	\$ 2,479,316	\$ 2,500,772	\$ 21,456
Mixed beverage sales	577,113	704,202	710,904	6,702
Wine/mixer sales	7,690	7,690	8,071	381
Other income	1,765	1,765	1,983	218
Total gross sales	3,028,384	3,192,973	3,221,730	28,757
Deduct taxes on gross sales:				
State excise tax	651,093	688,396	688,396	-
Mixed beverage tax (Revenue)	46,746	55,039	55,039	-
Mixed beverage tax (Human Resources)	4,971	5,504	5,504	-
Rehabilitation tax (County)	7,334	7,664	7,664	-
Wine sales tax	518	565	565	-
Total taxes	710,662	757,168	757,168	-
Net sales	2,317,722	2,435,805	2,464,562	28,757
Deduct cost of sales	1,568,183	1,657,323	1,656,924	399
Gross profit on sales	749,539	778,482	807,638	29,156
Deduct operating expenses:				
Salaries	230,000	232,819	230,111	2,708
Dues and subscriptions	600	900	893	7
Utilities and telephone	9,500	9,500	8,636	864
Insurance - general	10,300	11,737	11,737	-
Employee benefits	79,700	79,400	61,137	18,263
Payroll taxes	19,400	19,400	17,887	1,513
Supplies	4,000	4,899	4,898	1
Credit card and bank charges	35,250	39,362	39,173	189
Maintenance and repairs	13,700	14,030	13,436	594
Equipment lease	32,000	32,000	30,300	1,700
Director fees	9,900	8,575	8,575	-
Legal and professional	10,000	13,509	13,509	-
Office expense	6,100	2,850	2,229	621
Contingency	89	89	-	89
Conferences and meetings	3,000	3,400	3,100	300
Total	463,539	472,470	445,621	26,849
Capital outlay:	-	-	-	-
Total expenditures	463,539	472,470	445,621	26,849

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL 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)
Distributions:				
Law Enforcement	17,000	34,512	20,512	14,000
Alcohol education and rehab	14,000	16,500	16,482	18
Municipal	255,000	255,000	255,000	-
Other	-	-	-	-
Total distributions	<u>286,000</u>	<u>306,012</u>	<u>291,994</u>	<u>14,018</u>
 Total expenditures and distributions	<u>749,539</u>	<u>778,482</u>	<u>737,615</u>	<u>40,867</u>
 Revenues over / (under) expenditures	-	-	70,023	70,023
 Other financing (uses):				
Appropriated fund balance	-	-	-	-
 Revenues over expenditures and other financing sources / (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>70,023</u>	<u>\$ 70,023</u>
 Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Depreciation			(22,982)	
Pension expense			(14,378)	
Purchase of fixed assets			-	
Total			<u>(37,360)</u>	
 Change in net position			<u>\$ 32,663</u>	

**HIGH COUNTRY MUNICIPAL
ALCOHOLIC BEVERAGE CONTROL BOARD**
Financial Highlights
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>June 30</u>	<u>2016</u>
Liquor sales - regular	\$ 2,500,772		\$ 2,300,055
Liquor sales - mixed beverage	710,904		630,671
Wine sales	<u>8,071</u>		<u>8,147</u>
Total sales	<u>\$ 3,219,747</u>		<u>\$ 2,938,873</u>
Net income before required distributions	\$ 324,657		\$ 278,944
Percent of net income to total sales	10.08%		9.49%
Percent of gross profit to total sales	25.02%		25.00%
Bailment surcharge	\$ 22,454		\$ 20,981
Percent of cost of sales to total sales	51.46%		51.46%
Operating ratio	59.95%		62.28%