

Audited Financial Statements with
Other Financial Information

West Virginia Alcohol Beverage Control Administration

Years Ended June 30, 2017 and 2016

Audited Financial Statements
with Other Financial Information

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

Years Ended June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
West Virginia Alcohol Beverage Control Administration
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Alcohol Beverage Control Administration (the Administration), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Alcohol Beverage Control Administration as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Administration and do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 through 7, and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions to the PERS on pages 21 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Administration's basic financial statements. The accompanying schedules on pages 24 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules on pages 24 through 28 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

Charleston, West Virginia
October 2, 2017

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The West Virginia Alcohol Beverage Control Administration (the Administration) was created by the West Virginia Legislature in 1935 to give effect to the mandate of the people expressed in the repeal of the state prohibition amendment, and to assure the greatest degree of personal freedom that is consistent with the health, safety, and good morals of the people of West Virginia.

During the first fifty-six (56) years of its existence, the Administration functioned as the exclusive wholesaler and retailer of liquor in West Virginia. On February 27, 1990, with the passage of senate bill 337, legislative action was taken to discontinue the retail sale of alcoholic beverages by the State of West Virginia. During the fiscal year ended 1991, public bids were held in August 1990, January 1991, and May 1991. The bids resulted in the sale of all 98 zones offered and the possibility of 214 privately owned liquor stores being opened in West Virginia. The sale of State owned liquor stores and the conversion of State owned liquor inventories enabled the Administration to transfer profits of \$26,500,000 to the West Virginia General Revenue Fund.

On March 13, 1999, House Bill 3023 was passed. All Licenses within the 98 zones were re-bid starting on March 3, 2000. The Administration sold licenses to 164 stores providing revenues to the state of \$22,227,651. An additional eighteen (18) Class B retail licenses were bid on April 17, 2002. The Retail Liquor Licensing Board ("RLLB") directed the bid, which offered the remaining licenses for eight years ending on June 30, 2010. Five (5) of the remaining licenses were sold, providing revenues of \$215,903.

On June 2, 2009, House Bill 105 was passed. House Bill 105 mandated that the RLLB re-bid all Class A and Class B liquor licenses for an additional ten (10) years beginning July 1, 2010. All Licensees within the 98 zones were given the opportunity to elect the Purchase Option on their existing retail outlet(s) provided they met the requirements to operate a Class A freestanding liquor retail outlet pursuant to the Rules and the Code. During Phase I, 46 stores took the Purchase Option which ended on February 17, 2010. An additional 119 licenses were sold during Phase II, the License Bidding Process, which ended on April 30, 2010. An additional ten (10) licenses were sold during Phase III, the Subsequent License Bidding Process, which ended on June 25, 2010.

Moving forward into fiscal year 2011, an additional license was sold during an extended Phase III License Bidding Process, which ended on August 6, 2010. The three phases provided revenues totaling \$37,660,998 for 175 retail outlets. Two (2) additional licenses were sold during a continuation of extended Phase III License Bidding Process, which ended November 4, 2010. The continuation of extended Phase III provided revenues totaling \$244,681 for the three (3) additional retail outlets added. Three (3) additional retail outlets still remain available for bid at the RLLB's discretion. The RLLB is evaluating the results of a consultant provided statewide analysis and recommendation of "need areas" in the State as the Board considers reallocating the three (3) available licenses.

During the 2012 fiscal year, sales dollars increased 4.8% and case volume sales increased 3.4%. The Administration purchased a generator for the Distribution Center, located in Nitro, West Virginia, during the year to provide continued operations of the liquor warehouse during power outages. The Administration made numerous technology purchases (i.e., IP phone system, desktop scanners, iPhones, etc.) on behalf of its Administrative and Enforcement Divisions during the year to increase the efficiency of the operations. The Administration also moved Administrative Offices from the Kanawha City, West Virginia, location to the new Lottery Building on Pennsylvania Avenue in Charleston, West Virginia.

During the 2013 fiscal year, sales dollars increased 2.4% and case volume sales increased 0.5%. The Administration made numerous improvements to the Distribution Center in Nitro, West Virginia such as updating the interior lighting, painting the exterior, and several smaller projects. The Administration made several technology purchases (i.e., iPads, servers, UHF two-way radios, etc.) on behalf of the Administrative and Enforcement Divisions in an effort to increase the efficiency of the operations.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

During the 2014 fiscal year, sales dollars increased 1.1% and case volume sales increased 0.5%. The Administration has updated to an e-Licensing system. The goal of the WVABCA e-Licensing project was to replace multiple legacy systems with one flexible integrated web-based solution. This new system is called GL Suite by GL Solutions, Inc. from Bend, Oregon. GL Suite has three parts that address the Administration's needs. Most licensing and enforcement functionality is provided in the GL Suite back-office. There is also an iPad/iPhone app that allows the Enforcement field inspectors to collect information across the state. The third piece of the solution is a set of websites that allows varying levels of self-service to the licensees and the public.

During the 2015 fiscal year, sales dollar increased 2.2% and case volume sales increased 1.2%. The Administration implemented a modern web-based liquor distribution system that retired the last of the agency's legacy systems in the last quarter of FY 2015. The Administration made several technology purchases (desktop computers, driver simulator upgrade, etc.) on behalf of the Administrative and Enforcement Divisions. The Administration made numerous purchases for the Distribution Center in Nitro, West Virginia such as new skylights, two pallet jacks, two fork trucks and two AEDs to improve safety and efficiency of operations. The Administration implemented Governmental Accounting Standards Board (GASB) Statement No. 68. GASB 68 requires governmental employers to recognize a net pension liability and/or a net pension asset for its proportionate share of pension benefits. As a government agency participating in the West Virginia Public Employees' Retirement System (PERS), the Administration has recognized their proportionate share of the net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources.

During the 2016 fiscal year, sales dollars decreased 1.3% and case volume sales decreased 1.4%. The Administration made technology purchases of laptop computers on behalf of the Administrative and Enforcement Divisions. The Administration continues to recognize their proportionate share of the net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources for its participation in the PERS.

During the 2017 fiscal year, sales dollars increased 0.32% and case volume sales decreased 0.94%. The Administration changed the mark-up from 28% to 32% effective May 1, 2017. The Administration made an additional transfer to the General Revenue Fund in the amount of \$7,000,000. The Administration continues to recognize their proportionate share of the net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources for its participation in the PERS.

As management of the Administration, we offer readers of the Administration's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Administration's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

This report consists of a series of financial statements: the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Fund Net Position, and the Statements of Cash Flows. These statements provide information about the activities of the Administration. Following is an additional discussion of the significant financial statement items and the changes in those items from the prior year due to recent events and activities of the Administration, current economic factors, and other factors affecting the Administration's financial activities.

The Statements of Net Position represent the difference between the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Administration and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private - sector companies. Over time,

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

increases or decreases in the Administration's net position are one indicator of whether its financial health is improving, stable or deteriorating. The Statements of Revenues, Expenses, and Changes in Fund Net Position reflect the Administration's revenues, such as proceeds from the sales of alcoholic beverages as the exclusive wholesaler of liquor in the State, and related fees from licenses, permits and administrative hearing fines, and its expenses, such as costs of sales, general and administrative costs and depreciation. The notes to the financial statements provide information that is essential to the full understanding of the data provided in the financial statements. The financial statements of the Administration are prepared in conformity with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

The following is a condensed summary of financial information as of and for the years ended June 30, 2017, 2016 and 2015, respectively.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statements of Net Position:</u>			
Current assets	\$ 13,827,757	\$ 20,409,689	\$ 20,055,105
Capital assets, net	1,796,452	2,073,230	2,335,893
Other noncurrent assets	<u>-</u>	<u>-</u>	<u>70,724</u>
Total assets	<u>\$ 15,624,209</u>	<u>\$ 22,482,919</u>	<u>\$ 22,461,722</u>
Deferred outflows of resources from pension amounts	<u>\$ 979,931</u>	<u>\$ 917,011</u>	<u>\$ 361,735</u>
Current liabilities	\$ 3,596,465	\$ 3,565,649	\$ 3,882,634
Noncurrent liabilities	<u>4,395,837</u>	<u>3,714,755</u>	<u>3,044,404</u>
Total liabilities	<u>\$ 7,992,302</u>	<u>\$ 7,280,404</u>	<u>\$ 6,927,038</u>
Deferred inflows of resources from pension amounts	<u>\$ 178,549</u>	<u>\$ 770,143</u>	<u>\$ 851,379</u>
Net position, net investment in capital assets	\$ 1,796,452	\$ 2,073,230	\$ 2,335,893
Net position, restricted by enabling legislation	-	-	70,407
Net position, unrestricted net position	<u>6,636,837</u>	<u>13,276,153</u>	<u>12,638,740</u>
Total net position	<u>\$ 8,433,289</u>	<u>\$ 15,349,383</u>	<u>\$ 15,045,040</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

FINANCIAL HIGHLIGHTS (Continued)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statements of Revenues, Expenses, and Changes in Fund Net Position</u>			
Sales	\$ 93,039,242	\$ 92,744,686	\$ 93,951,172
Licenses, permits and fees	3,793,583	3,678,645	3,964,184
Administrative hearing fees	59,075	73,371	89,650
Total operating revenues	<u>96,891,900</u>	<u>96,496,702</u>	<u>98,005,006</u>
Cost of sales	72,197,394	72,212,321	72,942,024
General and administrative	5,162,523	5,402,985	4,919,329
Depreciation	292,769	322,932	306,432
Total operating expenses	<u>77,652,686</u>	<u>77,938,238</u>	<u>78,167,785</u>
Operating income	19,239,214	18,558,464	19,837,221
Nonoperating revenues (expenses):			
Grants	161,898	129,243	91,483
Statutory distributions	(26,317,206)	(18,383,364)	(18,812,711)
	<u>(26,155,308)</u>	<u>(18,254,121)</u>	<u>(18,721,228)</u>
Change in net position	<u>\$ (6,916,094)</u>	<u>\$ 304,343</u>	<u>\$ 1,115,993</u>

STATEMENTS OF NET POSITION

Total assets decreased \$6,858,710 from \$22,482,919 at June 30, 2016, to \$15,624,209 at June 30, 2017, as a result of an additional transfer of \$7,000,000 to the General Revenue Fund. Total assets increased \$21,197 from \$22,461,722 at June 30, 2015, to \$22,482,919 at June 30, 2016, as a result of decreased operating income. Total liabilities increased \$711,898 from \$7,280,404 at June 30, 2016, to \$7,992,302 at June 30, 2017 due to the timing of cash payments and an increase in noncurrent liabilities. Total liabilities increased \$353,366 from \$6,927,038 at June 30, 2015, to \$7,280,404 at June 30, 2016, due to the timing of cash payments.

Deferred outflows of resources from pension amounts are \$979,931 \$917,011 and \$361,735 and deferred inflows of resources from pension amounts are \$178,549, \$770,143 and \$851,379 for the years ended June 30, 2017, 2016 and 2015, respectively. The changes in those amounts are in part determined by information provided by the PERS annually for the change in the net pension liability.

The Administration's net position totaled \$8,433,289, \$15,349,383, and \$15,045,040, at June 30, 2017, 2016, and 2015, respectively. Net position represented 54%, 68%, and 67% of the Administration's total assets for each of the years ended June 30, 2017, 2016, and 2015, respectively.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

OPERATING RESULTS

The Administration had operating income for the year ended June 30, 2017 of \$19,239,214 which was an increase of 3.7% from the year ended June 30, 2016, which was \$18,558,464. The Administration had operating income for the year ended June 30, 2016 of \$18,558,464 which was a decrease of 6.5% from the year ended June 30, 2015, which was \$19,837,221. Additionally, unit quantities of sales measured in cases were 690,493, 697,031, and 706,872, for the years ended June 30, 2017, 2016, and 2015, respectively. Operating income fluctuates in response to sales dollars and quantities on an annual basis. Also, during fiscal year 2017, the Administration changed the mark-up from 28% to 32% effective May 1, 2017.

NONOPERATING RESULTS

The Administration's non-operating expense, net for the years ended June 30, 2017, 2016, and 2015 were \$26,155,308, \$18,254,121, and \$18,721,228, respectively. The fluctuations noted in non-operating expense are predominately due to the amount of statutory distributions. Statutory distributions related to ongoing liquor sales are transferred each year to the extent that funds are available. The statutory distributions are paid to the State of West Virginia's General Revenue Fund.

CHANGES IN OPERATIONS

During the years ended June 30, 2017, 2016, and 2015, no major changes were made in the Administration's operations.

CONTACTING THE ADMINISTRATION'S FINANCIAL MANAGEMENT

The above financial highlights are designed to provide a general overview of the Administration's operations and insight into the following financial statements. Questions about this report or requests for additional information should be directed to the Administration's central office located at 900 Pennsylvania Avenue, 4th Floor, Charleston, West Virginia, 25302, (304) 356-5500.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 13,373,809	\$ 20,005,574
Inventory	25,819	37,199
Accounts receivable	428,129	366,916
Total current assets	<u>13,827,757</u>	<u>20,409,689</u>
Noncurrent assets:		
Capital assets, net	<u>1,796,452</u>	<u>2,073,230</u>
Total assets	<u>15,624,209</u>	<u>22,482,919</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pension amounts	<u>979,931</u>	<u>917,011</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accrued expenses	228,412	216,431
Accounts payable	3,368,053	3,349,218
Total current liabilities	<u>3,596,465</u>	<u>3,565,649</u>
Noncurrent liabilities:		
Accrued annual leave	237,756	246,567
Other post employment benefits	2,509,360	2,409,069
Net pension liability	1,648,721	1,059,119
Total noncurrent liabilities	<u>4,395,837</u>	<u>3,714,755</u>
Total liabilities	<u>7,992,302</u>	<u>7,280,404</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows from pension amounts	<u>178,549</u>	<u>770,143</u>
 <u>NET POSITION</u>		
Net position:		
Investment in capital assets	1,796,452	2,073,230
Unrestricted	6,636,837	13,276,153
Total net position	<u>\$ 8,433,289</u>	<u>\$ 15,349,383</u>

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

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Sales	\$ 93,039,242	\$ 92,744,686
Licenses, permits and fees	3,793,583	3,678,645
Administrative hearing fines	59,075	73,371
	<u>96,891,900</u>	<u>96,496,702</u>
Operating expenses:		
Cost of sales	72,197,394	72,212,321
General and administrative	5,162,523	5,402,985
Depreciation	292,769	322,932
	<u>77,652,686</u>	<u>77,938,238</u>
Operating income	19,239,214	18,558,464
Nonoperating revenues (expenses):		
Grants	161,898	129,243
Statutory distributions	(26,317,206)	(18,383,364)
	<u>(26,155,308)</u>	<u>(18,254,121)</u>
Change in net position	(6,916,094)	304,343
Net position, beginning of year	<u>15,349,383</u>	<u>15,045,040</u>
Net position, end of year	<u>\$ 8,433,289</u>	<u>\$ 15,349,383</u>

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

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 96,830,687	\$ 96,342,275
Cash paid to employees	(3,861,864)	(3,977,809)
Cash paid to suppliers	(73,429,289)	(73,912,301)
Net cash provided by operating activities	<u>19,539,534</u>	<u>18,452,165</u>
Cash flows from noncapital financing activities:		
Receipts on nonoperating grants	161,898	129,243
Provided from issuing liquor licenses	-	70,724
Payments to primary government	(26,317,206)	(18,383,364)
Net cash used in noncapital financing activities	<u>(26,155,308)</u>	<u>(18,183,397)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(15,991)	(60,269)
Increase (decrease) in cash and cash equivalents	(6,631,765)	208,499
Cash and cash equivalents, beginning of year	<u>20,005,574</u>	<u>19,797,075</u>
Cash and cash equivalents, end of year	<u>\$ 13,373,809</u>	<u>\$ 20,005,574</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 19,239,214	\$ 18,558,464
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	292,769	322,932
Pension expense	244,865	92,169
Changes in operating accounts:		
Increase in accounts receivable	(61,213)	(154,427)
Decrease in inventory	11,380	8,342
Increase (decrease) in accounts payable and accrued expense	30,816	(316,985)
Increase in accrued postemployment benefits	100,291	296,909
Increase in deferred outflows of resources	(309,777)	(355,400)
Increase (decrease) in accrued annual leave	(8,811)	161
Net cash provided by operating activities	<u>\$ 19,539,534</u>	<u>\$ 18,452,165</u>

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

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

1 - FINANCIAL REPORTING ENTITY

The West Virginia Alcohol Beverage Control Administration (the Administration) is a proprietary fund and governmental instrumentality of the State of West Virginia (the State), created under the provisions of Chapter 60, Article 1 of the West Virginia Code, as amended.

The Administration's mission is to give effect to the mandate of the people expressed in the repeal of the state prohibition amendment, and to assure the greatest degree of personal freedom that is consistent with the health, safety, and good morals of the people of West Virginia. This is accomplished by issuing licenses in accordance with Senate Bill 337 and acting as the wholesaler of liquor to retailers in the State.

The Administration's financial statements are included in the State of West Virginia's Comprehensive Annual Financial Report as a proprietary fund. The Administration has considered all potential component units to be included in the Administration's reporting entity by applying the criteria set forth in GAAP. These criteria include consideration of organizations for which the Administration is financially accountable, or organizations for which the nature and significance of their relationship with the Administration are such that exclusion would cause the Administration's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Administration has no component units.

2 - SIGNIFICANT ACCOUNTING POLICIESBasis of Accounting

The Administration is accounted for as a special purpose government engaged in business type activities. In accordance with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Cash Equivalents

Cash and cash equivalents consist primarily of cash on deposit with the State Treasurer's Office and cash on hand. The State Treasurer has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions in accordance with West Virginia Code. Cash and cash equivalents are carried at amortized cost. All deposits are available with overnight notice.

Inventories

Inventories are presented at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are reported at historical cost. Capital assets are defined by the Administration as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the following estimated economic useful lives of the assets; buildings (31- 40 years) and equipment (3-10 years).

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Employee Benefits

Employees fully vest in all earned but unused vacation and the Administration accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. To the extent that accumulated sick leave is expected to be converted to benefits on retirement, the benefits are funded by the Administration's participation in The West Virginia Retiree Health Benefit Trust Fund.

Deferred Outflows of Resources / Deferred Inflows of Resources

The statement of net position reports a separate financial statement element called *deferred outflows of resources*. This financial statement element represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until that time. The Administration reports certain pension related amounts as deferred outflows of resources on the statement of net position.

The statement of net position reports a separate financial statement element called *deferred inflows of resources*. This financial statement element represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Administration reports certain pension related amounts as deferred inflows of resources on the statement of net position.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Public Employees Retirement System (PERS) and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the PERS are reported at fair value.

Net Position

Net position is presented as unrestricted or as investment in capital assets. Investment in capital assets consists of all capital assets, less accumulated depreciation. All remaining net position is considered unrestricted. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Operating Revenues and Expenses

Operating revenues and expenses for the Administration are revenues and expenses that result from providing services and producing and delivering goods and/or services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates

Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with generally accepted accounting principles. The significant estimates and assumptions that affect the reporting of amounts of assets and liabilities at the statement of net position dates and revenues and expenses for the years then ended are those required in the determination of accumulated depreciation. Actual results in the near-term could differ from the estimates used to prepare these financial statements.

3 - CAPITAL ASSETS

A summary of capital assets as of and for the year ended June 30, 2017 and 2016, follows:

<u>June 30, 2017</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 611,381	\$ -	\$ -	\$ 611,381
Capital assets, being depreciated:				
Buildings	2,029,010	11,910	-	2,040,920
Equipment	<u>1,702,848</u>	<u>4,940</u>	<u>17,480</u>	<u>1,690,308</u>
Total capital assets, being depreciated	<u>3,731,858</u>	<u>16,850</u>	<u>17,480</u>	<u>3,731,228</u>
Less accumulated depreciation for:				
Buildings	(1,145,684)	(77,880)	-	(1,223,564)
Equipment	<u>(1,124,325)</u>	<u>(214,930)</u>	<u>16,662</u>	<u>(1,322,593)</u>
Total accumulated depreciation	<u>(2,270,009)</u>	<u>(292,810)</u>	<u>16,662</u>	<u>(2,546,157)</u>
Total capital assets, being depreciated, net	<u>1,461,849</u>	<u>(275,960)</u>	<u>34,142</u>	<u>1,185,071</u>
Total capital assets, net	<u>\$ 2,073,230</u>	<u>\$ (275,960)</u>	<u>\$ 34,142</u>	<u>\$ 1,796,452</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**3 - CAPITAL ASSETS (Continued)**

<u>June 30, 2016</u>	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets, not depreciated:				
Land	\$ 611,381	\$ -	\$ -	\$ 611,381
Capital assets, being depreciated:				
Buildings	2,029,010	-	-	2,029,010
Equipment	1,848,887	63,761	209,800	1,702,848
Total capital assets, being depreciated	<u>3,877,897</u>	<u>63,761</u>	<u>209,800</u>	<u>3,731,858</u>
Less accumulated depreciation for:				
Buildings	(1,068,620)	(77,064)	-	(1,145,684)
Equipment	(1,084,765)	(245,971)	206,411	(1,124,325)
Total accumulated depreciation	<u>(2,153,385)</u>	<u>(323,035)</u>	<u>206,411</u>	<u>(2,270,009)</u>
Total capital assets, being depreciated, net	<u>1,724,512</u>	<u>(259,274)</u>	<u>416,211</u>	<u>1,461,849</u>
Total capital assets, net	<u>\$ 2,335,893</u>	<u>\$ (259,274)</u>	<u>\$ 416,211</u>	<u>\$ 2,073,230</u>

4 - LEASE

The Administration has entered into an operating lease with the West Virginia Lottery Commission (Lessor) for its headquarters which expires in June 2018. Rent expense for the years ended June 30, 2017 and 2016 was \$206,435 and \$183,448, respectively. The lease contains a clause that allows the Administration to cancel the lease with 30 days written notice to the Lessor. The Administration's future minimum lease payments under the current terms of the lease are \$202,200 through the year ending June 30, 2018.

5 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONSPlan Description

The Administration participates in the West Virginia Other Postemployment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**5 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**Funding Policy (Continued)

The Administration's ARC was \$235,181, \$424,375, and \$234,837, and the Administration paid premiums of \$134,890, \$127,466, and \$131,364, which represented 57.4%, 30%, and 55.9%, of the ARC, respectively, for the years ending June 30, 2017, 2016, and 2015. As of June 30, 2017 and 2016 the Administration has recorded an OPEB liability of \$2,509,360 and \$2,409,069, respectively.

6 - PENSION PLANPlan Description

The Administration contributes to the PERS, a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS covers substantially all employees of the State and its component units, as well as employees of participating non-state governmental entities who are not participants of another state or municipal system. Benefits under PERS include retirement, death and disability benefits, and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements for PERS that may be obtained at www.wvretirement.com.

Benefits Provided

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For all employees hired after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the highest annual compensation during any period of three consecutive years within the last fifteen years of earnings. For all employees hired after July 1, 2015, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired after July 1, 2015, this age increases to 64.

Contributions

Although contributions are not actuarially determined, actuarial valuations are performed to assist the Legislature in establishing appropriate contribution rates. Current funding policy requires contributions, consisting of member contributions of 4.5% of covered payroll for members hired prior to July 1, 2015, and employer contributions of 12.0%, 13.5%, and 14.0% of covered payroll for the years ended June 30, 2017, 2016, and 2015, respectively. All members hired after July 1, 2015, will contribute 6% of covered payroll.

During the years ended June 30, 2017, 2016, and 2015, the Administration's contributions to PERS required and made were \$309,777, \$355,400, and \$361,735, respectively.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**6 - PENSION PLAN (Continued)**Pension, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017 and 2016, respectively, the Administration reported a liability of \$1,648,721 and \$1,059,119 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2017 was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. The Administration's proportion of the net pension liability was based on the Administration's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2016. At June 30, 2016, the Administration's proportion was .179381%, which was a decrease of .010288 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017 and 2016, the Administration recognized pension expense of \$244,865 and \$92,169. At June 30, 2017 and 2016, the Administration reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>June 30, 2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 518,089	\$ -
Difference between expected and actual experience	137,490	-
Difference in assumptions	-	80,323
Changes in proportion and differences between Administration contributions and proportionate share of contributions	14,575	98,226
Administration contributions made subsequent to the measurement date of June 30, 2016	<u>309,777</u>	<u>-</u>
Total	<u>\$ 979,931</u>	<u>\$ 178,549</u>

	<u>June 30, 2016</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 323,135	\$ 555,379
Difference between expected and actual experience	216,615	-
Difference in assumptions	-	127,395
Changes in proportion and differences between Administration contributions and proportionate share of contributions	21,861	87,369
Administration contributions made subsequent to the measurement date of June 30, 2015	<u>355,400</u>	<u>-</u>
Total	<u>\$ 917,011</u>	<u>\$ 770,143</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**6 - PENSION PLAN (Continued)**Pension, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$309,777 reported as deferred outflows of resources related to pensions resulting from Administration contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30.

2018	\$	42,438
2019		70,528
2020		220,589
2021		158,050

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0 percent
Salary increases	3.0 - 6.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	1.9 percent
Salary increases	3.0 - 6.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

Mortality rates were based on 110% of the RP-2000 Non-Annuitant, Scale AA for healthy males, 101% of RP-2000 Non-Annuitant, Scale AA for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA for disabled females.

The actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**6 - PENSION PLAN (Continued)**Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges 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 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return	Weighted Average Expected Real Rate of Return
US equity	27.5%	7.0%	1.92%
International equity	27.5%	7.7%	2.12%
Core fixed income	7.5%	2.7%	0.20%
High yield fixed income	7.5%	5.5%	0.41%
Real estate	10.0%	7.0%	0.70%
Private equity	10.0%	9.4%	0.94%
Hedge funds	10.0%	4.7%	0.47%
Total	100.00%		6.76%
Inflation (CPI)			1.90%
			8.66%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projections of cash flows used to determine the discount rates assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**6 - PENSION PLAN (Continued)**Sensitivity of the Administration's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Administration's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Administration's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Administration's proportionate share of the net pension liability	\$ 2,984,450	\$ 1,648,721	\$ 514,340

7 - RISK MANAGEMENT

The Administration is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Administration participates in several risk management programs administered by the State of West Virginia and other providers. Each of these risk pools have issued separate audited financial reports on their operations. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

Public Employees' Insurance Agency (PEIA)

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage of the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

Board of Risk and Insurance Management (BRIM)

The Administration participates in the West Virginia Board of Risk and Insurance Management (BRIM), a common risk pool currently operating as a common risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Administration pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

Workers Compensation Insurance

The Administration carries workers compensation insurance coverage through a commercial carrier. The carrier is paid a monthly premium to provide compensation for injuries sustained in the course of employment. In exchange for the payment of premiums, the Administration has transferred its risks for job-related injuries of employees.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - CONTINGENCIES**

The Administration is involved in certain claims and legal actions arising from the ordinary course of conducting business. Although the outcome of these claims and legal actions are presently indeterminable; it is the opinion of the Administration's management, after a review of legal activities, that no adjustments to the financial statements are warranted and that any resolution of outstanding claims or legal actions are not expected to have a material adverse effect on the accompanying financial statements.

9 - EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued two statements relating to accounting and financial reporting for pension and postemployment benefit plans: Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; and Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 7*. A portion of Statement No. 82 has been implemented during the year ended June 30, 2017. The provisions of Statement Nos. 75 and portions of 82 are effective for periods beginning after June 15, 2017. The Administration has not determined the effect these statements will have on its financial statements.

The GASB has also issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of Statement No. 87 are effective for reporting periods beginning after December 15, 2019. The Administration has not determined the effect this statement will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Public Employees Retirement System Plan

	Year Ended June 30		
	2017	2016	2015
Administration's proportion (percentage) of the net pension liability	0.179381%	0.189669%	0.185831%
Administration's proportionate share of the net pension liability	\$1,648,721	\$1,059,119	\$ 685,838
Administration's covered payroll	\$2,632,593	\$2,583,821	\$2,551,483
Administration's proportionate share of the net pension liability as a percentage of its covered payroll	62.63%	40.99%	26.88%
Plan fiduciary net position as a percentage of the total pension liability	86.11%	91.29%	93.98%

Note: All amounts presented are as of the measurement date, which is one year prior to the fiscal year end date.

THE WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

SCHEDULE OF CONTRIBUTIONS TO THE PERS

	Years Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 309,777	\$ 355,400	\$ 361,735	\$ 369,965	\$ 381,890
Contributions in relation to the statutorily required contribution	<u>309,777</u>	<u>355,400</u>	<u>361,735</u>	<u>369,965</u>	<u>381,890</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Administration's covered payroll	\$2,581,475	\$2,632,593	\$2,583,821	\$2,551,483	\$2,727,786
Contributions as a percentage of covered payroll	12.00%	13.50%	14.00%	14.50%	14.00%

See Independent Auditor's Report and accompanying Note to Required Supplementary Information.

THE WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1 - TREND INFORMATION PRESENTED

The accompanying schedules of the Administration's proportionate share of the net pension liability and contributions to PERS are required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedules for those years for which information is available.

2 - PLAN AMENDMENT

The PERS was amended to make changes which apply to new employees hired on or after July 1, 2015 as follows:

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For employees hired on or after July 1, 2015, qualification for normal retirement is 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater.
- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired on or after July 1, 2015 average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired on or after July 1, 2015, this age increases to 64.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired on or after July 1, 2015, are required to contribute 6% of annual earnings.

3 - ASSUMPTIONS

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, assumptions were changed for the actuarial valuations as follows:

	2016 and 2015	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	3.0% (2016), 1.9% (2015)	2.2%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM Disabled females - Revenue ruling 96-7
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

SUPPLEMENTARY INFORMATION

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

COMBINING STATEMENTS OF NET POSITION

June 30, 2017

<u>ASSETS</u>	<u>Administrative / Liquor Fund #7352</u>	<u>Enforcement Fund #7356</u>	<u>Wine Fund #7351</u>	<u>Grants #7355 / Gift #7357</u>	<u>Total</u>
Current assets:					
Cash and cash equivalents	\$ 10,832,166	\$ 48,826	\$ 2,400,008	\$ 92,809	\$ 13,373,809
Inventory	25,819	-	-	-	25,819
Accounts receivable	<u>428,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>428,129</u>
Total current assets	<u>11,286,114</u>	<u>48,826</u>	<u>2,400,008</u>	<u>92,809</u>	<u>13,827,757</u>
Noncurrent assets:					
Capital assets, net	<u>1,202,430</u>	<u>24,480</u>	<u>516,208</u>	<u>53,334</u>	<u>1,796,452</u>
Total assets	<u>12,488,544</u>	<u>73,306</u>	<u>2,916,216</u>	<u>146,143</u>	<u>15,624,209</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Deferred outflows from pension amounts	<u>958,224</u>	<u>-</u>	<u>21,707</u>	<u>-</u>	<u>979,931</u>
<u>LIABILITIES</u>					
Current liabilities:					
Accrued expenses	223,878	-	4,534	-	228,412
Accounts payable	<u>3,363,953</u>	<u>-</u>	<u>4,100</u>	<u>-</u>	<u>3,368,053</u>
Total current liabilities	<u>3,587,831</u>	<u>-</u>	<u>8,634</u>	<u>-</u>	<u>3,596,465</u>
Noncurrent liabilities:					
Other post employment benefits	2,509,360	-	-	-	2,509,360
Accrued annual leave	237,756	-	-	-	237,756
Net pension liability	<u>1,612,119</u>	<u>-</u>	<u>36,602</u>	<u>-</u>	<u>1,648,721</u>
Total noncurrent liabilities	<u>4,359,235</u>	<u>-</u>	<u>36,602</u>	<u>-</u>	<u>4,395,837</u>
Total liabilities	<u>7,947,066</u>	<u>-</u>	<u>45,236</u>	<u>-</u>	<u>7,992,302</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Deferred inflows from pension amounts	<u>174,585</u>	<u>-</u>	<u>3,964</u>	<u>-</u>	<u>178,549</u>
<u>NET POSITION</u>					
Net position:					
Investment in capital assets	1,202,430	24,480	516,208	53,334	1,796,452
Unrestricted	<u>4,122,687</u>	<u>48,826</u>	<u>2,372,515</u>	<u>92,809</u>	<u>6,636,837</u>
Total net position	<u>\$ 5,325,117</u>	<u>\$ 73,306</u>	<u>\$ 2,888,723</u>	<u>\$ 146,143</u>	<u>\$ 8,433,289</u>

See Independent Auditor's Report.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION
 COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2017

	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants #7355/ Gift #7357	Total
Operating revenues:					
Sales	\$ 93,039,242	\$ -	\$ -	\$ -	\$ 93,039,242
Licenses, permits and fees	3,289,358	-	504,375	(150)	3,793,583
Administrative hearing fines	-	59,075	-	-	59,075
Total revenues	<u>96,328,600</u>	<u>59,075</u>	<u>504,375</u>	<u>(150)</u>	<u>96,891,900</u>
Operating expenses:					
Cost of sales	72,197,394	-	-	-	72,197,394
General and administrative	5,044,831	28,605	67,913	21,174	5,162,523
Depreciation	163,896	8,967	102,418	17,488	292,769
	<u>77,406,121</u>	<u>37,572</u>	<u>170,331</u>	<u>38,662</u>	<u>77,652,686</u>
Operating income (loss)	18,922,479	21,503	334,044	(38,812)	19,239,214
Nonoperating revenues (expenses):					
Grants	96,098	-	-	65,800	161,898
Statutory distributions	(26,302,499)	(14,707)	-	-	(26,317,206)
	<u>(26,206,401)</u>	<u>(14,707)</u>	<u>-</u>	<u>65,800</u>	<u>(26,155,308)</u>
Change in net position	(7,283,922)	6,796	334,044	26,988	(6,916,094)
Net position, beginning of year	<u>12,609,039</u>	<u>66,510</u>	<u>2,554,679</u>	<u>119,155</u>	<u>15,349,383</u>
Net position, end of year	<u>\$ 5,325,117</u>	<u>\$ 73,306</u>	<u>\$ 2,888,723</u>	<u>\$ 146,143</u>	<u>\$ 8,433,289</u>

See Independent Auditor's Report.

Audited Agency **West Virginia Alcohol Beverage Control Administration - June 30, 2017**

Per GASB Statement 40 the Agency must disclose its deposit policy. The deposit policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Agency's deposit policy.

See Note 2 to the Financial Statements

Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	2	3A	3B	3C	Foreign Currency Risk		
						Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name	Amount Uninsured and Uncollateralized	Collateralized with securities held by the pledging financial institution but not in the name of the depositor	Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Currency Type	Maturity	Fair Value
Balances as of June 30, 2017												
Cash with Treasurer												
Per wvOASIS Opening Balance Report	13,318,659	13,318,659										
Cash with Municipal Bond Commission												
Cash on Hand												
Cash in Transit to wvOASIS	98,738	98,738										
Cash with Board of Trustees												
Cash in Outside Bank Accounts												
Cash in Escrow												
Certificates of Deposits (Non-Negotiable)												
Other: Reconciling Item	(43,588)	(43,588)										
Total	13,373,809	13,373,809	-	0	0	0	0	0	0			0

PLEASE SEND COMPLETED FORMS TO:
State of West Virginia
Financial Accounting and Reporting Section
2101 Washington Street East
Building 17, 3rd Floor
Charleston, WV 25305
Telephone Number (304) 558-4083
Fax Number (304) 558-4084

STATE OF WEST VIRGINIA
 DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
 FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 8A

GAAP REPORTING FORM - DEPOSIT AND INVESTMENT RECONCILIATION

Audited Agency **West Virginia Alcohol Beverage Control Administration - June 30, 2017**

Reconciliation of cash, cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits:		
Cash and cash equivalents as reported on balance sheet		\$ 13,373,809
Less: cash equivalents disclosed as investments		<u> </u>
Add: restricted assets disclosed as deposits		<u> </u>
Other (describe) _____		<u> </u>
		<u> </u>
Carrying amount of deposits as disclosed on Form 7		<u>\$ 13,373,809</u>
Investments:		
Investments as reported on balance sheet		\$ -
Add: restricted assets disclosed as investments		<u> </u>
Add: cash equivalents disclosed as investments		<u> </u>
Other (describe) _____		<u> </u>
		<u> </u>
Reported amount of investments as disclosed on Form 8		<u>\$ -</u>

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 Charleston, WV 25305

Telephone Number (304) 558-4083
 Fax Number (304) 558-4084

GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agency WV ABCA

Indicate amounts transferred from/to your agency as of June 30, 2017

wvOASIS Doc. ID	Agency Transferring From	wvOASIS FUND	Agency Transferring To	wvOASIS FUND	Amount
1	2	3	4	5	6
FNDT170000139	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT170000040	Alcohol Beverage Control Administration	7352	General Fund	490	154,500
FNDT1700000327	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT1700000176	Alcohol Beverage Control Administration	7352	General Fund	490	225,500
FNDT1700000524	Alcohol Beverage Control Administration	7352	General Fund	490	1,570,000 *
FNDT1700000392	Alcohol Beverage Control Administration	7352	General Fund	490	28,250
FNDT1700000725	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT1700000593	Alcohol Beverage Control Administration	7352	General Fund	490	23,000
FNDT1700000882	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT1700000769	Alcohol Beverage Control Administration	7352	General Fund	490	21,700
FNDT1700001034	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT1700000935	Alcohol Beverage Control Administration	7352	General Fund	490	14,800
FNDT1700001219	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT1700001105	Alcohol Beverage Control Administration	7352	General Fund	490	15,250
FNDT1700001278	Alcohol Beverage Control Administration	7352	General Fund	490	7,000,000 □
FNDT1700001407	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT1700001260	Alcohol Beverage Control Administration	7352	General Fund	490	4,000
FNDT1700001575	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000 *
FNDT1700001444	Alcohol Beverage Control Administration	7352	General Fund	490	6,250
FNDT1700001873	Alcohol Beverage Control Administration	7352	General Fund	490	1,810,000 *
FNDT1700001652	Alcohol Beverage Control Administration	7352	General Fund	490	29,000
FNDT1700002058	Alcohol Beverage Control Administration	7352	General Fund	490	2,090,000 *
FNDT1700001953	Alcohol Beverage Control Administration	7352	General Fund	490	239,750
FNDT1700002238	Alcohol Beverage Control Administration	7352	General Fund	490	2,130,000 *
FNDT1700002110	Alcohol Beverage Control Administration	7352	General Fund	490	540,500
FNDT1600000153	Alcohol Beverage Control Administration	7356	General Fund	490	14,706
				Total	\$ 26,317,206
				Total	-

*Do not include IGT's, Reimbursements or Expense to Expense transactions

Explain Transfers In/Out amounts greater than or equal to \$1,000,000.

* Statutory transfers based on operations

□ Additional transfer required by the State of West Virginia

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the West Virginia Alcohol
Beverage Control Administration
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the West Virginia Alcohol Beverage Control Administration (the Administration), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated October 2, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Administration's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gibbons & Kawash, A.C.

Charleston, West Virginia
October 2, 2017