

Audited Financial Statements with  
Other Financial Information

West Virginia Alcohol Beverage Control Administration  
(A Component Unit of the State of West Virginia)

Years Ended June 30, 2012 and 2011

Audited Financial Statements  
with Other Financial Information

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

(A Component Unit of the State of West Virginia)

Years Ended June 30, 2012 and 2011

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis (Unaudited)	3-6
Basic Financial Statements:	
Balance Sheet	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-15
Supplementary Information:	
Combining Balance Sheet	16
Combining Statement of Revenues, Expenses, and Change in Fund Net Assets	17
Form 7 - Deposit Disclosure	18
Form 8a - Deposits and Investments Reconciliation	19
Form 15 - Transfers In/Out	20
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22
Schedule of Findings and Responses	23-24

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of the West Virginia Alcohol Beverage Control Administration (the ABCA), a component unit of the State of West Virginia, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the ABCA's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the respective changes in financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the ABCA'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in 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 financial statements, and other knowledge we obtained during our audit of the 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.



Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the ABCA's financial statements as a whole. The supplementary information, on pages 16 through 20 as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Gibbons & Kawash, A.C.*

October 1, 2012

West Virginia Alcohol Beverage Control Administration  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2012 and 2011

The West Virginia Alcohol Beverage Control Administration (the ABCA) 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 ABCA 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 ABCA 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 ABCA 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 2011 fiscal year, sales dollars increased 6% and case volume sales increased 5%, primarily due to the addition of 13 new retail stores. The ABCA also made several equipment purchases on behalf of its Distribution Center, located in Nitro, West Virginia, during the year to improve the operations of the liquor warehouse.

During the 2012 fiscal year, sales dollars increased 4.8% and case volume sales increased 3.4%. The ABCA 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 ABCA 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 ABCA also moved Administrative Offices from the Kanawha City, West Virginia, location to the new Lottery Building on Pennsylvania Avenue in Charleston, West Virginia.

West Virginia Alcohol Beverage Control Administration  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2012 and 2011

As management of the ABCA, we offer readers of the ABCA's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the ABCA's financial statements, which begin on page 7.

## USING THIS ANNUAL REPORT

This report consists of a series of financial statements: the Balance Sheet, the Statement of Revenues, Expenses, and Changes in Fund Net Assets, and the Statement of Cash Flows. These statements provide information about the activities of the ABCA. 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 ABCA, current economic factors, and other factors affecting the Commission's financial activities.

The Balance Sheet represents the difference between the assets and liabilities of the ABCA and includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private - sector companies. Over time, increases or decreases in the ABCA's net assets are one indicator of whether its financial health is improving, stable or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Assets reflects the ABCA'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 ABCA 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, 2012, 2011 and 2010, respectively.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b><u>Balance Sheet:</u></b>			
Current assets	\$ 11,105,361	\$ 8,625,615	\$ 20,236,135
Capital assets, net	2,035,548	1,967,593	1,915,866
Other noncurrent assets	1,424,706	1,876,035	2,256,640
Total assets	<u>\$ 14,565,615</u>	<u>\$ 12,469,243</u>	<u>\$ 24,408,641</u>
Current liabilities	\$ 2,811,794	\$ 3,191,048	\$ 16,978,694
Noncurrent liabilities	2,174,463	1,559,084	1,013,948
Total liabilities	<u>4,986,257</u>	<u>4,750,132</u>	<u>17,992,642</u>
Invested in capital assets	\$ 2,035,548	\$ 1,967,593	\$ 1,915,866
Restricted by enabling legislation	1,372,777	1,787,638	2,130,400
Unrestricted net assets	6,171,033	3,963,880	2,369,733
Total net assets	<u>\$ 9,579,358</u>	<u>\$ 7,719,111</u>	<u>\$ 6,415,999</u>

West Virginia Alcohol Beverage Control Administration  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2012 and 2011

**FINANCIAL HIGHLIGHTS (Continued)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b><u>Statement of Revenues, Expenses, and Changes in Fund Net Assets</u></b>			
Sales	\$ 88,321,275	\$ 84,268,275	\$ 79,614,304
Licenses, permits and fees	3,853,458	3,908,343	3,538,404
Administrative hearing fees	88,750	59,618	103,969
Total operating revenues	<u>92,263,483</u>	<u>88,236,236</u>	<u>83,256,677</u>
Cost of sales	68,530,385	65,716,061	61,988,392
General and administrative	6,174,137	5,745,130	6,501,051
Depreciation	181,115	155,774	152,301
Total operating expenses	<u>74,885,637</u>	<u>71,616,965</u>	<u>68,641,744</u>
Operating income	17,377,846	16,619,271	14,614,933
Nonoperating revenues (expenses):			
Retail liquor license renewal	-	-	37,661,000
Interest income	-	-	126,240
Grants	92,032	78,238	227,858
Loss on disposal of assets	-	(13,308)	(782)
Receipts from primary government	200,000	200,000	200,000
Statutory distributions	(15,809,631)	(15,581,089)	(49,784,401)
	<u>(15,517,599)</u>	<u>(15,316,159)</u>	<u>(11,570,085)</u>
Change in net assets	<u>\$ 1,860,247</u>	<u>\$ 1,303,112</u>	<u>\$ 3,044,848</u>

**BALANCE SHEET**

Total assets increased \$2,096,372 from \$12,469,243 at June 30, 2011, to \$14,565,615 at June 30, 2012, as a result of increased operating income. Total assets decreased \$11,939,398 from \$24,408,641 at June 30, 2010, to \$12,469,243 at June 30, 2011, as a result of the fiscal year 2010 RLLB re-bid process. Total liabilities increased \$236,125 from \$4,750,132 at June 30, 2011, to \$4,986,257 at June 30, 2012 due to the timing of cash payments. Total liabilities decreased \$13,242,510 from \$17,992,642 at June 30, 2010, to \$4,750,132 at June 30, 2011, as a result of collections of statutory distributions from the RLLB re-bid accrued for distribution at June 30, 2010.

The ABCA's net assets totaled \$9,579,358, \$7,719,111, and \$6,415,999 at June 30, 2012, 2011, and 2010, respectively. Net assets represented 66%, 62%, and 26% of the ABCA's total assets for each of the years ended June 30, 2012, 2011, and 2010, respectively.

West Virginia Alcohol Beverage Control Administration  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2012 and 2011

## **OPERATING RESULTS**

The ABCA had operating income for the year ended June 30, 2012 of \$17,377,846 which was an increase of 4.6% over the year ended June 30, 2011, which was \$16,619,271. Operating income from the year ended June 30, 2011 increased by \$2,004,338, or 13.7% from the year ended June 30, 2010 which was \$14,614,933. Additionally, unit quantities of sales measured in cases were 692,170, 669,469, and 636,244, for the years ended June 30, 2012, 2011, and 2010, respectively. Operating income fluctuates in response to sales dollars and quantities on an annual basis.

## **NONOPERATING RESULTS**

The ABCA's non-operating expense, net for the years ended June 30, 2012, 2011, and 2010 were \$15,517,599, \$15,316,159, and \$11,570,085, respectively. The fluctuations noted in non-operating expense are predominately due to the amount of statutory distributions and revenue earned from the RLLB re-bid process during fiscal year 2010. Statutory distributions related to ongoing liquor sales are determined by the West Virginia Department of Administration each year to the extent that funds are available. The statutory distributions are transfers to the State of West Virginia's General Revenue Fund.

## **CHANGES IN OPERATIONS**

During the years ended June 30, 2012 and 2011, no major changes were made in the ABCA's operations.

## **CONTACTING THE ABCA'S FINANCIAL MANAGEMENT**

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

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## BALANCE SHEET

June 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 10,901,448	\$ 8,546,779
Inventory	29,342	6,829
Accounts receivable	<u>174,571</u>	<u>72,007</u>
Total current assets	<u>11,105,361</u>	<u>8,625,615</u>
Noncurrent assets:		
Notes receivable	1,372,777	1,787,638
Accrued interest	51,929	88,397
Capital assets, net	<u>2,035,548</u>	<u>1,967,593</u>
Total noncurrent assets	<u>3,460,254</u>	<u>3,843,628</u>
Total assets	<u>\$ 14,565,615</u>	<u>\$ 12,469,243</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 2,811,794	\$ 3,191,048
Noncurrent liabilities:		
Accrued annual leave	253,420	243,156
Other post employment benefits	<u>1,921,043</u>	<u>1,315,928</u>
Total noncurrent liabilities	<u>2,174,463</u>	<u>1,559,084</u>
Total liabilities	<u>4,986,257</u>	<u>4,750,132</u>
Net assets:		
Invested in capital assets	2,035,548	1,967,593
Restricted by enabling legislation	1,372,777	1,787,638
Unrestricted	<u>6,171,033</u>	<u>3,963,880</u>
Total net assets	<u>9,579,358</u>	<u>7,719,111</u>
Total net assets and liabilities	<u>\$ 14,565,615</u>	<u>\$ 12,469,243</u>

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

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
Years Ended June 30, 2012 and 2011

Operating revenues:	<u>2012</u>	<u>2011</u>
Sales	\$ 88,321,275	\$ 84,268,275
Licenses, permits and fees	3,853,458	3,908,343
Administrative hearing fines	<u>88,750</u>	<u>59,618</u>
	<u>92,263,483</u>	<u>88,236,236</u>
 Operating expenses:		
Cost of sales	68,530,385	65,716,061
General and administrative	6,174,137	5,745,130
Depreciation	<u>181,115</u>	<u>155,774</u>
	<u>74,885,637</u>	<u>71,616,965</u>
 Operating income	17,377,846	16,619,271
 Nonoperating revenues (expenses):		
Grants	92,032	78,238
Loss of disposal of assets	-	(13,308)
Receipts from primary government	200,000	200,000
Statutory distributions	<u>(15,809,631)</u>	<u>(15,581,089)</u>
	<u>(15,517,599)</u>	<u>(15,316,159)</u>
 Change in net assets	1,860,247	1,303,112
 Net assets, beginning of year	<u>7,719,111</u>	<u>6,415,999</u>
 Net assets, end of year	<u>\$ 9,579,358</u>	<u>\$ 7,719,111</u>

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

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## STATEMENT OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 92,160,919	\$ 88,371,439
Cash paid to employees	(4,037,119)	(3,858,084)
Cash paid to suppliers	<u>(70,453,791)</u>	<u>(66,847,028)</u>
Net cash provided by operating activities	<u>17,670,009</u>	<u>17,666,327</u>
Cash flows from noncapital financing activities		
Receipts on nonoperating grants	92,032	78,238
Provided from issuing liquor licenses	451,329	380,605
Receipt from primary government	200,000	200,000
Payments to primary government	<u>(15,809,631)</u>	<u>(29,567,575)</u>
Net cash used in noncapital financial activities	<u>(15,066,270)</u>	<u>(28,908,732)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>(249,070)</u>	<u>(220,809)</u>
Increase (decrease) in cash and cash equivalents	2,354,669	(11,463,214)
Cash and cash equivalents, beginning of year	<u>8,546,779</u>	<u>20,009,993</u>
Cash and cash equivalents, end of year	<u>\$ 10,901,448</u>	<u>\$ 8,546,779</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 17,377,846	\$ 16,619,271
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	181,115	155,774
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(102,564)	135,203
(Increase) decrease in inventory	(22,513)	11,603
Decrease in other assets	-	500
Increase (decrease) in accounts payable	(379,254)	198,840
Increase in accrued postemployment benefits	605,115	571,215
(Increase) decrease in accrued annual leave	<u>10,264</u>	<u>(26,079)</u>
Net cash provided by operating activities	<u>\$ 17,670,009</u>	<u>\$ 17,666,327</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 ABCA) is a component unit 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 ABCA'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 ABCA's financial statements are included in the State's Comprehensive Annual Financial Report as a blended component unit.

**2 - SIGNIFICANT ACCOUNTING POLICIES**Basis of Accounting

The ABCA 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. The carrying value of cash and cash equivalents approximates fair value and all deposits are available with overnight notice.

Notes Receivable

Notes receivable consists of amounts due from licensees that elected to finance up to 50% of the ten-year license fee as permitted by West Virginia Code. The principal and interest on these notes are due in either monthly or quarterly installments as elected by the licensee over 60 months and bear interest at an annual rate of 2.25%. The notes are secured by potential revocation of the licensee's Class A retail license.

Inventories

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

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Capital Assets

Capital assets are reported at historical cost. Capital assets are defined by the ABCA 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).

Employee Benefits

Employees fully vest in all earned but unused vacation and the ABCA 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 ABCA's participation in The West Virginia Retiree Health Benefit Trust Fund.

Net Assets

Net assets are the difference between assets and liabilities and are presented as restricted, unrestricted or invested in capital assets. Net assets invested in capital assets consist of all capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets restricted by enabling legislation consists of notes receivable on re-bid licenses in which all collections by the ABCA are required by West Virginia Code to be distributed to the State of West Virginia. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Operating Revenues and Expenses

Operating revenues and expenses for the ABCA 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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

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

A summary of capital assets as of and for the year ended June 30, 2012 and 2011, follows:

<u>June 30, 2012</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	1,660,934	2,168	-	1,663,102
Equipment	<u>1,182,579</u>	<u>246,902</u>	<u>(41,862)</u>	<u>1,387,619</u>
Total capital assets, being depreciated	<u>2,843,513</u>	<u>249,070</u>	<u>(41,862)</u>	<u>3,050,721</u>
Less accumulated depreciation for:				
Buildings	(803,190)	(52,330)	-	(855,520)
Equipment	<u>(684,111)</u>	<u>(128,785)</u>	<u>41,862</u>	<u>(771,034)</u>
Total accumulated depreciation	<u>(1,487,301)</u>	<u>(181,115)</u>	<u>41,862</u>	<u>(1,626,554)</u>
Total capital assets, being depreciated, net	<u>1,356,212</u>	<u>67,955</u>	<u>-</u>	<u>1,424,167</u>
Total capital assets, net	<u>\$ 1,967,593</u>	<u>\$ 67,955</u>	<u>\$ -</u>	<u>\$ 2,035,548</u>
<u>June 30, 2011</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	1,660,934	-	-	1,660,934
Equipment	<u>1,217,123</u>	<u>220,809</u>	<u>(255,353)</u>	<u>1,182,579</u>
Total capital assets, being depreciated	<u>2,878,057</u>	<u>220,809</u>	<u>(255,353)</u>	<u>2,843,513</u>
Less accumulated depreciation for:				
Buildings	(751,171)	(52,019)	-	(803,190)
Equipment	<u>(822,401)</u>	<u>(103,755)</u>	<u>242,045</u>	<u>(684,111)</u>
Total accumulated depreciation	<u>(1,573,572)</u>	<u>(155,774)</u>	<u>242,045</u>	<u>(1,487,301)</u>
Total capital assets, being depreciated, net	<u>1,304,485</u>	<u>65,035</u>	<u>(13,308)</u>	<u>1,356,212</u>
Total capital assets, net	<u>\$ 1,915,866</u>	<u>\$ 65,035</u>	<u>\$ (13,308)</u>	<u>\$ 1,967,593</u>

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

**4 - LEASE**

The ABCA relocated its headquarters in 2012 ending one operating rental lease and entering into a new operating rental lease with the West Virginia Lottery Commission (Lessor) which expires in June 2013. Rent expense for leasing its headquarters for the year ended June 30, 2012 was \$181,509. The new lease contains a clause that allows the ABCA to cancel the lease with 30 days written notice to the Lessor. ABCA's future minimum lease payments under the current terms of the lease are \$179,388 through the year ending June 30, 2013.

**5 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**Plan Description

The ABCA 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 57<sup>th</sup> 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 the parameters of GASB Statement 45. 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.

The ABCA's ARC was \$737,880, \$705,672, and \$725,130 and the ABCA paid premiums of \$132,765, \$134,457, and \$127,258, which represented 18.0%, 19.1%, and 17.5% of the ARC, respectively, for the years ending June 30, 2012, 2011, and 2010. As of June 30, 2012 and 2011 the ABCA has recorded an OPEB liability of \$1,921,043 and \$1,315,928, respectively.

**6 - PENSION PLAN**

All full-time employees of the ABCA are eligible and required to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement Board (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements for each retirement system it administers, which can be obtained from Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636 or by calling 1-800-654-4406.

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

**6 - PENSION PLAN (Continued)**

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service with age and credited service equal to eighty or greater are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Covered employees are required to contribute 4.5% of their salary to the PERS. The ABCA is required to contribute 14.5% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate contributions. The ABCA and employee contributions, which equaled the required contributions for the three years ended June 2012, 2011, and 2010, were as follows (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ABCA contributions	\$ 401,530	\$ 333,375	\$ 342,261
Employee contributions	<u>126,055</u>	<u>124,363</u>	<u>148,555</u>
Total contributions	<u>\$ 527,585</u>	<u>\$ 457,738</u>	<u>\$ 490,816</u>

**7 - RISK MANAGEMENT**Public Employees' Insurance Agency (PEIA)

The ABCA 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 ABCA 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. Those reports include the required supplementary information regarding the reconciliation of claims liabilities by type of contract and ten-year claim development information. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

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.

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

(Continued)

**7 - RISK MANAGEMENT (Continued)**Board of Risk and Insurance Management (BRIM)

The ABCA 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 ABCA 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. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

Workers Compensation Insurance

The ABCA 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.

**8 - NEW ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the ABCA's June 30, 2013 financial statements. GASB has also issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the ABCA's June 30, 2014 financial statements and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the ABCA to record their proportionate share of the actuarially determined net pension obligation of PERS and will be effective for the ABCA's June 30, 2015 financial statements. The ABCA has not yet determined the effect these statements will have on their financial statements.

**SUPPLEMENTARY INFORMATION**

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

COMBINING BALANCE SHEET

June 30, 2012

<u>ASSETS</u>	<u>Administrative / Liquor Fund #7352</u>	<u>Enforcement Fund #7356</u>	<u>Wine Fund #7351</u>	<u>Grants / Gift #7357</u>	<u>Total</u>
Current assets:					
Cash and cash equivalents	\$ 9,678,604	\$ 18,292	\$ 1,168,247	\$ 36,305	\$ 10,901,448
Inventory	29,342	-	-	-	29,342
Accounts receivable	174,571	-	-	-	174,571
Total current assets	<u>9,882,517</u>	<u>18,292</u>	<u>1,168,247</u>	<u>36,305</u>	<u>11,105,361</u>
Noncurrent assets:					
Notes receivable	1,372,777	-	-	-	1,372,777
Accrued interest	51,929	-	-	-	51,929
Capital assets, net	1,605,652	39,283	316,030	74,583	2,035,548
Total noncurrent assets	<u>3,030,358</u>	<u>39,283</u>	<u>316,030</u>	<u>74,583</u>	<u>3,460,254</u>
Total assets	<u>\$ 12,912,875</u>	<u>\$ 57,575</u>	<u>\$ 1,484,277</u>	<u>\$ 110,888</u>	<u>\$ 14,565,615</u>
<u>LIABILITIES AND NET ASSETS</u>					
Current liabilities:					
Accounts payable	\$ 2,704,117	\$ -	\$ 107,677	\$ -	\$ 2,811,794
Noncurrent liabilities:					
Other post employment benefits	1,921,043	-	-	-	1,921,043
Accrued annual leave	253,420	-	-	-	253,420
Total noncurrent liabilities	<u>2,174,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,174,463</u>
Total liabilities	<u>4,878,580</u>	<u>-</u>	<u>107,677</u>	<u>-</u>	<u>4,986,257</u>
Net assets:					
Invested in capital assets	1,605,652	39,283	316,030	74,583	2,035,548
Restricted by enabling legislation	1,372,777	-	-	-	1,372,777
Unrestricted	5,055,866	18,292	1,060,570	36,305	6,171,033
Total net assets	<u>8,034,295</u>	<u>57,575</u>	<u>1,376,600</u>	<u>110,888</u>	<u>9,579,358</u>
Total net assets and liabilities	<u>\$ 12,912,875</u>	<u>\$ 57,575</u>	<u>\$ 1,484,277</u>	<u>\$ 110,888</u>	<u>\$ 14,565,615</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2012

	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants / Gift #7357	Total
Operating revenues:					
Sales	\$ 88,321,275	\$ -	\$ -	\$ -	\$ 88,321,275
Licenses, permits and fees	3,453,882	-	399,576	-	3,853,458
Administrative hearing fines	-	88,750	-	-	88,750
Total revenues	<u>91,775,157</u>	<u>88,750</u>	<u>399,576</u>	<u>-</u>	<u>92,263,483</u>
Operating expenses:					
Cost of sales	68,530,310	-	75	-	68,530,385
General and administrative	5,925,673	89,808	149,961	8,695	6,174,137
Depreciation	145,979	5,600	18,911	10,625	181,115
	<u>74,601,962</u>	<u>95,408</u>	<u>168,947</u>	<u>19,320</u>	<u>74,885,637</u>
Operating income (loss)	17,173,195	(6,658)	230,629	(19,320)	17,377,846
Nonoperating revenues (expenses):					
Grants	67,032	-	-	25,000	92,032
Transfers in from primary government	200,000	-	-	-	200,000
Statutory distributions	(15,805,853)	(3,778)	-	-	(15,809,631)
	<u>(15,538,821)</u>	<u>(3,778)</u>	<u>-</u>	<u>25,000</u>	<u>(15,517,599)</u>
Change in net assets	1,634,374	(10,436)	230,629	5,680	1,860,247
Net assets, beginning of year	<u>6,399,921</u>	<u>68,011</u>	<u>1,145,971</u>	<u>105,208</u>	<u>7,719,111</u>
Net assets, end of year	<u>\$ 8,034,295</u>	<u>\$ 57,575</u>	<u>\$ 1,376,600</u>	<u>\$ 110,888</u>	<u>\$ 9,579,358</u>

See Accompanying Independent Auditor's Report.

GAAP REPORTING FORM - DEPOSITS DISCLOSURE

Audited Agency West Virginia Alcohol Beverage Control Administration  
 June 30, 2012

Per GASB Statement 40 the Institution 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 Institution's deposit policy.

See Note 1 to the financial statements.

						2	3A	3B	3C	Foreign Currency Risk			
	Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	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, 2012													
Cash with Treasurer													
Per WVFIMS Opening Balance Report	\$ 10,811,198		\$ 10,811,198										
Cash with Municipal Bond Commission													
Cash on Hand													
Cash in Transit to WVFIMS	90,250		90,250										
Cash with Board of Trustees													
Cash in Outside Bank Accounts													
Cash in Escrow													
Certificates of Deposits (Non-Negotiable)													
Other:													
<b>Total</b>	<b>\$ 10,901,448</b>		<b>\$ 10,901,448</b>										

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



GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agency West Virginia Alcohol Beverage Control Administration

Indicate amounts transferred from/to your agency as of June 30, 2012

WVFIMS Doc. ID	Agency Transferring From	WVFIMS FUND	Agency Transferring To	WVFIMS FUND	Amount
1	2	3	4	5	6
E 906269	Alcohol Beverage Control Administration	7356	General Fund	490	\$ 3,778
E 908951	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E 909994	Alcohol Beverage Control Administration	7352	General Fund	490	344,150
D 1775694	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E 912314	Alcohol Beverage Control Administration	7352	General Fund	490	1,250,000
E 913341	Alcohol Beverage Control Administration	7352	General Fund	490	37,096
D 1785358	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E 915968	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E 916673	Alcohol Beverage Control Administration	7352	General Fund	490	42,404
D 1795766	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E 919441	Alcohol Beverage Control Administration	7352	General Fund	490	1,150,000
E 920397	Alcohol Beverage Control Administration	7352	General Fund	490	20,000
D 1804786	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E 922988	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E 923631	Alcohol Beverage Control Administration	7352	General Fund	490	21,500
D 1816068	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E 925902	Alcohol Beverage Control Administration	7352	General Fund	490	750,000
E 927174	Alcohol Beverage Control Administration	7352	General Fund	490	17,674
D 1819884	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E 930308	Alcohol Beverage Control Administration	7352	General Fund	490	1,250,000
E 931094	Alcohol Beverage Control Administration	7352	General Fund	490	6,451
D 1832201	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E 934064	Alcohol Beverage Control Administration	7352	General Fund	490	1,250,000
E 933950	Alcohol Beverage Control Administration	7352	General Fund	490	8,125
D 1841991	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E 937915	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E 938537	Alcohol Beverage Control Administration	7352	General Fund	490	12,875
D 1852448	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E 941569	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000
E 942652	Alcohol Beverage Control Administration	7352	General Fund	490	6,750
D 1861761	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E 945486	Alcohol Beverage Control Administration	7352	General Fund	490	1,050,000
E 946325	Alcohol Beverage Control Administration	7352	General Fund	490	463,750
D 1871861	Alcohol Beverage Control Administration	7352	General Fund	490	20,054
D1881105	Alcohol Beverage Control Administration	7352	General Fund	490	1,000
E 949551	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E 950225	Alcohol Beverage Control Administration	7352	General Fund	490	1,373,750
D 1881107	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
<b>Total</b>					<b>\$ 15,809,631</b>
E 939344	Division of Tobacco Prevention	407	Alcohol Beverage Control Administration	7352	\$ 200,000

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

**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 the financial statements of the West Virginia Alcohol Beverage Control Administration (the ABCA) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the ABCA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the ABCA's internal control over financial reporting as a basis for designing our auditing procedures 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 ABCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ABCA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 ABCA's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-2 to be a significant deficiency.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ABCA's financial statements are free of 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*.

The ABCA's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the ABCA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Members of the ABCA, the Members of the West Virginia Legislature, and the West Virginia Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

*Gibbons & Kawash, A.C.*

October 1, 2012

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## SCHEDULE OF FINDINGS AND RESPONSES

**2012-1 Financial Reporting**Condition:

We noted that material journal entries were proposed and accepted by management during the conduct of the audit in order to reconcile and adjust capital assets, expenses and certain liabilities.

Criteria:

All transactions recorded in the general ledger should represent the complete financial position and results of operations of the ABCA.

Context:

The amount of audit journal entries proposed and accepted by management were material to the ABCA's financial statements.

Effect:

Without effective supervisory review, errors or irregularities in the internal financial statements which represent the financial position and results of operations of the ABCA may not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Cause:

Although formal procedures requiring supervisory review and approval of account reconciliations, general journal entries, and internal financial statements have been implemented, this review process did not identify errors in reconciliations, adjusting entries or that required adjusting entries were omitted.

Recommendation:

Management should continue to improve established monthly and year end financial reporting procedures to ensure that all significant reconciliations have been properly performed and general journal entries have been properly posted to the general ledger, reviewed and evaluated to ensure that the ABCA's financial position and results of operations have been fairly presented.

Views of Responsible Officials:

The WVABCA has reinforced the established procedures for journal entries. The general ledger will be reviewed and evaluated quarterly to make sure that all transactions are recorded to represent the complete financial positions of the WVABCA. Fixed assets will be reviewed every six months for completeness.

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## SCHEDULE OF FINDINGS AND RESPONSES

**2012-2 Retention of Records**Condition:

Documentation of selected monthly bank reconciliation procedures could not be retrieved by the accounting staff of the ABCA from their file storage software. Original documentation of the procedures performed and reviewed had been destroyed.

Criteria:

All documentation supporting significant transactions and balances should be maintained for a reasonable period of time to support the accounting and financial reporting processes of the ABCA.

Context:

The ABCA accidentally destroyed significant documents that indicated key control procedures performed without positive confirmation of those documents being retained in the data storage file.

Effect:

Documentation of significant control procedures performed were not retained to verify they did in fact occur as designed.

Cause:

Although procedures are in place for monthly reconciliations to be scanned into the ABCA's file storage software, adequate controls are not in place to verify that all scanned documents are properly retained.

Recommendation:

Management should evaluate retention requirements and policies for record retention should be adopted to ensure that records are maintained for specified periods. Procedures for electronic scanning of records should provide for destruction of original documents only after positive verification of the electronic storage process or after a specified period of time.

Views of Responsible Officials:

The WVABCA has reviewed the retention requirements and policy will be adopted to save previous fiscal year hard copies until the audit has been completed. The WVABCA will also ensure positive verification of the electronic storage process.