

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, 2014 and 2013

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, 2014 and 2013

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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), a component unit of the State of West Virginia, as of and for the years ended June 30, 2014 and 2013, 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 the 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, 2014 and 2013, 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.



## **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 6 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 16 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules on pages 16 through 20 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 10, 2014, 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 10, 2014

West Virginia Alcohol Beverage Control Administration  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2014 and 2013

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)  
Years Ended June 30, 2014 and 2013  
(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.

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, 2014. Please read it in conjunction with the Administration's financial statements, which begin on page 7.

### 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 and liabilities of the Administration 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 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, 2014, 2013 and 2012, respectively.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b><u>Statements of Net Position:</u></b>			
Current assets	\$ 18,565,148	\$ 13,904,287	\$ 11,105,361
Capital assets, net	2,442,626	2,258,781	2,035,548
Other noncurrent assets	<u>522,052</u>	<u>973,379</u>	<u>1,424,706</u>
Total assets	<u>\$ 21,529,826</u>	<u>\$ 17,136,447</u>	<u>\$ 14,565,615</u>

West Virginia Alcohol Beverage Control Administration  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2014 and 2013

**FINANCIAL HIGHLIGHTS (Continued)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current liabilities	\$ 3,852,338	\$ 3,118,994	\$ 2,811,794
Noncurrent liabilities	<u>2,250,833</u>	<u>2,210,897</u>	<u>2,174,463</u>
Total liabilities	<u>\$ 6,103,171</u>	<u>\$ 5,329,891</u>	<u>\$ 4,986,257</u>
Net position, Investment in capital assets	\$ 2,442,626	\$ 2,258,781	\$ 2,035,548
Net position, restricted by enabling legislation	514,334	948,384	1,372,777
Net position, unrestricted	<u>12,469,695</u>	<u>8,599,391</u>	<u>6,171,033</u>
Total net position	<u>\$ 15,426,655</u>	<u>\$ 11,806,556</u>	<u>\$ 9,579,358</u>

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b><u>Statements of Revenues, Expenses, and Changes in Fund Net Position</u></b>			
Sales	\$ 91,372,622	\$ 90,402,764	\$ 88,321,275
Licenses, permits and fees	3,825,896	3,954,627	3,853,458
Administrative hearing fees	<u>142,500</u>	<u>90,825</u>	<u>88,750</u>
Total operating revenues	<u>95,341,018</u>	<u>94,448,216</u>	<u>92,263,483</u>
Cost of sales	70,968,095	70,373,006	68,530,385
General and administrative	5,115,531	5,263,835	6,174,137
Depreciation	<u>194,587</u>	<u>174,942</u>	<u>181,115</u>
Total operating expenses	<u>76,278,213</u>	<u>75,811,783</u>	<u>74,885,637</u>
Operating income	19,062,805	18,636,433	17,377,846
Nonoperating revenues (expenses):			
Grants	163,669	163,317	92,032
Receipts from primary government	-	200,000	200,000
Statutory distributions	<u>(15,606,375)</u>	<u>(16,772,552)</u>	<u>(15,809,631)</u>
	<u>(15,442,706)</u>	<u>(16,409,235)</u>	<u>(15,517,599)</u>
Change in net position	<u>\$ 3,620,099</u>	<u>\$ 2,227,198</u>	<u>\$ 1,860,247</u>

West Virginia Alcohol Beverage Control Administration  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2014 and 2013  
(Continued)

## STATEMENTS OF NET POSITION

Total assets increased \$4,393,379 from \$17,136,447 at June 30, 2013, to \$21,529,826 at June 30, 2014, as a result of increased operating income. Total assets increased \$2,570,832 from \$14,565,615 at June 30, 2012, to \$17,136,447 at June 30, 2013, as a result of the fiscal year 2013 increased operating income. Total liabilities increased \$773,280 from \$5,329,891 at June 30, 2013, to \$6,103,171 at June 30, 2014 due to the timing of cash payments. Total liabilities increased \$343,634 from \$4,986,257 at June 30, 2012, to \$5,329,891 at June 30, 2013, due to timing of cash payments.

The Administration's net position totaled \$15,426,655, \$11,806,556, and \$9,579,358 at June 30, 2014, 2013, and 2012, respectively. Net position represented 72%, 69%, and 66% of the Administration's total assets for each of the years ended June 30, 2014, 2013, and 2012, respectively.

## OPERATING RESULTS

The Administration had operating income for the year ended June 30, 2014 of \$19,062,805 which was an increase of 2.3% over the year ended June 30, 2013, which was \$18,636,433. Operating income from the year ended June 30, 2013 increased 7.2% from the year ended June 30, 2012 which was \$17,377,846. Additionally, unit quantities of sales measured in cases were 698,617, 695,363, and 692,170, for the years ended June 30, 2014, 2013, and 2012, respectively. Operating income fluctuates in response to sales dollars and quantities on an annual basis.

## NONOPERATING RESULTS

The Administration's non-operating expense, net for the years ended June 30, 2014, 2013, and 2012 were \$15,442,706, \$16,409,235, and \$15,517,599, 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 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, 2014 and 2013, 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, 4<sup>th</sup> Floor, Charleston, West Virginia, 25302, (304) 356-5500.

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## STATEMENTS OF NET POSITION

June 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 18,372,615	\$ 13,701,406
Inventory	14,197	9,733
Accounts receivable	178,336	193,148
Total current assets	<u>18,565,148</u>	<u>13,904,287</u>
Noncurrent assets:		
Notes receivable	514,334	948,384
Accrued interest	7,718	24,995
Capital assets, net	<u>2,442,626</u>	<u>2,258,781</u>
Total noncurrent assets	<u>2,964,678</u>	<u>3,232,160</u>
 Total assets	 <u>\$ 21,529,826</u>	 <u>\$ 17,136,447</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 3,852,338	\$ 3,118,994
Noncurrent liabilities:		
Accrued annual leave	242,146	234,622
Other post employment benefits	<u>2,008,687</u>	<u>1,976,275</u>
Total noncurrent liabilities	<u>2,250,833</u>	<u>2,210,897</u>
Total liabilities	<u>6,103,171</u>	<u>5,329,891</u>
Net position:		
Investment in capital assets	2,442,626	2,258,781
Restricted by enabling legislation	514,334	948,384
Unrestricted	<u>12,469,695</u>	<u>8,599,391</u>
Total net position	<u>15,426,655</u>	<u>11,806,556</u>
 Total liabilities and net position	 <u>\$ 21,529,826</u>	 <u>\$ 17,136,447</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Sales	\$ 91,372,622	\$ 90,402,764
Licenses, permits and fees	3,825,896	3,954,627
Administrative hearing fines	<u>142,500</u>	<u>90,825</u>
	<u>95,341,018</u>	<u>94,448,216</u>
Operating expenses:		
Cost of sales	70,968,095	70,373,006
General and administrative	5,115,531	5,263,835
Depreciation	<u>194,587</u>	<u>174,942</u>
	<u>76,278,213</u>	<u>75,811,783</u>
Operating income	19,062,805	18,636,433
Nonoperating revenues (expenses):		
Grants	163,669	163,317
Receipts from primary government	-	200,000
Statutory distributions	<u>(15,606,375)</u>	<u>(16,772,552)</u>
	<u>(15,442,706)</u>	<u>(16,409,235)</u>
Change in net position	3,620,099	2,227,198
Net position, beginning of year	<u>11,806,556</u>	<u>9,579,358</u>
Net position, end of year	<u>\$ 15,426,655</u>	<u>\$ 11,806,556</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 95,355,830	\$ 94,429,639
Cash paid to employees	(3,782,833)	(4,027,904)
Cash paid to suppliers	(71,531,977)	(71,245,694)
Net cash provided by operating activities	<u>20,041,020</u>	<u>19,156,041</u>
Cash flows from noncapital financing activities:		
Receipts on nonoperating grants	163,669	163,317
Provided from issuing liquor licenses	451,327	451,327
Receipt from primary government	-	200,000
Payments to primary government	(15,606,375)	(16,772,552)
Net cash used in noncapital financial activities	<u>(14,991,379)</u>	<u>(15,957,908)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(378,432)	(398,175)
Increase in cash and cash equivalents	4,671,209	2,799,958
Cash and cash equivalents, beginning of year	<u>13,701,406</u>	<u>10,901,448</u>
Cash and cash equivalents, end of year	<u>\$ 18,372,615</u>	<u>\$ 13,701,406</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 19,062,805	\$ 18,636,433
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	194,587	174,942
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	14,812	(18,577)
(Increase) decrease in inventory	(4,464)	19,609
Increase in accounts payable	733,344	307,200
Increase in accrued postemployment benefits	32,412	55,232
Increase (decrease) in accrued annual leave	7,524	(18,798)
Net cash provided by operating activities	<u>\$ 20,041,020</u>	<u>\$ 19,156,041</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 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 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's Comprehensive Annual Financial Report as a blended component unit.

**2 - SIGNIFICANT ACCOUNTING POLICIES**Basis 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, which approximates fair value. All deposits are available with overnight notice.

Notes Receivable

Notes receivable consist 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 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).

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.

Net Position

Net position is presented as unrestricted, restricted, or as investment in capital assets. Investment in capital assets consists of all capital assets, less accumulated depreciation. Net position restricted by enabling legislation consists of notes receivable on re-bid licenses in which all collections by the Administration are required by West Virginia Code to be distributed to the State of West Virginia. 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.

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

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, 2014 and 2013, follows:

<u>June 30, 2014</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	1,965,329	-	-	1,965,329
Equipment	<u>1,472,072</u>	<u>400,771</u>	<u>(159,974)</u>	<u>1,712,869</u>
Total capital assets, being depreciated	<u>3,437,401</u>	<u>400,771</u>	<u>(159,974)</u>	<u>3,678,198</u>
Less accumulated depreciation for:				
Buildings	(920,239)	(73,129)	-	(993,368)
Equipment	<u>(869,762)</u>	<u>(121,458)</u>	<u>137,635</u>	<u>(853,585)</u>
Total accumulated depreciation	<u>(1,790,001)</u>	<u>(194,587)</u>	<u>137,635</u>	<u>(1,846,953)</u>
Total capital assets, being depreciated, net	<u>1,647,400</u>	<u>206,184</u>	<u>(22,339)</u>	<u>1,831,245</u>
Total capital assets, net	<u>\$ 2,258,781</u>	<u>\$ 206,184</u>	<u>\$ (22,339)</u>	<u>\$ 2,442,626</u>
<u>June 30, 2013</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	1,663,102	302,227	-	1,965,329
Equipment	<u>1,387,619</u>	<u>95,948</u>	<u>(11,495)</u>	<u>1,472,072</u>
Total capital assets, being depreciated	<u>3,050,721</u>	<u>398,175</u>	<u>(11,495)</u>	<u>3,437,401</u>
Less accumulated depreciation for:				
Buildings	(855,520)	(64,719)	-	(920,239)
Equipment	<u>(771,034)</u>	<u>(110,223)</u>	<u>11,495</u>	<u>(869,762)</u>
Total accumulated depreciation	<u>(1,626,554)</u>	<u>(174,942)</u>	<u>11,495</u>	<u>(1,790,001)</u>
Total capital assets, being depreciated, net	<u>1,424,167</u>	<u>223,233</u>	<u>-</u>	<u>1,647,400</u>
Total capital assets, net	<u>\$ 2,035,548</u>	<u>\$ 223,233</u>	<u>\$ -</u>	<u>\$ 2,258,781</u>

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - LEASE**

The Administration has entered into an operating lease with the West Virginia Lottery Commission (Lessor) for its headquarters which expires in June 2015. Rent expense for the years ended June 30, 2014 and 2013 was \$183,418 and \$184,258, 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 \$179,388 through the year ending June 30, 2015.

**5 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**Plan 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 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 Administration's ARC was \$167,932, \$193,852, and \$737,880 and the Administration paid premiums of \$135,520, \$138,620, and \$132,765, which represented 80.7%, 71.5%, and 18.0% of the ARC, respectively, for the years ending June 30, 2014, 2013, and 2012. As of June 30, 2014 and 2013 the Administration has recorded an OPEB liability of \$2,008,687 and \$1,976,275, respectively.

**6 - PENSION PLAN**

All full-time employees of the Administration 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 Administration is required to contribute 14.5%, 14%, and 14.5% of covered employees' salaries to the PERS for the years ended June 30, 2014, 2013, and 2012, respectively. 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 Administration and employee contributions, which equaled the required contributions for the three years ended June 2014, 2013, and 2012, were as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Administration contributions	\$ 369,965	\$ 381,890	\$ 401,530
Employee contributions	<u>114,817</u>	<u>122,858</u>	<u>126,055</u>
Total contributions	<u>\$ 484,782</u>	<u>\$ 504,748</u>	<u>\$ 527,585</u>

**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.

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - RISK MANAGEMENT (Continued)**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.

**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 - NEW ACCOUNTING PRONOUNCEMENTS**

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Administration to record their proportionate share of the actuarially determined net pension obligation of PERS and will be effective for the Administration's June 30, 2015 financial statements. The Administration has not yet determined the effect this statement will have on its financial statements.

**SUPPLEMENTARY INFORMATION**

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

COMBINING STATEMENTS OF NET POSITION

June 30, 2014

<u>ASSETS</u>	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants #7355 / Gift #7357	Total
Current assets:					
Cash and cash equivalents	\$ 16,868,352	\$ 105,384	\$ 1,346,116	\$ 52,763	\$ 18,372,615
Inventory	14,197	-	-	-	14,197
Accounts receivable	178,336	-	-	-	178,336
Total current assets	<u>17,060,885</u>	<u>105,384</u>	<u>1,346,116</u>	<u>52,763</u>	<u>18,565,148</u>
Noncurrent assets:					
Notes receivable	514,334	-	-	-	514,334
Accrued interest	7,718	-	-	-	7,718
Capital assets, net	1,630,306	52,964	693,456	65,900	2,442,626
Total noncurrent assets	<u>2,152,358</u>	<u>52,964</u>	<u>693,456</u>	<u>65,900</u>	<u>2,964,678</u>
Total assets	<u>\$ 19,213,243</u>	<u>\$ 158,348</u>	<u>\$ 2,039,572</u>	<u>\$ 118,663</u>	<u>\$ 21,529,826</u>
<u>LIABILITIES AND NET POSITION</u>					
Current liabilities:					
Accounts payable	\$ 3,852,338	\$ -	\$ -	\$ -	\$ 3,852,338
Noncurrent liabilities:					
Other post employment benefits	2,008,687	-	-	-	2,008,687
Accrued annual leave	242,146	-	-	-	242,146
Total noncurrent liabilities	<u>2,250,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,250,833</u>
Total liabilities	<u>6,103,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,103,171</u>
Net position:					
Investment in capital assets	1,630,306	52,964	693,456	65,900	2,442,626
Restricted by enabling legislation	514,334	-	-	-	514,334
Unrestricted	10,965,432	105,384	1,346,116	52,763	12,469,695
Total net position	<u>13,110,072</u>	<u>158,348</u>	<u>2,039,572</u>	<u>118,663</u>	<u>15,426,655</u>
Total liabilities and net position	<u>\$ 19,213,243</u>	<u>\$ 158,348</u>	<u>\$ 2,039,572</u>	<u>\$ 118,663</u>	<u>\$ 21,529,826</u>

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

Year Ended June 30, 2014

	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants #7355/ Gift #7357	Total
Operating revenues:					
Sales	\$ 91,372,622	\$ -	\$ -	\$ -	\$ 91,372,622
Licenses, permits and fees	3,348,146	-	477,750	-	3,825,896
Administrative hearing fines	-	142,500	-	-	142,500
Total revenues	<u>94,720,768</u>	<u>142,500</u>	<u>477,750</u>	<u>-</u>	<u>95,341,018</u>
Operating expenses:					
Cost of sales	70,968,095	-	-	-	70,968,095
General and administrative	4,957,711	62,211	75,491	20,118	5,115,531
Depreciation	112,022	10,880	58,601	13,084	194,587
	<u>76,037,828</u>	<u>73,091</u>	<u>134,092</u>	<u>33,202</u>	<u>76,278,213</u>
Operating income (loss)	18,682,940	69,409	343,658	(33,202)	19,062,805
Nonoperating revenues (expenses):					
Grants	109,494	-	-	54,175	163,669
Statutory distributions	(15,599,027)	(7,348)	-	-	(15,606,375)
	<u>(15,489,533)</u>	<u>(7,348)</u>	<u>-</u>	<u>54,175</u>	<u>(15,442,706)</u>
Change in net position	3,193,407	62,061	343,658	20,973	3,620,099
Net position, beginning of year	<u>9,916,665</u>	<u>96,287</u>	<u>1,695,914</u>	<u>97,690</u>	<u>11,806,556</u>
Net position, end of year	<u>\$ 13,110,072</u>	<u>\$ 158,348</u>	<u>\$ 2,039,572</u>	<u>\$ 118,663</u>	<u>\$ 15,426,655</u>

See Independent Auditor's Report.

GAAP REPORTING FORM - DEPOSIT DISCLOSURE

Audited Agency West Virginia Alcohol Beverage Control Administration  
 June 30, 2014

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 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, 2014															
Cash with Treasurer															
Per WVFIMS Opening Balance Report	\$ 18,265,343		\$ 18,265,343												
Cash with Municipal Bond Commission															
Cash on Hand															
Cash in Transit to WVFIMS	107,272		107,272												
Cash with Board of Trustees															
Cash in Outside Bank Accounts															
Cash in Escrow															
Certificates of Deposits (Non-Negotiable)															
Other:															
<b>Total</b>	<b>\$ 18,372,615</b>		<b>\$ 18,372,615</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, 2014

WVFIMS Doc. ID	Agency Transferring From	WVFIMS FUND	Agency Transferring To	WVFIMS FUND	Amount
1	2	3	4	5	6
E1000716	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E996495	Alcohol Beverage Control Administration	7352	General Fund	490	137,000
D2008446	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E1003574	Alcohol Beverage Control Administration	7352	General Fund	490	1,250,000
E1000982	Alcohol Beverage Control Administration	7352	General Fund	490	228,250
D2016887	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E1007300	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E1004183	Alcohol Beverage Control Administration	7352	General Fund	490	18,650
D2027876	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E1010517	Alcohol Beverage Control Administration	7352	General Fund	490	1,150,000
E1007488	Alcohol Beverage Control Administration	7352	General Fund	490	13,750
D2036793	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E1014094	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E1011523	Alcohol Beverage Control Administration	7352	General Fund	490	36,250
D2046086	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E1017429	Alcohol Beverage Control Administration	7352	General Fund	490	750,000
E1014796	Alcohol Beverage Control Administration	7352	General Fund	490	20,850
D2054382	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E1021403	Alcohol Beverage Control Administration	7352	General Fund	490	1,250,000
E1018384	Alcohol Beverage Control Administration	7352	General Fund	490	7,500
D2063977	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E1025306	Alcohol Beverage Control Administration	7352	General Fund	490	1,250,000
E1022214	Alcohol Beverage Control Administration	7352	General Fund	490	6,000
D2073331	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E1029095	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E1026343	Alcohol Beverage Control Administration	7352	General Fund	490	10,125
D2082401	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E1033053	Alcohol Beverage Control Administration	7352	General Fund	490	1,300,000
E1029898	Alcohol Beverage Control Administration	7352	General Fund	490	10,250
D2092438	Alcohol Beverage Control Administration	7352	General Fund	490	70,724
E1036512	Alcohol Beverage Control Administration	7352	General Fund	490	1,050,000
E1034068	Alcohol Beverage Control Administration	7352	General Fund	490	17,750
D2102250	Alcohol Beverage Control Administration	7352	General Fund	490	21,054
E1040696	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000
E1037505	Alcohol Beverage Control Administration	7352	General Fund	490	397,000
D2111441	Alcohol Beverage Control Administration	7352	General Fund	490	21,053
E1042059	Alcohol Beverage Control Administration	7352	General Fund	490	1,244,325
E996498	Alcohol Beverage Control Administration	7356	General Fund	490	7,348
<b>Total</b>					<b>\$ 15,606,375</b>

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

**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 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), a component unit of the State of West Virginia, as of and for the year ended June 30, 2014, 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 10, 2014.

#### **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 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting 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.

A handwritten signature in black ink that reads "Gibbons &amp; Kawash, A.C.".

Charleston, West Virginia  
October 10, 2014