

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL  
ADMINISTRATION**

**FINANCIAL REPORT WITH  
OTHER FINANCIAL INFORMATION**

**Years Ended June 30, 2019 and 2018**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the West Virginia Alcohol Beverage Control Administration (the Administration), as of and for the years ended June 30, 2019 and 2018, 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 audit. 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. 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, 2019 and 2018, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter Regarding Financial Reporting Entity***

As discussed in Note 1, the financial statements present only the Administration and do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, and the schedules of proportionate share of the net pension liability, the schedules of proportionate share of the net OPEB liability, the schedules of contributions to the PERS, the schedules of contributions to the RHBT, and the notes to required supplementary information on pages 29 through 34 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 35 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules on pages 35 through 39 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 3, 2019, 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 solely 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 the effectiveness of the Administration's 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.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 3, 2019

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

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

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

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

During the 2012 fiscal year, the Administration moved Administrative Offices from the Kanawha City, West Virginia, location to the Lottery Building on Pennsylvania Avenue in Charleston, West Virginia. The Administration has continued to increase the efficiency of overall operations and made numerous improvements to the Distribution Center in Nitro, West Virginia.

During the 2017 fiscal year, the Administration changed the mark-up on alcoholic liquors from 28% to 32% effective May 1, 2017. 2017 fiscal year sales dollars increased 0.32% and case volume sales decreased 0.94% from the prior year. The Administration made an additional transfer to the General Revenue Fund in the amount of \$7,000,000.

(Continued)

## **WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

During the 2018 fiscal year, sales dollars increased 4.71% and case volume sales increased 1.75% from the prior year. The Administration implemented Governmental Accounting Standards Board (GASB) Statement No. 75. GASB 75 requires governmental employers to recognize and measure liabilities, deferred outflows and inflows of resources, and expenses relating to other postemployment benefits (OPEB). Since the Administration contributes to an OPEB plan, the Administration recognized their proportionate share of the collective OPEB amounts during this implementation.

During the 2019 fiscal year, sales dollars increased 6.23% and case volume sales increase 4.05% from the prior year. During the 2019 Legislative session, Senate Bill 529 created the Beer License Operations Fund to collect a \$100 annual operational fee for all brewers, resident brewers, Class A retail dealers, Class B retail dealers, and distributors. Also, Senate Bill 561 created the Wine and Liquor Operations Fund to collect a \$100 annual operational fee for all distilleries, mini-distilleries, wineries, farm wineries, Class A retail licensees, Class B retail licensees, private clubs, private wine retailers, wine specialty shops, wine restaurants, private wine spas, private wine bed and breakfasts, wine suppliers, and wine distributors.

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 years ended June 30, 2019 and 2018. Please read it in conjunction with the Administration's financial statements, which begin on page 9.

#### **USING THIS ANNUAL REPORT**

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

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

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**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**FINANCIAL HIGHLIGHTS**

The following is a condensed summary of financial information as of and for the years ended June 30, 2019, 2018 and 2017, respectively.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><u>Statements of Net Position:</u></b>			
Current assets	\$ 17,281,174	\$ 15,333,749	\$ 13,827,757
Capital assets, net	<u>1,675,302</u>	<u>1,708,722</u>	<u>1,796,452</u>
Total assets	<u>\$ 18,956,476</u>	<u>\$ 17,042,471</u>	<u>\$ 15,624,209</u>
Deferred outflows of resources	<u>\$ 473,363</u>	<u>\$ 558,017</u>	<u>\$ 979,931</u>
Current liabilities	\$ 3,836,082	\$ 3,371,432	\$ 3,596,465
Noncurrent liabilities	<u>2,473,674</u>	<u>3,076,160</u>	<u>4,395,837</u>
Total liabilities	<u>\$ 6,309,756</u>	<u>\$ 6,447,592</u>	<u>\$ 7,992,302</u>
Deferred inflows of resources	<u>\$ 794,504</u>	<u>\$ 620,955</u>	<u>\$ 178,549</u>
Net position, net investment in capital assets	\$ 1,675,302	\$ 1,708,722	\$ 1,796,452
Net position, unrestricted net position	<u>10,650,277</u>	<u>8,823,219</u>	<u>6,636,837</u>
Total net position	<u>\$ 12,325,579</u>	<u>\$ 10,531,941</u>	<u>\$ 8,433,289</u>

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**FINANCIAL HIGHLIGHTS (Continued)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><u>Statements of Revenues, Expenses, and Changes in Fund Net Position</u></b>			
Sales	\$ 103,465,864	\$ 97,398,692	\$ 93,039,242
Licenses, permits and fees	4,364,849	3,980,572	3,793,583
Administrative hearing fees	<u>98,296</u>	<u>46,650</u>	<u>59,075</u>
Total operating revenues	<u>107,929,009</u>	<u>101,425,914</u>	<u>96,891,900</u>
Cost of sales	78,191,668	73,689,545	72,197,394
General and administrative	4,981,334	4,955,726	5,162,523
Depreciation	<u>168,964</u>	<u>142,696</u>	<u>292,769</u>
Total operating expenses	<u>83,341,966</u>	<u>78,787,967</u>	<u>77,652,686</u>
Operating income	24,587,043	22,637,947	19,239,214
Nonoperating revenues (expenses):			
Other	110,609	127,577	-
Grants	135,455	195,908	161,898
Statutory distributions	<u>(23,039,469)</u>	<u>(21,119,925)</u>	<u>(26,317,206)</u>
	<u>(22,793,405)</u>	<u>(20,796,440)</u>	<u>(26,155,308)</u>
Change in net position	<u>\$ 1,793,638</u>	<u>\$ 1,841,507</u>	<u>\$ (6,916,094)</u>

**STATEMENTS OF NET POSITION**

Total assets increased \$1,914,005 from \$17,042,471 at June 30, 2018, to \$18,956,476 at June 30, 2019 as a result of increased operating income. Total assets increased \$1,418,262 from \$15,624,209 at June 30, 2017, to \$17,042,471 at June 30, 2018, as a result of increased operating income. Total liabilities decreased \$137,836 from \$6,447,592 at June 30, 2018, to \$6,309,756 at June 30, 2019 due to the timing of cash payments and a decrease in noncurrent liabilities. Total liabilities decreased \$1,544,710 from \$7,992,302 at June 30, 2017, to \$6,447,592 at June 30, 2018, due to the timing of cash payments and a decrease in noncurrent liabilities.

Effective July 1, 2017, the Administration adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Administration determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the increase to beginning net position of implementing this change of \$257,145 as of July 1, 2017, which is the net OPEB liability of \$2,421,222 less deferred outflows of resources related to OPEB contributions of \$169,007 as of that date and the June 30, 2017, liability of \$2,509,360 for postemployment liabilities reported in accordance with GASB Statement No. 45, which is superseded by GASB Statement No. 75.

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## **WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

#### **STATEMENTS OF NET POSITION (Continued)**

Deferred outflows of resources from pension and OPEB amounts are \$473,363, \$558,017 and \$979,931 and deferred inflows of resources from pension and OPEB amounts are \$794,504, \$620,955 and \$178,549 for the years ended June 30, 2019, 2018 and 2017, respectively. The changes in those amounts are in part determined by information provided by the West Virginia Public Employees Retirement System (PERS) annually for the change in the net pension liability and by the West Virginia Retiree Health Benefit Trust (RHBT) annually for the change in the net OPEB liability.

The Administration's net position totaled \$12,325,579, \$10,531,941, and \$8,433,289, at June 30, 2019, 2018, and 2017, respectively. Net position represented 65%, 62%, and 54%, of the Administration's total assets for each of the years ended June 30, 2019, 2018, and 2017, respectively.

#### **OPERATING RESULTS**

The Administration had operating income for the year ended June 30, 2019 of \$24,587,043 which was an increase of 8.6% from the year ended June 30, 2018, which was \$22,637,947. The Administration had operating income for the year ended June 30, 2018 of \$22,637,947, which was an increase of 17.7% from the year ended June 30, 2017, which was \$19,239,214. Additionally, unit quantities of sales measured in cases were 731,033, 702,570, and 690,493, for the years ended June 30, 2019, 2018, and 2017, respectively. Operating income fluctuates in response to sales dollars and quantities on an annual basis. Also, during fiscal year 2017, the Administration changed the mark-up from 28% to 32% effective May 1, 2017.

#### **NONOPERATING RESULTS**

The Administration's non-operating expense, net for the years ended June 30, 2019, 2018, and 2017 were \$22,793,405, \$20,796,440, and \$26,155,308, respectively. The fluctuations noted in non-operating expense are predominately due to the amount of statutory distributions. Statutory distributions related to ongoing liquor sales are transferred each year to the extent that funds are available. The statutory distributions are paid to the State of West Virginia's General Revenue Fund.

#### **CHANGES IN OPERATIONS**

During the years ended June 30, 2019, 2018, and 2017, 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, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 16,647,466	\$ 14,823,525
Inventory	23,893	39,864
Accounts receivable	609,815	470,360
Total current assets	17,281,174	15,333,749
<b>NONCURRENT ASSETS</b>		
Capital assets, net (Note 3)	1,675,302	1,708,722
Total assets	18,956,476	17,042,471
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows from OPEB and pension amounts (Notes 5 and 6)	473,363	558,017
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accrued expenses	254,891	230,168
Accounts payable	3,581,191	3,141,264
Total current liabilities	3,836,082	3,371,432
<b>NONCURRENT LIABILITIES</b>		
Accrued annual leave	269,007	244,304
Net OPEB liability (Note 5)	1,750,895	2,023,319
Net pension liability (Note 6)	453,772	808,537
Total noncurrent liabilities	2,473,674	3,076,160
Total liabilities	6,309,756	6,447,592
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows from OPEB and pension amounts (Notes 5 and 6)	794,504	620,955
<b>NET POSITION</b>		
Net investment in capital assets	1,675,302	1,708,722
Unrestricted	10,650,277	8,823,219
Total net position	\$ 12,325,579	\$ 10,531,941

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, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUES:</b>		
Sales	\$ 103,465,864	\$ 97,398,692
Licenses, permits and fees	4,364,849	3,980,572
Administrative hearing fines	98,296	46,650
	107,929,009	101,425,914
 <b>OPERATING EXPENSES:</b>		
Cost of sales	78,191,668	73,689,545
General and administrative	4,981,334	4,955,726
Depreciation	168,964	142,696
	83,341,966	78,787,967
Operating income	24,587,043	22,637,947
 <b>NONOPERATING REVENUES (EXPENSES):</b>		
Grants	135,455	195,908
Statutory distributions	(23,039,469)	(21,119,925)
Other (Note 5)	110,609	127,577
	(22,793,405)	(20,796,440)
Change in net position	1,793,638	1,841,507
 <b>NET POSITION, beginning of year</b>	10,531,941	8,690,434
 <b>NET POSITION, end of year</b>	\$ 12,325,579	\$ 10,531,941

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 107,789,554	\$ 101,383,683
Cash paid to employees	(4,003,654)	(3,738,583)
Cash paid to suppliers	(78,922,401)	(75,216,401)
Net cash provided by operating activities	<u>24,863,499</u>	<u>22,428,699</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Receipts from nonoperating grants	135,455	195,908
Distributions to primary government	(23,039,469)	(21,119,925)
Net cash used in noncapital financing activities	<u>(22,904,014)</u>	<u>(20,924,017)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(135,544)	(54,966)
Increase in cash and cash equivalents	1,823,941	1,449,716
CASH AND CASH EQUIVALENTS, beginning	<u>14,823,525</u>	<u>13,373,809</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 16,647,466</u>	<u>\$ 14,823,525</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Non-cash special funding contribution related to OPEB	<u>\$ 110,609</u>	<u>\$ 127,577</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 24,587,043	\$ 22,637,947
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	168,964	142,696
Pension expense	32,055	130,427
OPEB Expense	136,504	235,468
Changes in operating accounts:		
Increase in accounts receivable	(139,455)	(42,231)
(Increase) decrease in inventory	15,971	(14,045)
Increase (decrease) in accounts payable and accrued expense	464,650	(225,033)
Increase in deferred outflows of resources	(426,936)	(443,078)
Increase in accrued annual leave	24,703	6,548
Net cash provided by operating activities	<u>\$ 24,863,499</u>	<u>\$ 22,428,699</u>

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

# WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

### Note 1. Financial Reporting Entity

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

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

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

### Note 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. All deposits are available with overnight notice.

#### Inventories

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

#### Capital assets

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

(Continued)

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 2. Significant Accounting Policies (Continued)

Employee benefits

Employees fully vest in all earned but unused vacation and the Administration accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay.

Postemployment benefits other than pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the RHBT and additions to/deductions from RHBT's fiduciary net position have been determined on the same basis as they are reported by The West Virginia Retiree Health Benefit Trust Fund (RHBT). For this purpose, RHBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for certain pooled investments, money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at amortized cost.

Pension

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

Deferred outflows of resources / deferred inflows of resources

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

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

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 2. Significant Accounting Policies (Continued)**

Net position

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

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.

**Note 3. Capital Assets**

A summary of capital assets as of and for the year ended June 30, 2019 and 2018, follows:

<u>June 30, 2019</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 611,381	\$ -	\$ -	\$ 611,381
Capital assets, being depreciated:				
Buildings	2,044,270	-	-	2,044,270
Equipment	<u>1,703,131</u>	<u>136,495</u>	<u>(9,881)</u>	<u>1,829,745</u>
Total capital assets, being depreciated	<u>3,747,401</u>	<u>136,495</u>	<u>(9,881)</u>	<u>3,874,015</u>
Less accumulated depreciation for:				
Buildings	(1,304,801)	(78,735)	-	(1,383,536)
Equipment	<u>(1,345,259)</u>	<u>(90,229)</u>	<u>8,930</u>	<u>(1,426,558)</u>
Total accumulated depreciation	<u>(2,650,060)</u>	<u>(168,964)</u>	<u>8,930</u>	<u>(2,810,094)</u>
Total capital assets, being depreciated, net	<u>1,097,341</u>	<u>(32,469)</u>	<u>(951)</u>	<u>1,063,921</u>
Total capital assets, net	<u>\$ 1,708,722</u>	<u>\$ (32,469)</u>	<u>\$ (951)</u>	<u>\$ 1,675,302</u>

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 3. Capital Assets (Continued)**

<u>June 30, 2018</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 611,381	\$ -	\$ -	\$ 611,381
Capital assets, being depreciated:				
Buildings	2,040,920	3,350	-	2,044,270
Equipment	<u>1,690,308</u>	<u>52,347</u>	<u>(39,524)</u>	<u>1,703,131</u>
Total capital assets, being depreciated	<u>3,731,228</u>	<u>55,697</u>	<u>(39,524)</u>	<u>3,747,401</u>
Less accumulated depreciation for:				
Buildings	(1,223,564)	(81,237)	-	(1,304,801)
Equipment	<u>(1,322,593)</u>	<u>(100,962)</u>	<u>78,296</u>	<u>(1,345,259)</u>
Total accumulated depreciation	<u>(2,546,157)</u>	<u>(182,199)</u>	<u>78,296</u>	<u>(2,650,060)</u>
Total capital assets, being depreciated, net	<u>1,185,071</u>	<u>(126,502)</u>	<u>38,772</u>	<u>1,097,341</u>
Total capital assets, net	<u>\$ 1,796,452</u>	<u>\$ (126,502)</u>	<u>\$ 38,772</u>	<u>\$ 1,708,722</u>

**Note 4. Lease**

The Administration has entered into an operating lease with the West Virginia Lottery Commission (Lessor) for its headquarters which expires in June 2023. Rent expense for the years ended June 30, 2019 and 2018 was \$206,980 and \$207,690, respectively. The Administration's future minimum lease payments under the current terms of the lease are \$202,200 per year through the year ending June 30, 2023.

**Note 5. Other Postemployment Benefits**

Plan description

The West Virginia Other Postemployment Benefit Plan (the OPEB Plan) is a cost-sharing, multiple-employer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2 (the Code). The financial activities of the OPEB Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The OPEB Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. OPEB Plan benefits are established and revised by PEIA and the RHBT management with approval of their Finance Board. The PEIA issues a publically available financial report of the RHBT that can be obtained at [www.peia.wv.gov](http://www.peia.wv.gov) or by writing to the West Virginia Public Employees Insurance Agency, 601 57th Street, SE Suite 2, Charleston, WV 25304.

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 5. Other Postemployment Benefits (Continued)**

Benefits provided

Administration employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the PERS or meet certain other eligibility requirements of other CPRB sponsored retirement plans. RHBT provides medical and prescription drug insurance and life insurance benefits to those qualified participants. Life insurance is provided through a vendor and is fully funded by member contributions. The medical and prescription drug insurance is provided through two options; Self-Insured Preferred Provider Benefit Plan - primarily for non-Medicare-eligible retirees and spouses or External Managed Care Organizations - primarily for Medicare-eligible retirees and spouses.

The RHBT Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from a Medicare Advantage Plan administered by a vendor. Under this arrangement, the vendor assumes the financial risk of providing comprehensive medical and drug coverage with limited copayments. Non-Medicare retirees continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option. The RHBT collects employer contributions for Managed Care Organization (MCO) participants and remits capitation payments to the MCO. Survivors of retirees have the option of purchasing the medical and prescription drug coverage.

Eligible participants hired after June 30, 2010, will be required to fully fund premium contributions upon retirement. The Plan is a closed plan to new entrants.

Contributions

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2018, 2017, and 2016, respectively, were:

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
		1/1/17 – 6/30/17	1/1/17-6/30/16	7/1/16-12/31/16
Paygo Premium	\$ 183	\$ 177	\$ 135	\$ 196

Contributions to the OPEB plan from the Administration were \$158,850, \$171,450, and \$169,009 for the years ended June 30, 2019, 2018, and 2017, respectively.

Members retired before July 1, 1997, pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010, pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

(Continued)

# WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

### Note 5. Other Postemployment Benefits (Continued)

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below;

- Members hired before July 1, 1988, may convert accrued sick or leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988, to June 30, 2001, may convert accrued sick or leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and annual leave days per month for single healthcare coverage and three days of unused sick and annual leave days per month for family healthcare coverage.

#### Contributions by nonemployer contributing entities in special funding situations

The State of West Virginia is a nonemployer contributing entity that provides funding through SB 419, effective July 1, 2012, amended by West Virginia Code §11-21-96. The State provides a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund from annual collections of the Personal Income Tax Fund and dedicated for payment of the unfunded liability of the RHBT. The \$30 million transferred pursuant to this Code shall be transferred until the Governor certifies to the Legislature that an independent actuarial study has determined that the unfunded liability of RHBT has been provided for in its entirety or July 1, 2037, whichever date is later. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through West Virginia State Code §11B-2-32. The Financial Stability Fund is a plan to transfer an annual amount of \$5 million to the RHBT from special revenue funds to be used to lower retiree premiums, to help reduce benefit cuts, to help reduce premium increases or any combination thereof. The \$5 million transferred pursuant to this Code shall be transferred annually into the RHBT through June 30, 2020. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through SB 469 which was passed February 10, 2012, granting OPEB liability relief to the 55 County Boards of Education effective July 1, 2012. The public school support plan (PSSP) is a basic foundation allowance program that provides funding to the local school boards for "any amount of the employer's annual required contribution allocated and billed to the county boards for employees who are employed as professional employees, employees who are employed as service personnel and employees who are employed as professional student support personnel", within the limits authorized by the State Code. This special funding under the school aid formula subsidizes employer contributions of the county boards of education.

#### OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB

At June 30, 2019 and 2018, the Administration reported a liability for its proportionate share of the RHBT net OPEB liability that reflected a reduction for State OPEB support provided to the Administration. The amount recognized by the Administration as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Administration was as follows:

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 5. Other Postemployment Benefits (Continued)**

	<u>2019</u>	<u>2018</u>
The Administration's proportionate share of the net OPEB liability.	\$ 1,750,895	\$ 2,023,319
State's special funding proportionate share of the net OPEB liability associated with the Administration	<u>361,863</u>	<u>415,592</u>
Total portion of net OPEB liability associated with the Administration.	<u>\$ 2,112,758</u>	<u>\$ 2,438,911</u>

The net OPEB liability reported at June 30, 2019 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Administration's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2018, the Administration's proportion was 0.0816102 percent, which is a decrease of 0.0006724 from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, respectively, the Administration recognized OPEB expense of \$136,504 and \$235,468 and for support provided by the State under special funding situations revenue of \$110,609 and \$127,577. At June 30, 2019 and 2018, the Administration reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 25,899
Net difference between projected and actual earnings on OPEB plan investments	-	32,409
Changes in assumptions	-	174,824
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	230,524
The Administration's contributions subsequent to the measurement date of June 30, 2018	<u>158,850</u>	<u>-</u>
Total	<u>\$ 158,850</u>	<u>\$ 463,656</u>

	<u>June 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 6,775
Net difference between projected and actual earnings on OPEB plan investments	-	32,294
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	297,718
The Administration's contributions subsequent to the measurement date of June 30, 2017	<u>171,450</u>	<u>-</u>
Total	<u>\$ 171,450</u>	<u>\$ 336,787</u>

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 5. Other Postemployment Benefits (Continued)**

Deferred outflows of resources related to OPEB of \$158,850 resulting from the Administration's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2020	\$(149,478)
2021	(149,478)
2022	(126,035)
2023	(38,665)

Actuarial assumptions

The total OPEB liability at June 30, 2019, was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.00% and 10.00% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.13% and 0.00% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2022 to account for the Excise Tax.
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll over a 20 year closed period
Remaining amortization period	20 years closed as of June 30, 2016

Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS) and RP-2014 Healthy Annuitant Mortality Table projected with scale MP-2016 on a fully generational basis for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-retirement mortality rates were based on RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS and RP-2014 Employee Mortality Table projected with Scale MP-2016 on a fully generational basis for Troopers A and B.

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 5. Other Postemployment Benefits (Continued)**

The total OPEB liability as June 30, 2018, was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 21 year closed period
Remaining amortization period	21 years closed as of June 30, 2016

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS). RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.

The actuarial assumptions used in the June 30, 2016 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2011- June 30, 2015.

Certain assumptions have been changed since the prior measurement date. The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 5. Other Postemployment Benefits (Continued)**

The long-term expected rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board (WVIMB) and an expected short-term rate of return of 3.0% for assets invested with the WVBTL. Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBTL.

The long-term rate of return on OPEB plan investments were determined using a building block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) was developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of long-term geometric rates are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

*Discount rate*

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2037, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

(Continued)

# WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

### Note 5. Other Postemployment Benefits (Continued)

#### *Other key assumptions*

The projection assumes that the capped subsidy aggregate contribution limit of \$160 million for 2018 would increase by \$10 million per year on and after 2019. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2037, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

Members hired on or after July 1, 2010, are required to pay 100% of expected cost of coverage, resulting in no implicit or explicit employer cost. Consequently, these members are excluded from the actuarial valuation.

#### Subsequent event

Subsequent to the June 30, 2018, measurement date, on August 21, 2018 RHBT executed a contract renewal with Humana's Medicare Advantage Plan (Humana MAPD) for Plan years 2019 and 2020. This renewal included reduced per member per month capitation costs which decreased from \$224 to \$175 per member per month, due to favorable experience and the removal of the health insurance fee.

The estimated impact of these reduced rates is not recognized in the estimated net OPEB liability measured at June 30, 2018, since the contract was executed subsequent to the measurement date. Per GASB Statement 75, if a change occurs in a factor relevant to measurement of the net OPEB liability between the measurement date of the net OPEB liability and the employer's current fiscal year-end, the employer should report the effect on the net OPEB liability of that change as of the next measurement date. The estimated impact of the reduced capitation rates on the net OPEB liability is a decrease of approximately 9.0%, or \$280 million, which will be considered in the next actuarial valuation estimating the net OPEB liability measured as of June 30, 2019. The future actuarial measurement may differ significantly from this estimate due to various other factors such as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

#### Sensitivity of the Administration's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the Administration's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the Administration's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 5. Other Postemployment Benefits (Continued)**

	<b>1% Decrease (6.15%)</b>	<b>Current Discount Rate (7.15%)</b>	<b>1% Increase (8.15%)</b>
The Administration's proportionate share of the net OPEB liability	\$ 2,057,829	\$ 1,750,895	\$ 1,495,033

Sensitivity of the Administration's proportionate share of net OPEB liability to changes in the healthcare cost trend rates.

The following presents the Administration's proportionate share of the net OPEB liability, as well as what the Administration's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage point higher than the current rates:

	<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rates</b>	<b>1% Increase</b>
The Administration's proportionate share of the net OPEB liability	\$ 1,448,771	\$ 1,750,895	\$ 2,119,022

**Note 6. Pension Plan**

Plan description

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

Benefits provided

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

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 6. Pension Plan (Continued)**

Contributions

Contributions as a percentage of payroll for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contributions as a percentage of payroll for employers are established by the CPRB. Current funding policy requires contributions, consisting of member contributions of 4.5% of annual earnings and employer contributions of 10%, 11%, and 12% of covered payroll for the years ended June 30, 2019, 2018 and 2017, respectively. All members hired after July 1, 2015, will contribute 6% of covered payroll.

During the years ended June 30, 2019, 2018, and 2017, the Administration's contributions to PERS required and made were \$268,086, \$271,628, and \$309,777, respectively.

Pension, liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2019 and 2018, respectively, the Administration reported a liability of \$453,772 and \$808,537 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2019 was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date of June 30, 2018. The Administration's proportion of the net pension liability was based on the Administration's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2018. At June 30, 2018, the Administration's proportion was 0.175709%, which was a decrease of 0.011606 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019 and 2018, the Administration recognized pension expense of \$32,055 and \$130,427, respectively. At June 30, 2019 and 2018, the Administration reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 267,025
Difference between expected and actual experience	22,510	1,123
Changes in proportion and differences between Administration contributions and proportionate share of contributions	23,917	62,700
The Administration's contributions made subsequent to the measurement date of June 30, 2018	268,086	-
Total	\$ 314,513	\$ 330,848

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 6. Pension Plan (Continued)**

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 196,569
Difference between expected and actual experience	71,953	1,789
Difference in assumptions	-	41,938
Changes in proportion and differences between Administration contributions and proportionate share of contributions	42,986	43,872
The Administration's contributions made subsequent to the measurement date of June 30, 2017	271,628	-
Total	\$ 386,567	\$ 284,168

The amount of \$268,086 was reported as deferred outflows of resources related to pensions resulting from Administration contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>		
2020	\$	15,916
2021		(45,053)
2022		(210,085)
2023		(45,199)

Actuarial assumptions

The total pension liability in the June 30, 2018 and 2017, actuarial valuation was determined using the following actuarial assumptions:

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

Mortality rates were based on 100% of RP-2000 Non-Annuitant, Scale AA fully generational for active employees, 110% of the RP-2000 Non-Annuitant, Scale AA fully generational for retired healthy males, 101% of RP-2000 Non-Annuitant, Scale AA fully generational for retired healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled females.

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation.

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 6. Pension Plan (Continued)**

The long-term expected rate of return on pension plan investments was determined using the building block method in which estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of long-term geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long- term Expected Rate of Return	Weighted Average Expected Real Rate of Return
Domestic equity	27.5%	4.5%	1.24%
International equity	27.5%	8.6%	2.37%
Fixed income	15.0%	3.3%	0.50%
Real estate	10.0%	6.0%	0.60%
Private equity	10.0%	6.4%	0.64%
Hedge funds	10.0%	4.0%	0.40%
Total	100.00%		5.75%
Inflation (CPI)			2.10%
			7.85%

*Discount rate*

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

*Sensitivity of the Administration's proportionate share of the net pension liability to changes in the discount rate*

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

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 6. Pension Plan (Continued)**

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Administration's proportionate share of the net pension liability (asset) \$	1,827,432	\$ 453,772	\$ (708,325)

**Note 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. In exchange for the payment of premiums, the Administration has transferred its risks for these identified risks to the following entities. There were no changes in coverage or claims in excess of coverage for the years ended June 30, 2019 and 2018, respectively.

Public Employees' Insurance Agency (PEIA)

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

Board of Risk and Insurance Management (BRIM)

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

Workers compensation insurance

The Administration carries workers compensation insurance coverage through a commercial carrier. The carrier is paid a monthly premium to provide compensation for injuries sustained in the course of employment.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**Note 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.

**Note 9. Effect of New Accounting Pronouncements**

The GASB has issued the following accounting pronouncements which are not yet effective:

The GASB issued **Statement No. 84, *Fiduciary Activities*** in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB has issued **Statement No. 87, *Leases***, which improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of Statement No. 87 are effective for reporting periods beginning after December 15, 2019.

Management has not determined the effects these new accounting pronouncements may have on its financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**  
**SCHEDULES OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**Retiree Health Benefit Trust**

	Years Ended June 30	
	2019	2018
The Administration's proportion (percentage) of the net OPEB liability	0.081610%	0.082283%
The Administration's proportionate share of the net OPEB liability	\$ 1,750,895	\$ 2,023,319
West Virginia special funding proportionate share of the net OPEB liability associated with the Administration	\$ 361,863	\$ 415,592
Total portion of the net OPEB liability associated with the Administration	\$ 2,112,758	\$ 2,438,911
The Administration's covered employee payroll	\$ 1,503,555	\$ 1,530,548
The Administration's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	116.45%	132.20%
Plan fiduciary net position as a percentage of the total OPEB liability	30.98%	25.10%

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

**THE WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**SCHEDULES OF CONTRIBUTIONS TO THE RHBT**

	Years Ended June 30		
	2019	2018	2017
Required contribution	\$ 158,850	\$ 171,450	\$ 169,009
Contributions in relation to the required contribution	158,850	171,450	169,009
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 The Administration's covered employee payroll	 \$ 1,592,378	 \$ 1,503,555	 \$ 1,530,548
Contributions as a percentage of covered employee payroll	9.98%	11.40%	11.04%

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

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Public Employees Retirement System**

	Year Ended June 30				
	2019	2018	2017	2016	2015
Administration's proportion (percentage) of the net pension liability	0.175709%	0.187315%	0.179381%	0.189669%	0.185831%
Administration's proportionate share of the net pension liability	\$ 453,772	\$ 808,537	\$ 1,648,721	\$ 1,059,119	\$ 685,838
Administration's covered payroll	\$2,469,345	\$ 2,581,475	\$ 2,632,593	\$ 2,583,821	\$ 2,551,483
Administration's proportionate share of the net pension liability as a percentage of its covered payroll	18.38%	31.32%	62.63%	40.99%	26.88%
Plan fiduciary net position as a percentage of the total pension liability	96.33%	93.67%	86.11%	91.29%	93.98%

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

**THE WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**SCHEDULES OF CONTRIBUTIONS TO THE PERS**

	Years Ended June 30						
	2019	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 268,086	\$ 271,628	\$ 309,777	\$ 355,400	\$ 361,735	\$ 369,965	\$ 381,890
Contributions in relation to the statutorily required contribution	268,086	271,628	309,777	355,400	361,735	369,965	381,890
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administration's covered payroll	\$2,680,860	\$2,469,345	\$2,581,475	\$2,632,593	\$2,583,821	\$2,551,483	\$2,727,786
Contributions as a percentage of covered payroll	10.00%	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%

## WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

#### Note 1. Trend Information Presented

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

#### Note 2. OPEB Changes in Assumptions

Below are changes in assumptions between the 2017 and 2016 valuations:

The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

Below are changes in the assumptions between the 2016 and 2015 valuations:

Certain economic and behavioral assumptions are unique to healthcare benefits. These assumptions include the healthcare trend, per capita claims costs, the likelihood that a member selects healthcare coverage and the likelihood that a retiree selects one-person, two person or family coverage. These assumptions were updated based on a recent experience study performed by the RHBT actuaries using five-year experience data through June 30, 2015. The updated per capita claims costs were also based on recent claims, enrollment and premium information as of the valuation date.

For the June 30, 2016 valuation, the retiree healthcare participation assumption for each retirement plan is slightly higher than the previous assumption used in the June 30, 2015 OPEB valuation. More members who were covered as actives will be assumed to participate as retirees.

The 2016 and 2015 valuations include consideration of the \$30 million annual appropriations under Senate Bill 419, through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. Additionally, the presentation of covered payroll was changed for the June 30, 2015, actuarial valuation. Participating employees hired before July 1, 2010, pay retiree premiums that are subsidized based on years of service at retirement. Participating employees hired on or after July 1, 2010, are required to fully fund premium contributions upon retirement. Consequently, beginning June 30, 2015, actuarial valuation covered payroll represents only the payroll for those OPEB eligible participating employees that were hired before July 1, 2010, allowing a better representation of the UAAL as a percentage of covered payroll, whereas, for the prior years, covered payroll is in total for all participating employees.

#### Note 3. Pension Plan Amendments

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

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For employees hired on or after July 1, 2015, qualification for normal retirement is 62 with 10 years of service.

(Continued)

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2019**

**Note 3. Pension Plan Amendments (Continued)**

A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between the ages of 57 and 62 with at least twenty years of contributory service, or between the ages 55 and 62 with at least thirty years of contributory service.

- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired on or after July 1, 2015 average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired on or after July 1, 2015, this age increases to 64 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired on or after July 1, 2015, are required to contribute 6% of annual earnings.

**Note 4. Pension Related Assumptions**

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

	<u>2015 - 2018</u>	<u>2014</u>
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	3.0% (2016-2018), 1.9% (2015)	2.2%
Mortality rates		
Active RP		
2000 Non-Annuitant Tables, Scale AA		
fully generational		
Retired healthy males - 110% of RP-		Healthy males - 1983 GAM
2000 Non-Annuitant, Scale AA		
fully generational		Healthy females - 1971 GAM
Retired healthy females - 101% of RP-		Disabled males - 1971 GAM
2000 Non-Annuitant, Scale AA		
fully generational		Disabled females - Revenue
Disabled males - 96% of RP-2000		ruling 96-7
Disabled Annuitant, Scale AA		
fully generational		
Disabled females -107% of RP-2000		
Disabled Annuitant, Scale AA		
fully generational		
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

**SUPPLEMENTARY INFORMATION**

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**COMBINING STATEMENT OF NET POSITION**

**June 30, 2019**

	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants #7355 / Gift #7357	Beer Operations Fund #7358	Wine & Liquor Operations Fund #7359	Total
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	\$ 13,053,340	\$ 71,782	\$ 3,056,413	\$ 33,281	\$ 258,650	\$ 174,000	\$ 16,647,466
Inventory	23,893	-	-	-	-	-	23,893
Accounts receivable	609,815	-	-	-	-	-	609,815
Total current assets	<u>13,687,048</u>	<u>71,782</u>	<u>3,056,413</u>	<u>33,281</u>	<u>258,650</u>	<u>174,000</u>	<u>17,281,174</u>
<b>NONCURRENT ASSETS</b>							
Capital assets, net	1,127,202	495	383,951	163,654	-	-	1,675,302
Total assets	<u>14,814,250</u>	<u>72,277</u>	<u>3,440,364</u>	<u>196,935</u>	<u>258,650</u>	<u>174,000</u>	<u>18,956,476</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred outflows from OPEB and pension amounts	461,174	-	12,189	-	-	-	473,363
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Accrued expenses	246,245	-	8,646	-	-	-	254,891
Accounts payable	3,580,851	340	-	-	-	-	3,581,191
Total current liabilities	<u>3,827,096</u>	<u>340</u>	<u>8,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,836,082</u>
<b>NONCURRENT LIABILITIES</b>							
Accrued annual leave	269,007	-	-	-	-	-	269,007
Net pension liability	437,754	-	16,018	-	-	-	453,772
Net OPEB liability	1,702,570	-	48,325	-	-	-	1,750,895
Total noncurrent liabilities	<u>2,409,331</u>	<u>-</u>	<u>64,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,473,674</u>
Total liabilities	<u>6,236,427</u>	<u>340</u>	<u>72,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,309,756</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred inflows from OPEB and pension amounts	770,617	-	23,887	-	-	-	794,504
<b>NET POSITION</b>							
Investment in capital assets	1,127,202	495	383,951	163,654	-	-	1,675,302
Unrestricted	7,141,178	71,442	2,971,726	33,281	258,650	174,000	10,650,277
Total net position	<u>\$ 8,268,380</u>	<u>\$ 71,937</u>	<u>\$ 3,355,677</u>	<u>\$ 196,935</u>	<u>\$ 258,650</u>	<u>\$ 174,000</u>	<u>\$ 12,325,579</u>

See Independent Auditor's Report.

**WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION**

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**Year Ended June 30, 2019**

	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants #7355/ Gift #7357	Beer Operations Fund #7358	Wine & Liquor Operations Fund #7359	Total
<b>OPERATING REVENUES</b>							
Sales	\$ 103,465,864	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,465,864
Licenses, permits and fees	3,478,174	-	454,025	-	258,650	174,000	4,364,849
Administrative hearing fines	-	98,296	-	-	-	-	98,296
Total revenues	<u>106,944,038</u>	<u>98,296</u>	<u>454,025</u>	<u>-</u>	<u>258,650</u>	<u>174,000</u>	<u>107,929,009</u>
<b>OPERATING EXPENSES</b>							
Cost of sales	78,191,668	-	-	-	-	-	78,191,668
General and administrative	4,725,234	46,513	172,191	37,396	-	-	4,981,334
Depreciation	84,417	850	66,239	17,458	-	-	168,964
	<u>83,001,319</u>	<u>47,363</u>	<u>238,430</u>	<u>54,854</u>	<u>-</u>	<u>-</u>	<u>83,341,966</u>
OPERATING INCOME (LOSS)	23,942,719	50,933	215,595	(54,854)	258,650	174,000	24,587,043
<b>NONOPERATING REVENUE (EXPENSE)</b>							
Grants	90,455	-	-	45,000	-	-	135,455
Statutory distributions	(23,035,374)	(4,095)	-	-	-	-	(23,039,469)
Other	107,556	-	3,053	-	-	-	110,609
	<u>(22,837,363)</u>	<u>(4,095)</u>	<u>3,053</u>	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>(22,793,405)</u>
Change in net position	1,105,356	46,838	218,648	(9,854)	258,650	174,000	1,793,638
NET POSITION, beginning of year	<u>7,163,024</u>	<u>25,099</u>	<u>3,137,029</u>	<u>206,789</u>	<u>-</u>	<u>-</u>	<u>10,531,941</u>
NET POSITION, end of year	<u>\$ 8,268,380</u>	<u>\$ 71,937</u>	<u>\$ 3,355,677</u>	<u>\$ 196,935</u>	<u>\$ 258,650</u>	<u>\$ 174,000</u>	<u>\$ 12,325,579</u>

See Independent Auditor's Report.

Audited Agency **West Virginia Alcohol Beverage Control Administration - June 30, 2019**

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

See Note 2 to the Financial Statements

Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	2	3A	3B	3C	Foreign Currency Risk		
						Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name	Amount Uninsured and Uncollateralized	Collateralized with securities held by the pledging financial institution but not in the name of the depositor	Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Currency Type	Maturity	Fair Value
Balances as of June 30, 2019												
Cash with Treasurer												
Per wvOASIS Opening Balance Report	16,443,296	16,443,296										
Cash with Municipal Bond Commission												
Cash on Hand												
Cash in Transit to wvOASIS	204,170	204,170										
Cash with Board of Trustees												
Cash in Outside Bank Accounts												
Cash in Escrow												
Certificates of Deposits (Non-Negotiable)												
Other: Reconciling Item												
<b>Total</b>	<b>16,647,466</b>	<b>16,647,466</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			<b>0</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 - DEPOSIT AND INVESTMENT RECONCILIATION

Audited Agency **West Virginia Alcohol Beverage Control Administration - June 30, 2019**

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

Deposits:

Cash and cash equivalents as reported on balance sheet	\$ 16,647,466
Less: cash equivalents disclosed as investments	<u>                    </u>
Add: restricted assets disclosed as deposits	<u>                    </u>
Other (describe) _____	<u>                    </u>
_____	<u>                    </u>
_____	<u>                    </u>

Carrying amount of deposits as disclosed on Form 7 \$ 16,647,466

Investments:

Investments as reported on balance sheet	\$ -
Add: restricted assets disclosed as investments	<u>                    </u>
Add: cash equivalents disclosed as investments	<u>                    </u>
Other (describe) _____	<u>                    </u>
_____	<u>                    </u>
_____	<u>                    </u>

Reported amount of investments as disclosed on Form 8 \$ -

PLEASE SEND COMPLETED FORMS TO:

State of West Virginia  
 Financial Accounting and Reporting Sec  
 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, 2019

<u>wvOASIS</u> <u>Doc. ID</u>	<u>Agency Transferring From</u>	<u>wvOASIS</u> <u>FUND</u>	<u>Agency Transferring To</u>	<u>wvOASIS</u> <u>FUND</u>	<u>Amount</u>
1	2	3	4	5	6
FNDT1900000140	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900000015	Alcohol Beverage Control Administration	7352	General Fund	490	1,112,000
FNDT1900000332	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900000189	Alcohol Beverage Control Administration	7352	General Fund	490	259,750
FNDT1900000537	Alcohol Beverage Control Administration	7352	General Fund	490	1,800,000 *
FNDT1900000397	Alcohol Beverage Control Administration	7352	General Fund	490	31,250
FNDT1900000706	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900000575	Alcohol Beverage Control Administration	7352	General Fund	490	18,500
FNDT1900000835	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900000741	Alcohol Beverage Control Administration	7352	General Fund	490	15,500
FNDT1900001031	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900000888	Alcohol Beverage Control Administration	7352	General Fund	490	19,000
FNDT1900001163	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900001068	Alcohol Beverage Control Administration	7352	General Fund	490	9,500
FNDT1900001339	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900001230	Alcohol Beverage Control Administration	7352	General Fund	490	9,900
FNDT1900001499	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000 *
FNDT1900001395	Alcohol Beverage Control Administration	7352	General Fund	490	5,500
FNDT1900001831	Alcohol Beverage Control Administration	7352	General Fund	490	2,000,000 *
FNDT1900001597	Alcohol Beverage Control Administration	7352	General Fund	490	9,850
FNDT1900002051	Alcohol Beverage Control Administration	7352	General Fund	490	2,200,000 *
FNDT1900001921	Alcohol Beverage Control Administration	7352	General Fund	490	77,250
FNDT1900002240	Alcohol Beverage Control Administration	7352	General Fund	490	2,800,000 *
FNDT1900002106	Alcohol Beverage Control Administration	7352	General Fund	490	667,375
FNDT1900000098	Alcohol Beverage Control Administration	7356	General Fund	490	4,094
<b>Total</b>					<b>\$ 23,039,469</b>

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

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

\* Statutory transfers based on operations



**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 Honorable Members of the West Virginia  
Alcohol Beverage Control Administration  
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the West Virginia Alcohol Beverage Control Administration (the Administration), as of and for the year ended June 30, 2019, 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 3, 2019.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Brown, Edwards & Company, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 3, 2019