

Basic Financial Statements

DURHAM COUNTY
ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)

Years Ended June 30, 2009 and 2008

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD

TABLE OF CONTENTS

| | <u>Page No.</u> |
|---|-----------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 2 |
| BASIC FINANCIAL STATEMENTS | |
| Statements of Net Assets | 6 |
| Statements of Revenues, Expenses and Changes in Net Assets | 8 |
| Statements of Cash Flows | 10 |
| Notes to Financial Statements | 12 |
| INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION | 27 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Store, Administrative and Warehouse Expenses | 28 |



WILLIAM F. ROBERSON, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Durham County Alcoholic Beverage Control Board

We have audited the accompanying financial statements of the Durham County Alcoholic Beverage Control Board, a component unit of Durham County Government, North Carolina, as of June 30, 2009 and 2008 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Durham County Alcoholic Beverage Control Board management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Durham County Alcoholic Beverage Control Board as of June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

William F. Roberson, CPA, PLLC

Durham, North Carolina
September 14, 2009

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009 and 2008

This section of the Durham County Alcoholic Beverage Control Board's financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2009. This information should be read in conjunction with the audited financial statements included in this report.

FINANCIAL HIGHLIGHTS

- The Board opened a new retail location in November, 2008. They are leasing the building at this new location for a three year period.
- The Board is implementing a new point of sale and inventory management system in September, 2009 and expended approximately \$214,500 on new equipment and software in the current year to prepare for this system upgrade.
- Working capital decreased approximately 3% over the prior year.
- Approximately 17% of profits were expended for law enforcement in the current year.
- Approximately 5% of profits were expended for alcohol education in the current year.
- Approximately 5% of gross sales were distributed to the City of Durham and Durham County governmental units in the current year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The *Basic Financial Statements* are prepared using the full accrual basis of accounting. They consist of three statements. The first statement is the Statement of Net Assets. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the Statement of Revenues, Expenses and Changes in Net Assets. This statement is used in evaluating whether the Board has recovered all of its costs through sales. Its information is used in determining credit worthiness.

The final required statement is the Statement of Cash Flows. This statement reports cash inflows and outflows in the following categories: operating, investing and financing activities. Based on this data, the user can determine the sources of cash, the uses of cash and the change in cash.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009 and 2008

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements.

The ABC Commission requires some schedules in addition to the information required by accounting principles generally accepted in the United States of America. They include a Schedule of Store Selling Expenses, a Schedule of Warehouse Expenses and a Schedule of Administrative Expenses.

FINANCIAL ANALYSIS OF THE ABC BOARD

Net assets are an indicator of the fiscal health of the Board. Assets exceed liabilities by \$6,011,824 in 2009. The largest component of net assets is the investment in capital assets which represents 68% of the total net assets. Following is a summary of the Statement of Net Assets:

CONDENSED STATEMENTS OF NET ASSETS

| | 2009 | 2008 | \$ Change | % Change |
|---|--------------|--------------|------------|----------|
| Current Assets | \$ 3,920,998 | \$ 3,775,892 | \$ 145,106 | 3.8% |
| Non-Current Assets | 4,606,455 | 4,337,743 | 268,712 | 6.2% |
| Total Assets | 8,527,453 | 8,113,635 | 413,818 | 5.1% |
| Current Liabilities | 1,940,998 | 1,726,235 | 214,763 | 12.4% |
| Non-Current Liabilities | 574,631 | 604,731 | (30,100) | (5.0%) |
| Total Liabilities | 2,515,629 | 2,330,966 | 184,663 | 7.9% |
| Invested in Capital Assets, net of related debt | 4,105,935 | 3,803,992 | 301,943 | 7.9% |
| Unrestricted Net Assets | 1,210,364 | 1,335,707 | (125,343) | (9.4%) |
| Restricted Net Assets | 695,525 | 642,970 | 52,555 | 8.2% |
| Total Net Assets | 6,011,824 | 5,782,669 | 229,155 | 4.0% |

The increase in noncurrent assets was due to the purchase of new equipment and the renovation of a newly leased building. The increase in current liabilities was due to increased accounts payable.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009 and 2008

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Net assets increased by 4% from the prior year. Operating income decreased 8% from the prior year. Following is a summary of the changes in net assets:

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | 2009 | 2008 | \$ Change | % Change |
|------------------------|--------------|--------------|--------------|----------|
| Sales | \$22,905,798 | \$21,198,026 | \$ 1,707,772 | 8.1% |
| Less Taxes | 4,748,754 | 4,418,966 | 329,788 | 7.5% |
| Net Sales | 18,157,044 | 16,779,060 | 1,377,984 | 8.2% |
| Cost of Sales | 12,229,176 | 11,322,170 | 907,006 | 8.0% |
| Gross Profit | 5,927,868 | 5,456,890 | 470,978 | 8.6% |
| Operating Expenses | 4,193,156 | 3,551,036 | 642,120 | 18.1% |
| Other Operating | | | | |
| Income | 19,394 | 1,506 | 17,888 | 1187.8% |
| Income from Operations | 1,754,106 | 1,907,360 | (153,254) | (8.0%) |
| Nonoperating Income | | | | |
| (Expense) | (17,735) | 17,295 | (35,030) | (202.5%) |
| Change in Net Assets | | | | |
| Before Required | | | | |
| Distributions | 1,736,371 | 1,924,655 | (188,284) | (9.8%) |
| Distributions | 1,507,216 | 1,478,917 | 28,299 | 1.9% |
| Change in Net Assets | 229,155 | 445,738 | (216,583) | (48.6%) |
| Net Assets, Beginning | 5,782,669 | 5,336,931 | 445,738 | 8.4% |
| Net Assets, Ending | 6,011,824 | 5,782,669 | 229,155 | 4.0% |

Although the mixed beverage sales were down, the overall sales increased due to more sales in the retail stores. We believe that due to the downturn in the economy more people were purchasing liquor for home use versus spending the money to go to the local bars and restaurants in Durham County. There is a corresponding increase in cost of sales and income from operations due to the increase in sales. Operating expenses increased due to the opening of two new stores in the past two fiscal years and an increase in administrative expenses.

Following is a breakdown of sales by source:

| | 2009 | 2008 | \$ Change | % Change |
|----------------------|---------------------|---------------------|---------------------|-------------|
| Retail Liquor Sales | \$18,394,435 | \$16,693,442 | \$ 1,700,993 | 10.2% |
| Retail Wine Sales | 78,336 | 66,018 | 12,318 | 18.7% |
| Mixed Beverage Sales | 4,433,027 | 4,438,566 | (5,539) | (0.1%) |
| Total Sales | <u>\$22,905,798</u> | <u>\$21,198,026</u> | <u>\$ 1,707,772</u> | <u>8.1%</u> |

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009 and 2008

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital Assets increased by 7.1% from the prior year. Following is a summary of the changes in capital assets:

CONDENSED SUMMARY OF CHANGES IN CAPITAL ASSETS

| | <u>2009</u> | <u>2008</u> | <u>\$ Change</u> | <u>% Change</u> |
|--|---------------------|---------------------|-------------------|-----------------|
| Land | \$ 1,539,453 | \$ 1,539,453 | \$ - | - |
| Buildings and Improvements | 2,692,482 | 2,692,482 | - | - |
| Equipment | 1,082,872 | 807,639 | 275,233 | 34.1% |
| Motor Vehicles | 87,119 | 55,040 | 32,079 | 58.3% |
| Law Enforcement Leasehold Improvements | 188,341 | 170,396 | 17,945 | 10.5% |
| | <u>849,492</u> | <u>747,179</u> | <u>102,313</u> | <u>13.7%</u> |
| Total | <u>\$ 6,439,759</u> | <u>\$ 6,012,189</u> | <u>\$ 427,570</u> | <u>7.1%</u> |

Debt Administration

The largest component of long-term debt is notes payable. It decreased by \$35,059 from the prior year. In 2004 the Board acquired a building and land that it had previously leased. This property serves as a retail outlet, a mixed beverage pick up location and also houses the Board's administrative and law enforcement offices. The Board obtained financing in the amount of \$700,000 from Mechanics and Farmers Bank (formerly Mutual Community Savings Bank, Inc.) in 2004 to purchase the property.

REQUESTS FOR INFORMATION

This report is intended to provide a summary of the financial condition of the ABC Board. Questions or requests for additional information should be addressed to:

Randolph Mills, Jr., General Manager
Durham County Alcoholic Beverage Control Board
3620 Durham Chapel Hill Blvd.
Durham, N.C. 27707

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
STATEMENTS OF NET ASSETS
June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and investments | \$ 1,912,495 | \$ 2,202,620 |
| Accounts receivable | 282 | 14,660 |
| Inventories | 1,865,224 | 1,410,745 |
| Prepaid assets | <u>142,997</u> | <u>147,867</u> |
| TOTAL CURRENT ASSETS | 3,920,998 | 3,775,892 |
| PROPERTY AND EQUIPMENT | | |
| Land | 1,539,453 | 1,539,453 |
| Buildings and improvements | 2,692,482 | 2,692,482 |
| Equipment | 1,082,872 | 807,639 |
| Motor vehicles | 87,119 | 55,040 |
| Law enforcement | 188,341 | 170,396 |
| Leasehold improvements | <u>849,492</u> | <u>747,179</u> |
| | 6,439,759 | 6,012,189 |
| Less accumulated depreciation | <u>1,833,304</u> | <u>1,674,446</u> |
| | <u>4,606,455</u> | <u>4,337,743</u> |
| | <u>\$ 8,527,453</u> | <u>\$ 8,113,635</u> |

See accompanying notes and accountants' report.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
STATEMENTS OF NET ASSETS
June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 42,774 | \$ 40,946 |
| Accounts payable: | | |
| Trade | 699,056 | 475,706 |
| State sales tax | 96,499 | 91,714 |
| Other | 7,987 | 8,241 |
| Payroll taxes withheld | 4,790 | 3,736 |
| Accrued Liabilities: | | |
| State excise taxes | 318,303 | 306,957 |
| Rehabilitation tax | 5,856 | 5,608 |
| Mixed beverage tax | 32,511 | 34,100 |
| Salaries | 65,013 | 50,984 |
| Miscellaneous payables | 54,599 | 46,923 |
| Profit distributions | 613,610 | 661,320 |
| | <u>1,940,998</u> | <u>1,726,235</u> |
| TOTAL CURRENT LIABILITIES | 1,940,998 | 1,726,235 |
| LONG-TERM DEBT LIABILITIES | | |
| Accrued vacation pay | 116,885 | 111,926 |
| Note payable, net of current portion | 457,746 | 492,805 |
| | <u>574,631</u> | <u>604,731</u> |
| | 2,515,629 | 2,330,966 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 4,105,935 | 3,803,992 |
| Restricted working capital | 695,525 | 642,970 |
| Unrestricted | 1,210,364 | 1,335,707 |
| | <u>6,011,824</u> | <u>5,782,669</u> |
| | <u>\$ 8,527,453</u> | <u>\$ 8,113,635</u> |

See accompanying notes and accountants' report.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--------------------------------------|-----------------------|-----------------------|
| OPERATING REVENUE | | |
| Liquor sales | \$ 18,394,435 | \$ 16,693,442 |
| Mixed beverage sales | 4,433,027 | 4,438,566 |
| Wine sales | <u>78,336</u> | <u>66,018</u> |
| GROSS SALES | 22,905,798 | 21,198,026 |
| DEDUCT TAXES BASED ON GROSS SALES | | |
| State excise tax | 4,236,903 | 3,909,045 |
| Mixed beverage tax (Revenue) | 390,579 | 394,653 |
| Mixed beverage tax (Human Resources) | 39,058 | 39,465 |
| Rehabilitation tax | 77,261 | 71,629 |
| Sales tax | <u>4,953</u> | <u>4,174</u> |
| TOTAL TAXES | <u>4,748,754</u> | <u>4,418,966</u> |
| NET SALES | 18,157,044 | 16,779,060 |
| DEDUCT COST OF SALES | | |
| Cost of liquor sold | 12,187,240 | 11,279,137 |
| Cost of wine sold | <u>41,936</u> | <u>43,033</u> |
| TOTAL COST OF SALES | <u>12,229,176</u> | <u>11,322,170</u> |
| GROSS PROFIT OF SALES | 5,927,868 | 5,456,890 |
| DEDUCT OPERATING EXPENSES | | |
| Store expenses | 2,966,740 | 2,549,150 |
| Warehouse and delivery expenses | 310,128 | 273,688 |
| Administrative expenses | 750,994 | 587,495 |
| Depreciation expenses | <u>165,294</u> | <u>140,703</u> |
| TOTAL OPERATING EXPENSES | <u>4,193,156</u> | <u>3,551,036</u> |
| OTHER OPERATING INCOME | 19,394 | 1,506 |
| INCOME FROM OPERATIONS | 1,754,106 | 1,907,360 |

See accompanying notes and accountants' report.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|----------------------------|----------------------------|
| OTHER INCOME (EXPENSE) | | |
| Interest income | \$ 12,758 | \$ 40,097 |
| Interest expense | (30,493) | (22,752) |
| Gain (loss) on disposal of fixed assets | <u>-</u> | <u>(50)</u> |
| TOTAL OTHER INCOME (EXPENSE) | <u>(17,735)</u> | <u>17,295</u> |
| CHANGE IN NET ASSETS BEFORE DISTRIBUTIONS | 1,736,371 | 1,924,655 |
| DISTRIBUTIONS | | |
| Law enforcement | 293,212 | 265,292 |
| Alcohol education/rehabilitation | <u>91,782</u> | <u>91,403</u> |
| | <u>384,994</u> | <u>356,695</u> |
| CHANGE IN NET ASSETS BEFORE PROFIT DISTRIBUTIONS | 1,351,377 | 1,567,960 |
| PROFIT DISTRIBUTIONS | | |
| City of Durham | 112,222 | 112,222 |
| County of Durham | <u>1,010,000</u> | <u>1,010,000</u> |
| TOTAL PROFIT DISTRIBUTIONS | <u>1,122,222</u> | <u>1,122,222</u> |
| CHANGE IN NET ASSETS | 229,155 | 445,738 |
| NET ASSETS - beginning of year | <u>5,782,669</u> | <u>5,336,931</u> |
| NET ASSETS - end of year | <u><u>\$ 6,011,824</u></u> | <u><u>\$ 5,782,669</u></u> |

See accompanying notes and accountants' report.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 22,920,176 | \$ 21,183,447 |
| Other cash received | 19,394 | 1,506 |
| Cash payments for inventory costs | (12,455,435) | (11,502,366) |
| Cash payments for operating expenses | (4,025,882) | (3,112,167) |
| Taxes paid | <u>(4,733,963)</u> | <u>(4,363,909)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,724,290 | 2,206,511 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (456,233) | (281,522) |
| Interest paid on loans | (30,493) | (22,752) |
| Principal paid on loan maturities | <u>(33,231)</u> | <u>(40,973)</u> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (519,957) | (345,247) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Profit distributions-primary government | (1,122,222) | (1,122,222) |
| Law enforcement distributions | (293,212) | (265,292) |
| Alcohol education distributions | <u>(91,782)</u> | <u>(91,403)</u> |
| NET CASH USED BY NON-CAPITAL FINANCING ACTIVITIES | (1,507,216) | (1,478,917) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest earned on investments | <u>12,758</u> | <u>40,097</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (290,125) | 422,444 |
| CASH AND CASH EQUIVALENTS - beginning of year | <u>2,202,620</u> | <u>1,780,176</u> |
| CASH AND CASH EQUIVALENTS - end of year | <u><u>\$ 1,912,495</u></u> | <u><u>\$ 2,202,620</u></u> |

See accompanying notes and accountants' report.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------|----------------------------|
| RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Income from operations | \$ 1,754,106 | \$ 1,907,360 |
| ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Depreciation and amortization | 187,520 | 157,701 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 14,378 | (14,579) |
| (Increase) decrease in inventory | (454,479) | (21,258) |
| (Increase) decrease in prepaid assets | 4,870 | (57,087) |
| Increase (decrease) in accounts payable | 228,935 | (52,376) |
| Increase (decrease) in accrued liabilities | <u>(11,040)</u> | <u>286,750</u> |
| TOTAL ADJUSTMENTS | <u>(29,816)</u> | <u>299,151</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u><u>\$ 1,724,290</u></u> | <u><u>\$ 2,206,511</u></u> |

See accompanying notes and accountants' report.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Principles Used in Determining the Scope of the Entity for Financial Reporting

The Durham County Alcoholic Beverage Control Board (the Board), a component unit of Durham County, North Carolina, is a corporate body with powers outlined by General Statutes Chapter 18B-701. The County's governing body appoints the Board.

The Board is required by State Statute to distribute its surpluses to the General Fund of Durham County and the City of Durham which represents a financial benefit to the County and City. Therefore, the Board is reported as a discretely presented component unit in the County's financial statements.

B. Organizational History

The Board was organized under the provisions of the Pasquotank Act in 1937, and implemented by a county wide vote on May 15, 1937, at which time the Durham County Commissioners appointed three individuals to serve on the Board with terms of three years. In 2001 the County Commissioners added two more individuals to serve on the Board bringing the total to five Board members.

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

C. Basis of Presentation

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or the change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. All sales are made by cash, debit or credit card and recorded at the time of sale. Other revenues are recorded when earned. Expenses are recognized when incurred. As permitted, the Board has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its proprietary operation, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net assets date, and reported amount of revenue and expenses during the reporting period. Estimates are used to determine depreciation expense, certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

F. Assets, Liabilities and Net Assets

Deposits

All deposits of the Board are made in board designated official depositories and are collateralized as required by G.S. 159-31. The Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits over the federal depository insurance coverage are collateralized with securities held by the Board's agent in the Board's name. Under the Pooling Method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer' agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held by the Board agent in the Board's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities and Net Assets (Continued)

Deposits (Continued)

under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2009, the Board's deposits had a carrying amount of \$1,902,915 and a bank balance of \$2,257,703. At June 30, 2008, the Board's deposits had a carrying amount of \$2,193,840 and a bank balance of \$2,588,640. Of the Board's bank balance at June 30, 2009, \$559,867 was covered by the FDIC and \$1,697,836 was covered by collateral held under the Pooling Method.

Investments

G.S. 159-30(c) authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust, an SEC registered (2a-7) money market mutual fund.

At June 30, 2009 and 2008, the Board had no funds invested.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Inventories

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

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A component unit of Durham County Government)
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities and Net Assets (Continued)

Property and Equipment

Property and equipment are stated at cost and are depreciated over their estimated useful lives on a straight-line basis as follows:

| | <u>Useful Life</u> |
|-------------------------|--------------------|
| Buildings | 25-40 years |
| Furniture and equipment | 5-12 years |
| Vehicles | 3-5 years |
| Leasehold improvements | 5-20 years |

All assets purchased with a cost in excess of \$500 are capitalized.

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in the earnings for the period.

Net Assets

Net Assets consists of the following:

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

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities and Net Assets (Continued)

Net Assets (Continued)

- d. Restricted for working capital - North Carolina Alcoholic Beverage Control Commission Rule .0902 defines working capital as the total of cash, investments and inventory, less all unsecured liabilities. The Board shall set its working capital requirements at not less than two weeks' average gross sales of the last fiscal year nor greater than four months' average gross sales of the last fiscal year. Average gross sales means gross receipts from the sale of alcoholic beverages less distributions required by G.S. 18B-805(b),(2),(3), and (4).
- e. Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt*.

NOTE 2 – PENSION PLAN OBLIGATIONS

A. Local Government Employee's Retirement System

Plan Description - The Board contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The Board is required to contribute at an actuarially determined rate. The Board's current rate for employees not engaged in law enforcement and for law enforcement officers is 4.94% and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of the ABC Board are established and may be amended by the North Carolina General Assembly. The Board's contributions to LGERS for the years ended June 30, 2009 and 2008 were \$109,680 and \$97,157, respectively. The contributions made by the Board equaled the required contributions for each year.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A component unit of Durham County Government)
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 2 – PENSION PLAN OBLIGATIONS (Continued)

B. Law Enforcement Officers' Special Separation Allowance

1. Plan Description:

The Board administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides benefits to the Board's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Board are covered by the Separation Allowance. At June 30, 2009 and 2008, the Separation Allowance's membership consisted of:

| | |
|---|----------|
| Retirees receiving benefits | 1 |
| Terminated plan members entitled to but not yet receiving benefits | - |
| Active plan members | <u>3</u> |
| Total | <u>4</u> |

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

Basis of Accounting - The Board has chosen to fund the Separation Allowance on a pay as you go basis. The financial statements of the Board are prepared using the accrual basis of accounting. Benefits are recognized as expenses when due and payable in accordance with the terms of the plan. Administration expenses are recognized as incurred.

Method Used to Value Investments - No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due. One employee has been eligible for this benefit since July, 2006. The Board anticipates a total pay out of \$105,134 from the time of retirement until the retiree reaches age 62.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 2 – PENSION PLAN OBLIGATIONS (Continued)

B. Law Enforcement Officers' Special Separation Allowance (Continued)

3. Contributions:

The Board is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to pay benefits and administration costs on a pay as you go basis. For the current year, the Board paid benefits of \$17,282 or 12% of annual covered payroll. There were no contributions made to the plan by employees. The Board's obligation to make these payments was established and may be amended by the North Carolina General Assembly.

C. Supplemental Retirement Income Plan for Law Enforcement Officers

1. Plan Description:

The Board contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Board. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

2. Funding Policy:

Article 12E of G.S. Chapter 143 requires the Board to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2009 were \$ 12,080, which consisted of \$6,924 from the Board and \$5,157 from the law enforcement officers. Contributions for the year ended June 30, 2008 were \$12,880, which consisted of \$6,591 from the Board and \$6,289 from the law enforcement officers.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 2 – PENSION PLAN OBLIGATIONS (Continued)

D. Other Post-Employment Benefits (OPEB)

1. Plan Description:

From 1997 until January 16, 2007 the Board had a policy to provide health insurance benefits to retirees. Retirees with at least 30 years of service were provided health insurance at no cost to the retiree through continuing enrollment (employee-only coverage) in the Board's health insurance plan until age 65. At age 65 a supplemental health insurance policy was provided at the Board's cost for the retiree's lifetime. This benefit was also available under certain early retirement elections, but with early retirement the benefit was paid for fully by the retiree and ceased at age 65. On January 16, 2007 the Board terminated the health insurance benefit for future retirees under a 12 year transition plan that will end on June 30, 2019. During the transition plan period (January 16, 2007 to June 30, 2019) retirees may participate in the Board's health insurance plan by paying either a portion or all of the premium but the benefit ceases at age 65. Health benefits for future retirees will be fully eliminated for retirements beyond the fiscal year ending June 30, 2019.

2. Funding Policy:

Retiree health insurance benefits have been funded on a pay as you go basis so no funds are set aside to pay these benefits.

3. Annual OPEB Cost and Net OPEB Obligation:

Unfunded accrued actuarial liability (UAAL) has been computed at \$1,576,744. The Board has elected to use a 30 year amortization period. When the UAAL of \$1,576,744 is divided by 30 years the amortized payment is calculated at \$52,558. This payment is then adjusted for the present value of interest of \$2,601 which is added to this payment to bring the total amortized payment to \$55,159. The actual amount the Board spent during the year ended June 30, 2009 was \$52,684. The Board has elected not to record the resulting \$2,475 liability on the financial statements.

4. Actuarial Methods and Assumptions:

The Board's Annual Required Contribution and OPEB Obligation were calculated as required by the Government Accounting Standards Board (GASB) Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. The Board's plan has less than 100 plan members so the calculations used the Alternative Method allowed by GASB and did not involve an actuarial valuation.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A component unit of Durham County Government)
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 3 – COMMITMENTS

The Board has elected to pay direct costs of employment securities benefits in lieu of employment security taxes on payroll. A liability for benefit payments could accrue in the year following the discharge of employees.

During the years ended June 30, 2009 and 2008 the Board entered into a service contract with the County of Durham to provide ground and pest control services at a price not to exceed \$30,093 and building maintenance on an as needed basis for \$19.86 per hour. This contract is renewed every year.

NOTE 4 – LEASES

The Board has leased three store properties under lease agreements which expire February, 2011, July, 2011 and November, 2011 and require various minimum annual rentals. Rent expense for the years ended June 30, 2009 and 2008 amounts to \$108,699 and \$52,640, respectively.

The Board was responsible for property taxes under two leases that have expired representing a cost of \$0 and \$180 at June 30, 2009 and 2008, respectively.

Minimum annual rentals on lease terms extending beyond one year, at June 30, 2009 are summarized as follows:

| <u>Year Ending June 30,</u> | <u>Annual lease</u> |
|-----------------------------|---------------------|
| 2010 | \$ 110,565 |
| 2011 | 92,974 |
| 2012 | 22,054 |
| 2013 | - |
| 2014 | - |
| | <hr/> |
| | \$ 225,593 |

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A component unit of Durham County Government)
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 5 – VACATION AND SICK LEAVE COMPENSATION

Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. Accumulated earned vacation and related expenses at June 30, 2009 and 2008 amounted to \$116,885 and \$111,926, respectively. The current portion of the accumulated vacation pay is not considered to be material.

Employees can accumulate an unlimited amount of sick leave. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

NOTE 6 – DISTRIBUTION OF INCOME

The Board has made distributions since inception as follows:

| | <u>Current Year</u> | <u>Total to Date</u> |
|----------------------|---------------------|----------------------|
| 90% County of Durham | \$ 1,010,000 | \$ 31,046,363 |
| 10% City of Durham | \$ 112,222 | \$ 8,587,870 |

North Carolina General Statute 18B-805(e) requires that the entire net income, after deducting amounts required for law enforcement and alcohol education and retaining proper working capital, be paid quarterly to the County and City.

NOTE 7 – LAW ENFORCEMENT AND ALCOHOL EDUCATION EXPENSES

The Board is required by law to expend at least 5% of its total profits for law enforcement and not less than 7% for alcohol education (alcohol education requirement follows local enabling act). Profits are defined by law for these calculations as change in net assets before law enforcement and educational expenses, less the 3½% markup provided in G.S. 18B-804(b)(5) and the bottle charge provided for in G.S. 18B-804(b)(6b).

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 7 – LAW ENFORCEMENT AND ALCOHOL EDUCATION EXPENSES (Continued)

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| Profit before distributions | \$ 1,736,371 | \$ 1,924,654 |
| Less 3½% tax and bottle charge | <u>670,427</u> | <u>618,898</u> |
| Profit subject to expense percentages | <u>\$ 1,065,944</u> | <u>\$ 1,305,756</u> |
| Law enforcement expenditures | \$ 293,212 | \$ 265,292 |
| - Actual percentage of profit | 28% | 20% |
| Provision for alcohol education and rehabilitation | \$ 91,782 | \$ 91,403 |
| - Actual percentage of profit | 9% | 7% |

NOTE 8 – DISBURSEMENT OF TAXES INCLUDED IN SELLING PRICE

A state excise tax, at the rate of 25% effective February 1, 2002, on the retail (net sales) price is charged monthly on liquor sales (excluding wine sales). Transactions for this account for the years ended June 30, 2009 and 2008 are summarized as follows:

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| Taxes payable July 1 | \$ 306,957 | \$ 301,350 |
| Taxes collected during the year | 4,627,482 | 4,303,698 |
| Less taxes remitted to Department of Revenue | <u>4,616,136</u> | <u>4,298,091</u> |
| Taxes payable June 30 | <u>\$ 318,303</u> | <u>\$ 306,957</u> |

The excise tax is computed in accordance with G.S. 18B-805(I).

The accrued North Carolina excise tax at June 30, 2009 and 2008 was remitted to the North Carolina Department of Revenue on July 12, 2009 and July 10, 2008, respectively.

A bottle charge of one cent on each bottle containing 50 milliliters or less and five cents on each bottle containing more than 50 milliliters is collected and distributed monthly to the county commissioners for alcohol education and rehabilitation. For the fiscal year, payments to the County were based on the following bottle sales:

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 8 – DISBURSEMENT OF TAXES INCLUDED IN SELLING PRICE (Continued)

| | <u>2009</u> | | |
|------------------------|-------------|-----------|-------------------------|
| Regular bottles | 1,266,533 | @ \$.05 = | \$ 63,327 |
| Mixed beverage bottles | 205,344 | @ \$.05 = | 10,267 |
| Miniature bottles | 366,714 | @ \$.01 = | <u>3,667</u> |
| Total payment for year | | | <u><u>\$ 77,261</u></u> |
| | <u>2008</u> | | |
| Regular bottles | 1,165,289 | @ \$.05 = | \$ 58,265 |
| Mixed beverage bottles | 205,799 | @ \$.05 = | 10,290 |
| Miniature bottles | 307,445 | @ \$.01 = | <u>3,074</u> |
| Total payment for year | | | <u><u>\$ 71,629</u></u> |

A "mixed beverage tax" at the rate of \$20 per 4 liters is charged on the sale of liquor to be resold as mixed beverages. One-half (1/2) of the mixed beverage tax is submitted monthly to the Department of Revenue. Five percent of the mixed beverage tax is submitted monthly to the Department of Human Resources.

The mixed beverage taxes for the year ended June 30 were as follows:

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|--------------------------|--------------------------|
| Department of Revenue (50%) | \$ 390,579 | \$ 394,653 |
| Department of Human Resources (5%) | 39,058 | 39,465 |
| Profit retained (45%) | <u>351,509</u> | <u>355,187</u> |
| | <u><u>\$ 781,146</u></u> | <u><u>\$ 789,305</u></u> |

NOTE 9 – SURCHARGE COLLECTED

The total amount of surcharge collected for the fiscal years June 30, 2009 and 2008 was \$114,116 and \$106,849, respectively. (The rate is 85 cents per case sold effective November 1, 2006).

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
 (A component unit of Durham County Government)
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 10 – DEPRECIATION - LAW ENFORCEMENT RESERVE

The balance sheets of the Board include equipment and motor vehicles of the Law Enforcement Reserve. However, the depreciation expense of this equipment and motor vehicles is charged directly to the Law Enforcement Reserve so as to properly reflect the Reserve's expenses.

NOTE 11 – BREAKAGE EXPENSE

Breakage expense absorbed by the Board for the years ended June 30, 2009 and 2008 was \$1,265 and \$1,226, respectively.

NOTE 12 – WORKING CAPITAL REQUIREMENTS

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

| | <u>2009</u> | <u>2008</u> |
|----------------|--------------|--------------|
| Minimum amount | \$ 695,525 | \$ 642,970 |
| Maximum amount | \$ 6,027,887 | \$ 5,572,405 |
| Actual amount | \$ 1,762,610 | \$ 1,816,150 |

The Board has met the minimum amount of working capital.

NOTE 13 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has commercial property, general liability, auto liability, workmen's compensation and employee health coverage. The Board also has liquor legal liability.

There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 18B-700(i), each board member is bonded in the amount of \$5,000, secured by a corporate surety.

In accordance with G.S. 18B-803(b) and (c), all employees who have access to funds are bonded up to a maximum of \$25,000.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 14 – RETAIL OUTLETS

The Board operated with ten retail outlets as of June 30, 2009 and nine outlets as of June 30, 2008.

| | <u>June 30, 2009</u> | | <u>June 30, 2008</u> | |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Gross Sales | Net Profit (Loss) | Gross Sales | Net Profit (Loss) |
| Store 1 - 1930 Holloway St. | \$ 1,725,145 | \$ 191,024 | \$ 1,954,280 | \$ 256,369 |
| Store 2 - 905 Fayetteville St. | 1,513,519 | 148,895 | 1,450,097 | 138,015 |
| Store 3 - 2806 Hillsborough Rd. | 2,433,798 | 349,853 | 2,361,782 | 308,345 |
| Store 4 - 2121 T.W. Alexander Dr. | 1,720,157 | 143,767 | 599,602 | 37,034 |
| Store 5 - 121 Sherron Road | 491,035 | (37,280) | - | - |
| Store 8 - 5234 Roxboro Road | 1,725,929 | 152,898 | 1,624,770 | 125,085 |
| Store 10 - 5202 Highway 55 | 2,574,889 | 316,898 | 2,606,225 | 332,621 |
| Store 11 - 3620 Chapel Hill Blvd. | 2,871,214 | 386,354 | 2,777,393 | 365,508 |
| Store 12 - 3318 Guess Road | 2,244,887 | 280,438 | 2,156,563 | 278,685 |
| Store 14 - 6209 Falconbridge Rd. | 1,215,075 | 660 | 1,263,916 | 28,269 |
| | <u>\$18,515,648</u> | <u>\$ 1,933,507</u> | <u>\$ 16,794,628</u> | <u>\$ 1,869,931</u> |

Store 4 at 2121 T.W. Alexander Drive opened in February, 2008. Store 5 at 121 Sherron Road opened in November, 2008.

NOTE 15 – LIQUOR SALES TAX

The total amount of sales tax collected by the Board and remitted to the Department of Revenue for the years ended June 30, 2009 and 2008 was \$1,283,059 and \$1,088,405, respectively. This tax rate was 6.75% through March 31, 2008 and 7% beginning April 1, 2008.

NOTE 16 – LEGAL SETTLEMENT

The Board entered a final settlement of a legal issue during the year and made a one time payout of \$65,000 in lieu of continuing to defend the legal issue. The Board did not acknowledge any liability in the settlement. This cost has been included in the administrative expenses section of the financial statements at June 30, 2009.

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 17 – LONG-TERM DEBT

A summary of long-term debt follows:

| | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
|--|----------------------|----------------------|
| Note payable to Mechanics and Farmers Bank payable in 83 monthly payments of interest and principal totaling \$5,310 and 1 balloon payment of \$434,794 due on February 1, 2011. Interest is fixed at 4.375%. The note is secured by a deed of trust on the property. | \$ 500,520 | \$ 533,751 |
| Less current portion of debt | <u>42,774</u> | <u>40,946</u> |
| Total long-term debt | <u>\$ 457,746</u> | <u>\$ 492,805</u> |

Estimated maturities on long-term debt as of June 30, 2009 are as follows:

| | |
|---------------|-------------------|
| June 30, 2010 | \$ 42,774 |
| June 30, 2011 | 414,972 |
| June 30, 2012 | - |
| Thereafter | <u>-</u> |
| | <u>\$ 457,746</u> |

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Durham County Alcoholic Beverage Control Board

We have audited the general-purpose financial statements of the Durham County Alcoholic Beverage Control Board, a component unit of Durham County Government, North Carolina, as of and for the years ended June 30, 2009 and 2008 and have issued our report thereon dated August 27, 2008. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The year ended 2009 supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, therefore, do not express an opinion on it.

Durham, North Carolina
September 14, 2009

DURHAM COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD
(A component unit of Durham County Government)
SCHEDULE OF STORE, ADMINISTRATIVE AND WAREHOUSE EXPENSES
Year Ended June 30, 2009

| | Store 1 | Store 2 | Store 3 | Store 4 | Store 5 | Store 8 | Store 9 | Store 10 | Store 11 | Store 12 | Store 14 | Subtotal | Warehouse | Administrative | Total |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
| Salaries and wages | \$ 155,759 | \$ 155,420 | \$ 163,677 | \$ 153,974 | \$ 91,319 | \$ 170,623 | \$ 182,725 | \$ 185,703 | \$ 185,767 | \$ 181,259 | \$ 182,015 | \$1,808,241 | \$ 198,653 | \$ 368,402 | \$2,375,296 |
| FICA taxes | 11,516 | 12,017 | 12,184 | 11,348 | 6,191 | 12,495 | 13,732 | 13,499 | 13,414 | 13,318 | 13,576 | 133,290 | 14,628 | 26,813 | 174,731 |
| Retirement fund | 7,024 | 6,520 | 6,563 | 6,904 | 4,070 | 7,924 | 5,365 | 7,917 | 7,802 | 7,384 | 8,128 | 75,601 | 9,375 | 17,976 | 102,952 |
| Life insurance | 419 | 393 | 390 | 409 | 208 | 480 | 334 | 524 | 482 | 454 | 524 | 4,617 | 516 | 1,104 | 6,237 |
| Hospital insurance | 15,869 | 13,862 | 12,175 | 15,622 | 10,734 | 14,901 | 8,292 | 17,562 | 15,280 | 13,100 | 15,952 | 153,349 | 18,167 | 72,587 | 244,103 |
| Disability insurance | 1,390 | 1,306 | 1,290 | 1,358 | 690 | 1,597 | 1,112 | 1,737 | 1,605 | 1,510 | 1,746 | 15,341 | 1,722 | 3,670 | 20,733 |
| Dental insurance | 1,058 | 922 | 969 | 1,035 | 718 | 1,015 | 529 | 1,185 | 1,058 | 878 | 1,058 | 10,425 | 1,131 | 1,587 | 13,143 |
| Rent | - | - | - | 54,084 | 19,037 | - | - | - | - | - | 35,578 | 108,699 | - | - | 108,699 |
| Maintenance - equipment | 62 | 302 | 378 | 34 | 255 | 236 | - | 194 | 214 | 34 | 213 | 1,922 | 1,565 | 45 | 3,532 |
| Utilities | 6,779 | 7,716 | 7,791 | 1,235 | 2,423 | 12,531 | 2,000 | 7,128 | 6,824 | 8,391 | 6,352 | 69,170 | 16,486 | 2,967 | 88,623 |
| Telephone | 1,547 | 1,552 | 1,647 | 1,614 | 1,343 | 1,553 | 2,013 | 1,695 | 1,648 | 1,900 | 1,754 | 18,266 | 2,962 | 8,618 | 29,846 |
| Credit card expenses | 11,334 | 8,565 | 38,015 | 27,061 | 6,766 | 21,985 | - | 48,370 | 52,323 | 26,744 | 19,192 | 260,355 | - | - | 260,355 |
| Insurance - general | 4,822 | 4,890 | 6,233 | 4,377 | 773 | 9,036 | 5,028 | 11,617 | 8,222 | 7,324 | 5,618 | 67,940 | 7,966 | 12,007 | 87,913 |
| Supplies | 10,132 | 7,447 | 12,769 | 8,921 | 8,497 | 8,554 | 3,188 | 13,296 | 12,603 | 10,236 | 7,268 | 102,911 | 2,683 | 12,225 | 117,819 |
| Travel expense | 2,200 | 527 | 1,849 | 2,574 | 776 | 1,443 | 360 | 1,340 | 380 | 1,981 | 2,091 | 15,521 | 192 | 23,954 | 39,667 |
| Temporary help | - | - | - | - | - | - | - | - | - | - | - | - | 6,731 | 176 | 6,907 |
| Maintenance agreements | 2,685 | 2,335 | 3,224 | 2,884 | 1,617 | 3,985 | 1,418 | 2,927 | 2,927 | 2,846 | 3,035 | 29,883 | 2,315 | 10,181 | 42,379 |
| Building maintenance | 9,432 | 11,404 | 3,419 | 2,723 | 2,099 | 6,727 | 286 | 3,899 | 3,538 | 3,582 | 2,021 | 49,130 | 10,820 | 1,357 | 61,307 |
| Postage | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,467 | 2,467 |
| Professional services | - | - | - | - | - | - | - | - | - | - | - | - | - | 160,652 | 160,652 |
| Dues and subscriptions | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,000 | 2,000 |
| Per diem - Board members | - | - | - | - | - | - | - | - | - | - | - | - | - | 12,600 | 12,600 |
| Yard maintenance | 3,626 | 2,919 | 2,992 | - | - | 2,940 | - | 3,702 | 3,044 | 2,919 | - | 22,142 | 2,919 | - | 25,061 |
| Security - alarm contracts | 240 | 240 | 240 | 240 | 149 | 240 | - | 240 | 240 | 240 | 240 | 2,309 | 480 | - | 2,789 |
| Vehicle expense | - | - | - | - | - | - | - | - | - | - | - | - | 1,745 | 1,311 | 3,056 |
| Gas and oil | - | - | - | - | - | - | - | - | - | - | - | - | 4,093 | 1,493 | 5,586 |
| Waste disposal | 1,271 | 59 | 59 | 119 | - | 59 | 1,008 | 1,478 | 1,717 | 1,179 | 59 | 7,008 | - | - | 7,008 |
| Advertising | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,275 | 2,275 |
| Bottled water | 299 | 208 | 321 | 311 | 217 | 279 | - | 308 | 778 | 293 | 279 | 3,293 | 645 | - | 3,938 |
| Staff training and development | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,125 | 3,125 |
| Minor equipment | 250 | 73 | 126 | 579 | 3,663 | 326 | 472 | 242 | 979 | 497 | 120 | 7,327 | 4,334 | 1,402 | 13,063 |
| | 247,714 | 238,677 | 276,311 | 297,406 | 161,545 | 278,929 | 227,862 | 324,563 | 320,845 | 286,069 | 306,819 | 2,966,740 | 310,128 | 750,994 | 4,027,862 |
| Depreciation | 5,986 | 4,397 | 11,470 | 11,991 | 4,706 | 17,079 | 2,100 | 24,006 | 36,090 | 12,877 | 10,603 | 141,305 | 10,669 | 13,320 | 165,294 |
| | <u>\$ 253,700</u> | <u>\$ 243,074</u> | <u>\$ 287,781</u> | <u>\$ 309,397</u> | <u>\$ 166,251</u> | <u>\$ 296,008</u> | <u>\$ 229,962</u> | <u>\$ 348,569</u> | <u>\$ 356,935</u> | <u>\$ 298,946</u> | <u>\$ 317,422</u> | <u>\$3,108,045</u> | <u>\$ 320,797</u> | <u>\$ 764,314</u> | <u>\$4,193,156</u> |

See accompanying notes and accountants' report.