



TEXAS ALCOHOLIC BEVERAGE COMMISSION

Texans Helping Businesses & Protecting Communities

ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2018 (UNAUDITED)

KEVIN J. LILLY, Presiding Officer - Houston
IDA CLEMENT STEEN, Member – San Antonio
A. BENTLEY NETTLES, Executive Director

**TEXAS ALCOHOLIC BEVERAGE COMMISSION
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended August 31, 2018**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL1

GENERAL PURPOSE FINANCIAL STATEMENTS:

Exhibit I - Combined Balance Sheet/Statement of Net Assets -
Governmental Funds4

Exhibit II - Combined Statement of Revenues, Expenditures and Changes
in Fund Balances/Statement of Activities -
Governmental Funds8

Exhibit VI - Combined Statement of Net Assets -
Fiduciary Funds10

Exhibit J-I - Combining Statement of Changes in Assets and Liabilities -
All Agency Funds12

NOTES TO THE FINANCIAL STATEMENTS17

SCHEDULES

Schedule 1A - Schedule of Expenditures of Federal Awards34

THIS PAGE INTENTIONALLY LEFT BLANK



TEXAS ALCOHOLIC BEVERAGE COMMISSION

Texans Helping Businesses & Protecting Communities

Kevin J. Lilly
Presiding Officer – Houston

Ida Clement Steen
Member – San Antonio

Commission Member
Vacant

A. Bentley Nettles
Executive Director

November 20, 2018

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, Texas Comptroller
Ursula Parks, Director, Legislative Budget Board
Lisa Collier, First Assistant State Auditor

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the Texas Alcoholic Beverage Commission for the year ended August 31, 2018, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

Due to the statewide requirements embedded in [Governmental Accounting Standards Board \(GASB\) 34](#), the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the state auditor as part of the audit of the State of Texas *Comprehensive Annual Financial Report* (CAFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Vanessa Mayo at 512-206-3290. Heather Nevill may be contacted at 512-206-3246 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. Bentley Nettles".

A. Bentley Nettles
Executive Director

THIS PAGE INTENTIONALLY LEFT BLANK

I. GENERAL PURPOSE FINANCIAL STATEMENTS

TEXAS ALCOHOLIC BEVERAGE COMMISSION (458)

**EXHIBIT I -
COMBINED BALANCE SHEET/STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS
August 31, 2018**

	Governmental Funds Total
ASSETS AND DEFERRED OUTFLOWS	\$
Current Assets:	
Cash and Temporary Investments:	
Cash on Hand	21,308.00
Cash in Bank (Note 3)	52,500.00
Cash in State Treasury	
Legislative Appropriations	7,541,032.66
Receivables from:	
Federal	
Due from Other Agencies (Note 12)	128,826.41
Consumable Inventories	35,455.02
Total Current Assets:	7,779,122.09
Non-Current Assets and Deferred Outflows:	
Capital Assets: (Note 2)	
Non-Depreciable:	
Construction in Progress	
Other Assets	
Depreciable:	
Furniture & Equipment	
Less Accumulated Depreciation	
Vehicles, Boats and Aircraft	
Less Accumulated Depreciation	
Other Capital Assets	
Less Accumulated Depreciation	
Intangible Computer Software	
Less Accumulated Amortization	
Total Non-Current Assets:	0
Total Assets and Deferred Outflows	7,779,122.09

UNAUDITED

Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Net Assets
\$	\$	\$
		21,308.00
		52,500.00
		7,541,032.66
		-
		128,826.41
		35,455.02
0	0	7,779,122.09
		-
5,815,551.26		5,815,551.26
(3,464,510.87)		(3,464,510.87)
6,856,697.70		6,856,697.70
(4,160,592.00)		(4,160,592.00)
2,075,912.89		2,075,912.89
(2,075,912.89)		(2,075,912.89)
5,047,146.09	0	5,047,146.09
5,047,146.09	0	12,826,268.18

TEXAS ALCOHOLIC BEVERAGE COMMISSION (458)

EXHIBIT I - (Continued)
 COMBINED BALANCE SHEET/STATEMENT OF NET ASSETS -
 GOVERNMENTAL FUNDS
 August 31, 2018

	Governmental Funds Total
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$
Current Liabilities:	
Payables from:	
Accounts Payable	61,816.13
Payroll Payable	4,124,869.01
Due to Other Agencies (Note 12)	
Employees' Compensable Leave (Note 5)	
Capital Lease Obligations (Note 5)	
Funds Held for Others	
Total Current Liabilities:	4,186,685.14
Non-Current Liabilities and Deferred Inflows:	
Employees' Compensable Leave (Note 5)	
Capital Lease Obligation (Note 5)	
Total Non-Current Liabilities:	0
Total Liabilities and Deferred Inflows	4,186,685.14
FUND FINANCIAL STATEMENTS -	
Fund Balances (Deficits):	
Nonspendable	35,455.02
Assigned	-
Unassigned	3,556,981.93
Total Fund Balances	3,592,436.95
Total Liabilities, Deferred Inflows and Fund Balances	\$ 7,779,122.09
Government-wide Statement - Net Assets	
Net Assets:	
Invested in Capital Assets, Net of Related Debt	
Unrestricted	
Total Net Assets	
The accompanying notes to the financial statements are an integral part of this financial statement.	

UNAUDITED

Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Net Assets
\$	\$	\$
		61,816.13
		4,124,869.01
		-
	2,595,717.99	2,595,717.99
<u>0</u>	<u>2,595,717.99</u>	<u>6,782,403.13</u>
	1,964,240.46	1,964,240.46
<u>0</u>	<u>1,964,240.46</u>	<u>1,964,240.46</u>
<u>0</u>	<u>4,559,958.45</u>	<u>8,746,643.59</u>
		35,455.02
		-
		3,556,981.93
<u>0</u>	<u>0</u>	<u>3,592,436.95</u>
<u>0</u>	<u>4,559,958.45</u>	<u>12,339,080.54</u>
5,047,146.09	(4,559,958.45)	5,047,146.09
<u>5,047,146.09</u>	<u>(4,559,958.45)</u>	<u>487,187.64</u>

TEXAS ALCOHOLIC BEVERAGE COMMISSION (458)

EXHIBIT II

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Fiscal Year Ended August 31, 2018

	General Funds	Capital Asset Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Activities
Revenues	\$	\$	\$		\$
Legislative Appropriations:					
Original Appropriations	47,887,926.00				47,887,926.00
Additional Appropriations	10,696,253.90				10,696,253.90
Federal Revenues (Sch 1A)	-				0.00
Federal Pass-Through Revenue (Sch 1A)	2,237,003.72				2,237,003.72
Licenses, Fees & Permits	340,186.77				340,186.77
Settlement of Claims	-				0.00
Sales of Goods & Services	583.50				583.50
Other Revenues	43,210.71				43,210.71
Total Revenues	<u>61,205,164.60</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>61,205,164.60</u>
Expenditures					
Salaries & Wages	37,198,824.01		(16,034.28)		37,182,789.73
Payroll Related Costs	11,494,063.83				11,494,063.83
Professional Fees & Services	1,455,742.13				1,455,742.13
Travel	778,334.48				778,334.48
Materials & Supplies	1,733,225.33				1,733,225.33
Communication & Utilities	637,647.19				637,647.19
Repairs & Maintenance	796,531.21				796,531.21
Rentals & Leases	3,100,393.97				3,100,393.97
Printing & Reproduction	218,542.56				218,542.56
Claims and Judgements	35,831.53				35,831.53
Public Assistance Payments	-				0.00
Other Operating Expenditures	924,369.85				924,369.85
Debt Service Capital Leases	-			-	-
Capital Outlay (Note 2)	766,747.15	(766,747.15)			0.00
Depreciation Expense (Note 2)		1,494,074.60			1,494,074.60
Total Expenditures	<u>59,140,253.24</u>	<u>727,327.45</u>	<u>(16,034.28)</u>	<u>0.00</u>	<u>59,851,546.41</u>
Excess (Def) of Revenues Over Expenditures	<u>2,064,911.36</u>	<u>(727,327.45)</u>	<u>16,034.28</u>	<u>0.00</u>	<u>1,353,618.19</u>

UNAUDITED

	General Funds	Capital Asset Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Activities
Other Financing Sources (Uses)	\$	\$	\$		\$
Sale of Capital Assets	195,514.20	(195,514.20)			-
Insurance Recoveries	30,915.87	(37,650.08)			(6,734.21)
Transfers In	-	-			-
Transfers Out	(154,027.07)				(154,027.07)
Gain (Loss) on Sale of Capital Assets		194,433.40			194,433.40
Legislative Financing Uses	-				-
Appropriations Lapsed	(3,789,646.52)				(3,789,646.52)
Other Financing Sources (Uses)	(3,717,243.52)	(38,730.88)	0	0	(3,755,974.40)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing I	(1,652,332.16)	(766,058.33)	16,034.28		(2,402,356.21)
Beginning Fund Balance (Sept. 1, 2017)	5,244,769.11				5,244,769.11
Restatements	-				-
Ending Fund Balance	3,592,436.95				2,842,412.90
Government-Wide Statement-Net Assets					
Change in Net Assets		(766,058.33)	16,034.28	-	
Net Assets Beginning					
FY 17 Capital Assets Balances in CFAAG		5,813,204.42			5,813,204.42
FY 17 Compensable Leave Balance in GLTDAG			(4,543,924.17)		\$ (4,543,924.17)
Net Assets, Sept. 1, 2017		5,813,204.42	(4,543,924.17)	0.00	1,269,280.25
Restatements		0.00			
Net Assets, Aug. 31, 2018		5,047,146.09	(4,527,889.89)	0.00	519,256.20

The accompanying notes to the financial statements are an integral part of this financial statement.

TEXAS ALCOHOLIC BEVERAGE COMMISSION (458)

EXHIBIT VI

COMBINED STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

August 31, 2018

	AGENCY	
	Unappropriated Collections - General Revenue (1000) U/F 1000	Departmental Suspense (0900) U/F 0900
ASSETS	\$	\$
Cash and Cash Equivalents		
Cash on Hand	28,739.00	
Cash in Bank (Note 3)		
Cash in State Treasury		1,509,754.36
Receivables from:		
Other Intergovernmental	-	
Taxes Receivable	16,856.06	
Other Assets		
TOTAL ASSETS	<u>45,595.06</u>	<u>1,509,754.36</u>
LIABILITIES		
Funds Held for Others	45,595.06	1,509,754.36
Net Position Held in Trust		
TOTAL LIABILITIES	<u>45,595.06</u>	<u>1,509,754.36</u>
Total Net Assets	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes to the financial statements are an integral part of this financial statement.

UNAUDITED

FUNDS			
Child Support Deductions 0807 U/F 0807	Custodial Funds (9999) U/F 1999	Custodial Local Funds (9995) U/F 1995	Total
\$	\$		\$
	17,786.25		46,525.25
		516,735.43	516,735.43
19,602.50			1,529,356.86
			-
			16,856.06
		32,925,277.00	32,925,277.00
19,602.50	17,786.25	33,442,012.43	35,034,750.60
19,602.50	17,786.25	33,442,012.43	35,034,750.60
19,602.50	17,786.25	33,442,012.43	35,034,750.60
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

EXHIBIT J-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS

For the Fiscal Year Ended August 31, 2018

	Balances September 1, 2017	Additions	Deductions	Balances August 31, 2018
	\$	\$	\$	\$
UNAPPROPRIATED RECEIPTS				
General Revenue Fund (0001) U/F (1000)				
ASSETS				
Cash on Hand	87,507.83	0.00	58,768.83	28,739.00
Cash in State Treasury	0.00	358,100,454.74	358,100,454.74	0.00
Intergovernmental Receivable	0.00	0.00	0.00	0.00
Taxes Receivable, Net	18,516.95	339.11	2,000.00	16,856.06
Other Receivables, Net	0.00	0.00	0.00	0.00
Interfund Receivable	0.00	2,352,732.69	2,352,732.69	0.00
Total Assets	106,024.78	360,453,526.54	360,513,956.26	45,595.06
LIABILITIES				
Accounts Payable	0.00	120,770.00	120,770.00	0.00
Interfund Payable	0.00	2,352,732.69	2,352,732.69	0.00
Due To Other Agencies	0.00	0.00	0.00	0.00
Funds Held for Others	106,024.78	357,037,697.53	357,098,127.25	45,595.06
Total Liabilities	106,024.78	359,511,200.22	359,571,629.94	45,595.06
OTHER AGENCY FUNDS:				
City, Cty, MTA & SPD Sales Tax (0882) U/F (0882)				
ASSETS				
Cash on Hand	0.00	0.00	0.00	0.00
Cash in Bank	0.00	0.00	0.00	0.00
Cash in State Treasury	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	0.00	0.00
Total Assets	0.00	0.00	0.00	0.00
LIABILITIES				
Funds Held for Others	0.00	0.00	0.00	0.00
Total Liabilities	0.00	0.00	0.00	0.00
Departmental Suspense (0900) U/F (0900)				
ASSETS				
Cash in State Treasury	2,498,590.90	56,803,517.98	57,792,354.52	1,509,754.36
Accounts Receivables, Net	0.00	0.00	0.00	0.00
Interfund Receivable	0.00	0.00	0.00	0.00
Total Assets	2,498,590.90	56,803,517.98	57,792,354.52	1,509,754.36
LIABILITIES				
Accounts Payable	0.00	1,459,143.72	1,459,143.72	0.00
Due to Other Agencies	0.00	0.00	0.00	0.00
Funds Held for Others	2,498,590.90	56,797,579.19	57,786,415.73	1,509,754.36
Total Liabilities	2,498,590.90	58,256,722.91	59,245,559.45	1,509,754.36
Child Support Employee Deductions-Offset (0807) U/F 0807				
ASSETS				
Cash in State Treasury	24,036.23	277,578.74	282,012.47	19,602.50
Accounts Receivables, Net	0.00	0.00	0.00	0.00
Interfund Receivable	0.00	0.00	0.00	0.00
Total Assets	24,036.23	277,578.74	282,012.47	19,602.50
LIABILITIES				
Accounts Payable	0.00	257,976.24	257,976.24	0.00
Interfund Payable	0.00	0.00	0.00	0.00
Funds Held for Others	24,036.23	277,578.74	282,012.47	19,602.50
Total Liabilities	24,036.23	535,554.98	539,988.71	19,602.50

The accompanying notes to the financial statement are an integral part of this financial statement.

UNAUDITED

	Balances September 1, 2017	Additions	Deductions	Balances August 31, 2018
	\$	\$	\$	\$
OTHER AGENCY FUNDS				
Direct Deposit Correction (0980)				
ASSETS				
Cash on Hand	0.00	0.00	0.00	0.00
Cash in State Treasury	801.21	498.00	789.21	510.00
Intergovernmental Receivable	0.00	0.00	0.00	0.00
Other Receivables, Net	0.00	0.00	0.00	0.00
Interfund Receivable	0.00	0.00	0.00	0.00
Total Assets	801.21	498.00	789.21	510.00
LIABILITIES				
Accounts Payable	0.00	0.00	0.00	0.00
Interfund Payable	0.00	0.00	0.00	0.00
Funds Held for Others	801.21	498.00	789.21	510.00
Total Liabilities	801.21	498.00	789.21	510.00
Custodial Funds (9999) U/F (1999)				
ASSETS				
Cash on Hand	12,961.50	4,824.75	0.00	17,786.25
Cash in Bank	0.00	0.00	0.00	0.00
Cash in State Treasury	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	0.00	0.00
Total Assets	12,961.50	4,824.75	0.00	17,786.25
LIABILITIES				
Funds Held for Others	12,961.50	4,824.75	0.00	17,786.25
Total Liabilities	12,961.50	4,824.75	0.00	17,786.25
Local Funds Custodial (9995)				
ASSETS				
Cash in Bank	492,909.57	23,825.86	0.00	516,735.43
Accounts Receivable, Net	0.00	0.00	0.00	0.00
Other Assets	31,446,277.00	1,479,000.00	0.00	32,925,277.00
Total Assets	31,939,186.57	1,502,825.86	0.00	33,442,012.43
LIABILITIES				
Accounts Payable	0.00	0.00	0.00	0.00
Interfund Payable	0.00	0.00	0.00	0.00
Funds Held for Others	31,939,186.57	1,502,825.86	0.00	33,442,012.43
Total Liabilities	31,939,186.57	1,502,825.86	0.00	33,442,012.43
Totals - All Agency Funds				
ASSETS				
Cash on Hand	100,469.33	4,824.75	58,768.83	46,525.25
Cash in Bank	492,909.57	23,825.86	0.00	516,735.43
Cash in State Treasury	2,523,428.34	415,182,049.46	416,175,610.94	1,529,866.86
Receivables:				
Intergovernmental Receivables	0.00	0.00	0.00	0.00
Accounts Receivable, Net	0.00	0.00	0.00	0.00
Taxes Receivable, Net	18,516.95	339.11	2,000.00	16,856.06
Other Receivables, Net	0.00	0.00	0.00	0.00
Other Assets	31,446,277.00	1,479,000.00	0.00	32,925,277.00
Interfund Receivables	0.00	2,352,732.69	2,352,732.69	0.00
Total Assets	34,581,601.19	419,042,771.87	418,589,112.46	35,035,260.60
LIABILITIES				
Accounts Payable	0.00	1,837,889.96	1,837,889.96	0.00
Due to Other Agencies	0.00	0.00	0.00	0.00
Interfund Payable	0.00	2,352,732.69	2,352,732.69	0.00
Funds Held for Others	34,581,601.19	415,621,004.07	415,167,344.66	35,035,260.60
Total Liabilities	34,581,601.19	419,811,626.72	419,357,967.31	35,035,260.60

THIS PAGE INTENTIONALLY LEFT BLANK

II. NOTES TO FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

ALCOHOLIC BEVERAGE COMMISSION (458)

Notes to the Financial Statements**NOTE 1: Summary of Significant Accounting Policies****Entity**

The Texas Alcoholic Beverage Commission (the Commission) is an agency of the State of Texas, and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts Reporting Requirements of State Agencies. Its three Commission members are charged with the administration and enforcement of the Texas Alcoholic Beverage Code (the Code). The Code establishes guidelines for the activities of all persons engaged in any phase of an alcoholic beverage business. Commission members are appointed by the Governor with the advice and consent of the Senate.

An Executive Director, who is appointed by the Commissioners, is responsible for managing the Commission's daily operations. The Commission operates from a headquarters office in Austin and Regional offices located throughout the state. The Commission also oversees a Ports of Entry program through various bridges/outposts situated along the Texas-Mexico border and in Galveston. The Commission is designated as a separate reporting entity pursuant to requirements established by the Legislature, the Legislative Budget Office and the Governor's Budget and Policy Division. The Commission does not include any component units.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

The accompanying financial statements of the Texas Alcoholic Beverage Commission have been prepared to conform with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Blended and Discretely Presented Component Units

No blended or discrete component units have been identified.

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

Governmental Fund Types and Government-Wide Adjustment Fund Types***General Revenue Funds***

The general revenue fund (appropriated fund 001) is used to account for all financial resources of the state except those required to be accounted for in another fund.

The General Revenue Fund includes USAS D23 funds (U/F): 0001, 0801, 0809, 0815, 0816, 1101, 1102, 1103, 1104, 6001, 6002, 6003, 7888, 7900, 9000, 9001

Capital Assets Adjustment Fund Type

Capital Assets Adjustment fund type 0001 is used to convert governmental fund types' capital assets from modified accrual to full accrual.

Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund type 0098 is used to convert governmental fund types debt from modified accrual to full accrual.

ALCOHOLIC BEVERAGE COMMISSION (458)

Other Adjustment Fund Type

Other Adjustment fund type 0001 is used to convert all other governmental fund type activity from modified accrual to full accrual.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the state in a trustee capacity as an agent for individuals, private organizations, other governmental units, and/or other funds. These funds are custodial in nature and do not involve measurement of results of operations.

Agency Funds

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

Basis of Accounting

The basis of accounting determines when revenues and expenditures are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for by using the modified accrual method basis of accounting. Under the modified accrual method, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The State of Texas considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified basis of accrual. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Basis conversion adjustment fund types convert modified accrued basis to full accrued basis accounting. This includes activities in these fund types; capital assets, accumulated depreciation, unpaid employee compensable leave, un-matured debt service on general long-term liabilities, long-term capital leases, long-term claims and judgments and full accrual revenues and expenses.

Budget and Budgetary Accounting

The budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor (the General Appropriations Act). Unencumbered appropriations are subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities, and Fund Balances/Net Assets**Assets*****Cash on Hand***

This represents amounts that were on hand and in process, but not deposited in the State Treasury, as of August 31, 2018. It also includes change funds held at the Commission's Ports of Entry collection stations located along the Texas-Mexico border.

Cash in Bank

This represents cash held in local bank accounts. The Commission uses these accounts to expedite payments for travel advances, purchase of evidence and small, miscellaneous purchases. In addition, the Commission maintains local bank accounts for its ports of entry tax collection stations located along the Texas-Mexico border and in Galveston. These accounts are held in the name of Glenn Hegar, Comptroller, on behalf of the Commission. Cash is electronically transferred from these accounts to the Comptroller of Public Accounts Treasury Division on a weekly basis (see Note 3).

ALCOHOLIC BEVERAGE COMMISSION (458)

Other Intergovernmental Receivables

The Commission assesses and collects a statutory fee for a variety of wine and beer permit and license applications from all counties in the State of Texas. Based on the permits issued during the month, the Commission pays the county from which the permit applications originated a five percent commission of the corresponding amount. As of August 31, 2018, five percent commission amounts were owed to the counties for application fees collected prior to year-end, but not yet remitted by the Commission to the counties.

Taxes Receivable

These receivables represent amounts owed the Commission based on the findings of audits performed on the records of excise tax-paying and private club permittees/licensees. Whenever possible, delinquent taxes are collected directly from the permittee within a matter of days from the date of determination; however, in some cases, it becomes necessary to take additional action to secure the payment of the delinquencies. Such action includes calling upon the permittee's collateral (certificate of deposit, letter of credit or surety bond) or arranging an in-house payout agreement. Delinquent taxes and permit fees for which collection appears unlikely are turned over to the Attorney General's Office for action. Accounts submitted for collection to the Attorney General's Office are aged using rates calculated from historical collections to arrive at a realistic valuation of the collectible amount.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumables inventories. Inventories are valued at cost, generally using the last-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental fund type. The cost of these items is expensed when the items are consumed.

Capital Assets

Assets that meet the reporting threshold and useful life are capitalized. The capitalization threshold and the estimated useful life vary depending on the asset type. These assets are capitalized at cost or, if purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets (such as works of art and historical treasures) are not depreciated. Road and highway infrastructure is depreciated over the estimate of average useful life of a grouping of assets using composite method. Other depreciable assets are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are reported at acquisition value. Depreciation is charged to operations over the estimated useful life of each asset using the straight-line method.

Other Assets

This represents collateral held by the Commission in the form of certificates of deposit and letters of credit, and excise stamp inventories at the ports of entry.

Liabilities***Accounts Payable***

This represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Employees' Compensable Leave Balances

Employees' compensable leave balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net position. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

ALCOHOLIC BEVERAGE COMMISSION (458)

Capital Lease Obligations

Capital Lease Obligations represent the liability for future lease payments under capital lease contracts contingent upon the appropriation of funding by the Legislature. Liabilities are reported separately as either current or noncurrent in the statement of net assets.

Funds Held For Others

This represents amounts held by the Commission in a custodial or trustee capacity and amounts that have not yet been distributed to the appropriate party or fund. Therefore, these amounts are reported as Funds Held for Others.

Fund Balance/Net Position

“Fund balance” is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the governmental fund statements. “Net position” is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the government-wide, proprietary and fiduciary fund statements.

When both restricted and unrestricted resources are available for use, it is the agency’s policy to use unrestricted resources first, then restricted when they are needed. When only unrestricted resources are available for use, it is the agency’s policy to use committed resources first, then assigned resources and unassigned resources last.

Fund Balance Components

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund financial statements.

Nonspendable fund balance includes amounts not available to be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The Commission’s consumable inventory is classified as nonspendable.

Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions. The Commission does not have funds classified as restricted.

Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Texas Legislature, the state’s highest level of decision making authority. The Commission does not have funds classified as committed.

Assigned fund balance includes amounts constrained by the state’s intent to be used for specific purposes but are neither restricted nor committed. Intent is expressed by (1) the Texas Legislature or (2) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Commission has classified encumbrances as assigned funds.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

Net Investment in Capital Assets

Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

ALCOHOLIC BEVERAGE COMMISSION (458)

Restricted Net Position

Restricted net position results when constraints placed on net resources are either externally imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

INTERFUND ACTIVITIES AND BALANCES

The Commission has numerous transactions between and within fund types:

- 1) Transfers: Legally required transfers that are reported when incurred as 'Transfers In' by the recipient fund and as 'Transfers Out' by the disbursing fund.
- 2) Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
- 3) Interfund receivables and payables: Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter, it is classified as 'Current'; repayment for two (or more) years is classified as 'Non-Current'.
- 4) Interfund Sales and Purchases: Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the agency's interfund receivables and payables at August 31, 2018, is presented in Note 12.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 2: Capital Assets

Revenue received from the sale of surplus property has been transferred to unappropriated general revenue in accordance with HB7, Sec 20.

A summary of changes in Capital Assets for the year ended August 31, 2018, is presented below:

	Balance 9/1/17	Adjustments	Reclass Completed CIP	Reclass Inc-Int'agy Trans	Reclass Dec-Int'agy Trans	Additions	Deletions	Balance 8/31/18
GOVERNMENTAL ACTIVITIES								
Depreciable Assets								
Buildings and Building Improvements								0
Infrastructure								0
Facilities and Other Improvements								0
Furniture and Equipment	5,963,751.77	28,958.34				58,207.03	(235,365.88)	5,815,551.26
Vehicles, Boats and Aircraft	7,757,115.18					708,540.12	(1,608,957.60)	6,856,697.70
Other Capital Assets								-
Total Depreciable Assets at Historical Cost	13,720,866.95	28,958.34	0	0	0	766,747.15	(1,844,323.48)	12,672,248.96
Less Accumulated Depreciation for:								
Buildings and Building Improvements								0
Infrastructure								0
Facilities and Other Improvements								0
Furniture and Equipment	(2,991,323.16)	(28,958.34)				(668,847.67)	224,618.30	(3,464,510.87)
Vehicles, Boats and Aircraft	(4,916,339.37)					(825,226.93)	1,580,974.30	(4,160,592.00)
Other Capital Assets								0
Total Accumulated Depreciation	(7,907,662.53)	(28,958.34)	0	0	0	(1,494,074.60)	1,805,592.60	(7,625,102.87)
Depreciable Assets, Net	5,813,204.42	0	0	0	0	(727,327.45)	(38,730.88)	5,047,146.09
Intangible Capital Assets - Amortizable								
Land Use Rights - Term								0
Computer Software	2,075,912.89							2,075,912.89
Other Intangible Capital Assets - Term								0
Total Intangible Assets at Historical Cost	2,075,912.89	0	0	0	0	0	0	2,075,912.89
Less Accumulated Amortization for:								
Land Use Rights - Term								0
Computer Software	(2,075,912.89)							(2,075,912.89)
Other Intangible Capital Assets - Term								0
Total Accumulated Amortization	(2,075,912.89)	0	0	0	0	0	0	(2,075,912.89)
Amortizable Assets, Net	0	0	0	0	0	0	0	0
Governmental Activities Capital Assets, Net	5,813,204.42	0	0	0	0	(727,327.45)	(38,730.88)	5,047,146.09

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 3: Deposits, Investments, and Repurchase Agreements

1. Texas Alcoholic Beverage Commission is not authorized to make investments.
2. There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2018, the carrying amount of deposits was \$569,235.43 as presented below.

Governmental and Business-Type Activities	
CASH IN BANK - CARRYING VALUE	\$ 52,500.00
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	
Less: Uninvested Securities Lending Cash Collateral included in carry value and reported as Securities Lending Collateral	
Less: Securities Lending CD Collateral included in carry value and reported as Securities Lending Collateral	
Cash in Bank per AFR	\$ 52,500.00
Fiduciary Funds	
CASH IN BANK - CARRYING VALUE	\$ 516,735.43
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	
Less: Uninvested Securities Lending Cash Collateral included in carry value and reported as Securities Lending Collateral	
Less: Securities Lending CD Collateral included in carry value and reported as Securities Lending Collateral	
Bank Balance	\$ 516,735.43
Fiduciary Funds Cash in Bank	\$ 516,735.43
Fiduciary Funds Restricted Cash in Bank	
Total Cash in Bank per AFR	\$ 516,735.43
As of August 31, 2018, the Total Bank Deposit was as follows:	
Governmental and Business Type Activities	\$ 52,500.00
Fiduciary Funds	\$ 516,735.43

NOTE 4: Short-Term Debt

Not applicable for Fiscal Year 2018.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 5: Long-Term Liabilities**Changes in General Long-Term Liabilities:**

The following changes occurred in liabilities during the year ending August 31, 2018.

Governmental Activities	Balance 09-01-2017	Additions	Reductions	Balance 08-31-2018	Amounts Due Within One Year	Amounts Due Thereafter
Capital Lease Obligations (Note 8)	0	0	0	0	0	0
Compensable Leave	4,543,924.17	5,044,471.67	5,028,437.39	4,559,988.45	2,595,717.99	1,964,240.46
TOTAL	4,543,924.17	5,044,471.67	5,028,437.39	4,559,988.45	2,595,717.99	1,964,240.46

Employees Compensable Leave

If a state employee had continuous employment with the state for at least six months, the state employee is entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal or separation from state employment.

Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the statement of net position. Both an expense and a liability for business-type activities are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting employees accumulating rights to receive sick pay benefits. This obligation is usually paid from the same funding source(s) from which the employee's salary or wage compensation was paid.

NOTE 6: Bonded Indebtedness

Not applicable for Fiscal Year 2018.

NOTE 7: Derivative Instruments

Not applicable for Fiscal Year 2018.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 8: Leases

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

Fund Type	Amount
General Fund	\$2,953,402.19

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are:

Year Ended Aug. 31,	
2019	2,533,126.27
2020	2,354,873.01
2021	1,880,147.83
2022	1,557,199.36
2023	1,396,650.33
2024-2027	<u>1,098,240.96</u>
Total Minimum Future Lease Rental Payments	10,820,237.76

The Commission has not entered into any long-term Capital Leases for Fiscal Year 18.

NOTE 9: Defined Benefit Pension Plans and Defined Contribution Plan

Not applicable for Fiscal Year 2018.

NOTE 10: Deferred Compensation (administering agencies only)

Not applicable for Fiscal Year 2018.

NOTE 11: Postemployment Benefits Other Than Pensions

Not applicable for Fiscal Year 2018.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 12: Interfund Activity and Transactions

As explained in Note 1 on Interfund Transactions and Balances, there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as:

- Interfund Receivables or Interfund Payables
- Due From Other Agencies or Due to Other Agencies
- Due From Other Funds or Due to Other Funds
- Transfers In or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

The Texas Alcoholic Beverage Commission experienced routine transfers from other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement.

Individual balances and activity as of Aug. 31, 2018, follows:

Current Portion	Current Interfund Receivable	Current Interfund Payable
General Revenue (01)	-0-	-0-
Total Interfund Receivable/Payable	-0-	-0-

Non-Current Portion	Non-Current Interfund Receivable	Non-Current Interfund Payable	Purpose
General Revenue (01)	-0-	-0-	-0-
Total Interfund Receivable/Payable	-0-	-0-	-0-

General Revenue (01)	Due From Other Agencies	Due To Other Agencies	Source
Agency 601, Fund 0816	128,826.41		Federal P-T
Total Due From/To Other Agencies (Exhibit I)	\$128,826.41	\$ 0	

	Legislative Transfers In	Legislative Transfers Out
General Revenue (01)	0	0
Total Legislative Transfers	-0-	0

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 13: Continuance Subject to Review

Under the Texas Sunset Act, the Texas Alcoholic Beverage Commission will be abolished effective 09/01/2019, unless continued in existence by the 86th Legislature as provided by the Act. If abolished, the agency may continue until 09/01/2020 to close out its operations.

NOTE 14: Adjustments to Fund Balances and Net Position

Not applicable for Fiscal Year 2018.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 15: Contingencies and Commitments

Employee Sick Leave

Sick leave, the accumulation of which is unlimited, is accrued at a rate of eight hours per month and is paid to the employee's estate in the event of his/her death while employed by the agency. The maximum amount of sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The Commission's policy is to recognize the cost of any sick leave when paid. A liability for sick leave entitlement is not recorded since experience indicates the probability of a material effect on any given year's financial operations, as a result of death or abnormally high rate of illness, is minimal.

Federal Assistance

The Commission has received several federal grants for specific purposes that are subject to review and audit by the grantor agency. Such audits could lead to a request for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, will be immaterial.

Unpaid Claims and Lawsuits

As of August 31, 2018, certain lawsuits were pending against the Texas Alcoholic Beverage Commission. The lawsuits, which may present contingent liabilities, are displayed below.

Claimant / Plaintiff	Description of Case	Damages Sought	Probability of Liability	Possible Loss
Earl Pearson	Former TABC Director of Enforcement alleges that Chairman Kevin Lilly discriminated against him on the basis of his race when he terminated his employment in July 2017. The case has not progressed beyond the original petition and TABC's answer.	Attorney's fees and damages	Low	Unknown
Marcus Stokke	Former CPO alleges that TABC terminated his employment in retaliation for a whistleblower complaint he made involving an alleged coverup from 2013.	Attorney's fees and damages	Low	Unknown

ALCOHOLIC BEVERAGE COMMISSION (458)

<p>Live Oak Brewing Company LLC, Revolver Brewing LLC, Peticolas Brewing Company LLC</p>	<p>Plaintiffs claim statute is unconstitutional and prevents brewers from selling territorial rights to distribute beer. Lower court ruled for Plaintiffs. The court of appeals ruled in TABC's favor in October 2017. The plaintiffs have asked the Texas Supreme Court to review the case.</p>	<p>Attorney's fees and court costs, unknown amount</p>	<p>Unknown</p>	<p>Unknown</p>
<p>Wal-Mart Stores, Inc. et al (federal and state lawsuits)</p>	<p>TABC Code denies Plaintiffs right to hold a package store permit and ability to obtain more than five package store permits. In March 2018, Judge Robert Pittman ruled in Wal-Mart's favor on three causes of action, and in TABC's favor on the remaining cause of action. The parties have appealed the case to the U.S. Court of Appeals for the Fifth Circuit.</p>	<p>Attorney's fees and court costs, unknown amount</p>	<p>Unknown</p>	<p>Unknown</p>
<p>Salvador Moralez</p>	<p>Employee Litigation - Plaintiff seeks action under the Texas Labor Code and punitive damages for age discrimination for not being promoted.</p>	<p>Attorney's fees, court costs, and damages, unknown amount</p>	<p>Unknown</p>	<p>Unknown</p>
<p>McLane Company Inc. PIA Litigation (2 lawsuits)</p>	<p>Plaintiff wants to compel TABC to fulfill 44 of their Public Information Act requests.</p>	<p>Attorney's fees and court costs, unknown amount</p>	<p>Unknown</p>	<p>Unknown</p>

NOTE 16: Subsequent Events

Not applicable for Fiscal Year 2018.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 17: Risk Management

The Commission is exposed to a variety of civil claims resulting from the performance of its duties. It is Commission policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

The Commission assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently, there is no purchase of commercial automobile insurance for agency pool vehicles. However, the agency did purchase a policy to insure law enforcement vehicles stored at our warehouse facility for fleet management purposes. The agency worked with the State Office of Risk Management to acquire the policy.

The Commission has also purchased property insurance for its Headquarters, Regional Offices, Warehouse, Galveston Port of Entry and four Port of Entry Bridge properties through the Texas SORM Statewide Property Insurance Program. This insurance program does not insure agency pool or law enforcement vehicles at these locations.

The Commission’s liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. Losses did not exceed funding arrangements during the past three years. Changes in the balances of the agency’s claims liabilities during fiscal year 2017 and 2018 were:

	Beginning Balance	Increases	Decreases	Ending Balance
2018	\$ -	\$ 35,831.53	\$ (35,831.53)	\$ -
2017	\$ -	\$ 33,937.02	\$ (33,937.02)	\$ -

NOTE 18: Management Discussion and Analysis (MD&A)

Active Pending Litigation

The Texas Alcoholic Beverage Commission is currently defending a variety of lawsuits. First, and most impactful, are several major lawsuits challenging various aspects of the Alcohol Beverage Code. Second, are a series of lawsuits brought by a single plaintiff under the Public Information Act. Third, are lawsuits brought by former employees as described in Note 15 – Contingencies and Commitments.

NOTE 19: The Financial Reporting Entity

Not applicable for Fiscal Year 2018.

NOTE 20: Stewardship, Compliance and Accountability

Not applicable in Fiscal Year 2018.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 22: Donor Restricted Endowments

Not applicable for Fiscal Year 2018.

NOTE 23: Extraordinary and Special Items

Not applicable in Fiscal Year 2018.

NOTE 24: Disaggregation of Receivable and Payable Balances

Not applicable for Fiscal Year 2018.

NOTE 25: Termination Benefits

Not applicable for Fiscal Year 2018.

NOTE 26: Segment Information

Not applicable for Fiscal Year 2018.

NOTE 27: Service Concession Arrangements

Not applicable for Fiscal Year 2018.

NOTE 28: Deferred Outflows of Resources and Deferred Inflows of Resources

Not applicable for Fiscal Year 2018.

NOTE 29: Troubled Debt Restructuring

Not applicable for Fiscal Year 2018.

NOTE 30: Non-Exchange Financial Guarantees

Not applicable for Fiscal Year 2018.

ALCOHOLIC BEVERAGE COMMISSION (458)

NOTE 31: Tax Abatements

Not applicable for Fiscal Year 2018.

NOTE 32: Governmental Fund Balances

Not applicable for Fiscal Year 2018.

III. SCHEDULES

**SCHEDULE 1A
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended August 31, 2018**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Pass-Through From			
		Agency/ University Number	Identifying Number	Agency/ University Amount	Non-State Entities Amount
U.S. DEPARTMENT OF HOMELAND SECURITY					
Pass-Through From:					
Texas Dept of Public Safety					
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	405		1,824,618.68	
				\$1,824,618.68	\$0.00
U.S. Department of Transportation					
Pass-Through From:					
Texas Dept. of Transportation					
National Priority Safety Programs	20.616	601	2017-TABC-G-1YG-0022	36,123.89	
State & Community Highway Safety	20.600	601	2018-TABC-G-1YG-0216	376,261.15	
				\$412,385.04	\$0.00
Total Expenditures of Federal Awards				\$2,237,003.72	\$0.00

TEXAS ALCOHOLIC BEVERAGE COMMISSION (458)

**SCHEDULE 1A
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended August 31, 2018**

Note 2 - Reconciliation

Below is a reconciliation of the total of federal pass-through and federal expenditures as reported on the Schedule of Expenditures of Federal Awards to the total of federal revenues and federal pass-through revenues as reported in the general purpose financial statements. Generally, federal funds are not earned until expended; therefore, federal revenues equal federal expenditures for the reporting period.

Per Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund Types (Exhibit II)

Federal Revenues (Exhibit II)	<u>2,237,003.72</u>
Federal Pass-Through Revenues (Exhibit II)	<u>2,237,003.72</u>
Total Pass-Through and Expenditures per Federal Schedule	0

Direct Program Amount	Total PT From & Direct Program	Agency/ University Number	State Agy/ University Amount	Non-State Entities Amount	Expenditures Amount	Total PT To & Expenditures amount
	1,824,618.68				1,824,618.68	1,824,618.68
	-					
\$0.00	\$1,824,618.68	\$0.00	\$0.00	\$0.00	\$1,824,618.68	\$1,824,618.68
	36,123.89				36,123.89	36,123.89
	376,261.15				376,261.15	376,261.15
\$0.00	\$412,385.04	\$0.00	\$0.00	\$0.00	\$412,385.04	\$412,385.04
\$0.00	\$2,237,003.72	\$0.00	\$0.00	\$0.00	\$2,237,003.72	\$2,237,003.72



**TEXAS ALCOHOLIC
BEVERAGE COMMISSION**
Texans Helping Businesses & Protecting Communities

Please visit our web site at www.tabc.texas.gov for more information about the Texas Alcoholic Beverage Commission.