

Michigan Department of Licensing and Regulatory Affairs
Rick Snyder, Governor
Mike Zimmer, Director
www.michigan.gov/lcc



Michigan Liquor Control Commission

Annual Financial Report 2014

(For Fiscal Year October 1, 2013 – September 30, 2014)





RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LIQUOR CONTROL COMMISSION
ANDREW J. DELONEY
CHAIRPERSON

MIKE ZIMMER
DIRECTOR

To the Citizens of Michigan and Other Readers:

Thank you for your interest in the Michigan Liquor Control Commission and the 2014 Annual Financial Report.

The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits sold in Michigan. All profits and taxes collected from this wholesaling activity are returned to the people of Michigan through transfer to various state funds for appropriation by the Legislature. This report is our accounting to you of the liquor wholesaling operation in Michigan, and related activity.

The last few years have seen great strides made in making the Commission more business-minded and customer-driven. But we still have plenty to do. 2015 has already seen the beginning of a comprehensive review of our promulgated rules to make sure they are up to date and reflective of today's marketplace, removing outdated regulations, while still protecting public safety and health. We have given distilled spirit products sold by Michigan-licensed small distillers their own section in our approved products list, and we continue to make improvements to our licensing process.

This Annual Financial Report has an informational section and a statement section. We are required by law to provide the statement section, reporting on the activity of the Liquor Purchase Revolving Fund and the revenue our activities generate for the people of Michigan. We have selected other information to include because we think it will be of interest to our readers.

The Commission holds public hearings twice each year "for the purpose of hearing complaints and receiving the views of the public with respect to the administration of this act." These hearings are required by law, and usually take place in June and December. You are cordially invited to attend our public hearings to speak to the Commissioners or to make comments to the Commission by other means. You may call our offices in Lansing at 517.284.6357 for the time and location of our next public hearing or email us at mlccinfo2@michigan.gov.

Our website contains a wealth of information. You can learn more about the liquor licensing process, see lists of licenses available, obtain forms, read our frequently asked enforcement questions, search the Liquor Code and Rules, and much more. View our website at www.michigan.gov/lcc. We encourage you to visit our website anytime you have a question.

Thank you, again, for your interest, and in reviewing the 2014 Annual Financial Report.

Sincerely,

Andrew J. Deloney, Chairman

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	LARA is an equal opportunity employer/program. Auxiliary aids, services and other reasonable accommodations are available upon request to individual with disabilities.
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Executive Digest

Summary

Michigan Compiled Laws (MCL) Section 436.1221 authorized the Liquor Control Commission, with the Department of Licensing and Regulatory Affairs, to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the State treasurer. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The Liquor Purchase Revolving Fund accounts for the sales of and the replenishing and transportation of the liquor stock. Administrative, warehousing, and delivery costs are paid for through this fund. The "net income" of the fund is transferred to the General Fund in accordance with MCL Section 18.1435.

REVENUE/EXPENSE ITEM	FY 2013-14 (In millions)	FY 2012-13 (In millions)	% INCREASE (DECREASE)
Gross Sales	\$1,153.0	\$1,098.9	4.9
Licensee Discounts	195.9	186.8	4.9
Cost of Goods Sold	698.8	666.0	4.9
Gross Revenue - Liquor	258.3	246.1	5.0
Operating Expenses ¹	86.8	83.5	4.0
Miscellaneous Revenue	0	.1	(100.0)
Income from Operations ²	171.5	162.7	5.4
Specific Liquor Taxes	138.1	131.6	4.9
Other Revenue Collected	70.0	68.8	1.7
Total Net Revenue	379.6	363.1	4.5

NOTES:

(1) Operating Expenses do not include Liquor Purchase Revolving Fund transfers for grants. The transfers for grants of \$773,900 for 2014 and \$773,900 for 2013 are for Grants to Cities for Fire Protection. Licensing and Enforcement expenses attributable to General Fund are included in Operating Expenses.

(2) This figure does not include taxes or grants, and is computed after deducting all operating expenses including the General Fund portion of Licensing and Enforcement expenses. Operating Income in the Liquor Purchase Revolving Fund is \$176.8 million.

OTHER MERCHANDISING STATISTICS	FY 2013-14	FY 2012-13	% INCREASE (DECREASE)
Number of Cases Sold	7,709,480	7,532,846	2.3
Average Price Per Case	\$149.56	\$145.88	2.5
Items Available (brands and sizes)	7,328	7,200	1.8
Number of Bottles Sold	126,402,967	121,778,597	3.8
Average Price Per Bottle	\$9.12	\$9.02	1.1

APPARENT CONSUMPTION STATISTICS	FY 2013-14		FY 2012-13	
	Gallons	Per Capita ³	Gallons	Per Capita ³
Distilled Spirits	17,265,000	1.74	16,968,827	1.71
Mixed Spirit Drinks	283,810	0.03	279,623	0.03
Wine (21% alcohol or less)	24,314,986	2.45	23,272,063	2.35
Beer	192,864,432	19.46	192,400,015	19.44

Note:

(3) Using estimated Michigan population as shown on page 8.

The MLCC

Michigan is one of 17 “control states” as related to the alcohol beverage industry. “Control State” means that state government is responsible for the sale and distribution of certain alcohol beverages as opposed to a license state where wholesale and retail sales of distilled spirits are mandated by private sellers.

Control states receive the markup revenues that would have otherwise been received by private sellers. They can use this revenue for state expenditures. Control states account for approximately one-third of the U. S. population.



- | | | |
|-------------|----------------|-------------------|
| Alabama | New Hampshire | Virginia |
| Idaho | North Carolina | West Virginia |
| Iowa | Ohio | Wyoming |
| Maine | Oregon | Montgomery Co. MD |
| Michigan | Pennsylvania | |
| Mississippi | Utah | |
| Montana | Vermont | |

Michigan is the wholesaler of liquor in the state by law. It uses private Authorized Distribution Agents to carry out liquor distribution functions on its behalf.

The MLCC is administered by five commissioners, appointed by the governor with the advice and consent of the Michigan Senate to four-year, rotating terms. The Chair of the Commission is selected by the Governor. Of the five members, no more than three can be of the same political party.

Two of the Commissioners (one Democrat and one Republican) serve as Hearing Commissioners and conduct hearings on violations of the Liquor Control Code and Administrative Rules of the Commission.

The remaining three Commissioners are designated as the Administrative Commissioners and are responsible for decisions and interpretation of the Liquor Control Code and Administrative Rules in the areas of licensing, enforcement, purchasing, merchandising and distribution. They also serve as an appeal board for decisions of the Hearing Commissioners and hear licensing appeals.

The MLCC has two main administrative offices, one in Lansing and one in Southfield. It employs five division directors to oversee the day-to-day operations of the Commission. The Commission staff is organized into the following areas:

- **Assistant Attorneys General:**
The Attorney General assigns Assistant Attorneys General to the Alcohol & Gambling Enforcement Division legal staff. These Assistant Attorneys General review all violations for issuance of complaints, present all hearing cases to the Commission, and serve as the Commission's legal counsel.
- **Executive Services Division:**
The Executive Services Division provides administrative support to the Commissioners in the areas of hearings, appeals, policy research and public affairs.
- **Financial Management Division:**
The Financial Management Division provides management support to the Commission in the areas of financial analysis; accounting; budgeting; tax collections for beer, wine, and spirits; and oversight of the Authorized Distribution Agents. The division also uses daily order quantities to purchase liquor for sale to licensees. Quotations for all liquor codes are processed, accepted or denied, and priced in this division.
- **Licensing Division:**
The Licensing Division is responsible for processing retail, wholesaler and manufacturer license applications, as well as issuing approved licenses and handling the subsequent renewals. The division approves labeling and advertising by manufacturers and wholesalers.
- **Enforcement Division:**
The Enforcement Division is responsible for the investigation of license applicants. The Enforcement staff also investigates complaints against current licensees and periodically inspects licensed locations for violations of the Liquor Control Code.
- **Administrative Services Division:**
The Administrative Services Division provides administrative support to the Commission in the areas of internal education and training. The division also provides oversight for server training programs and telecommunications.

The Liquor Control Code

The Liquor Control Code, P.A. 58 of 1998, as amended, prescribes the duties and responsibilities of the Commission. The Liquor Control Code defines the various types of liquor licenses and the licensing requirements; the State liquor markup rate, liquor licensee discount rate, and tax rates; and the guidelines for operating licensed establishments.

In addition to the Liquor Control Code, the Commission is guided by its administrative rules, which are designed to carry out the laws and assure equal treatment. When filed with the Secretary of State, the rules have the effect of law and are binding on licensees of the MLCC.

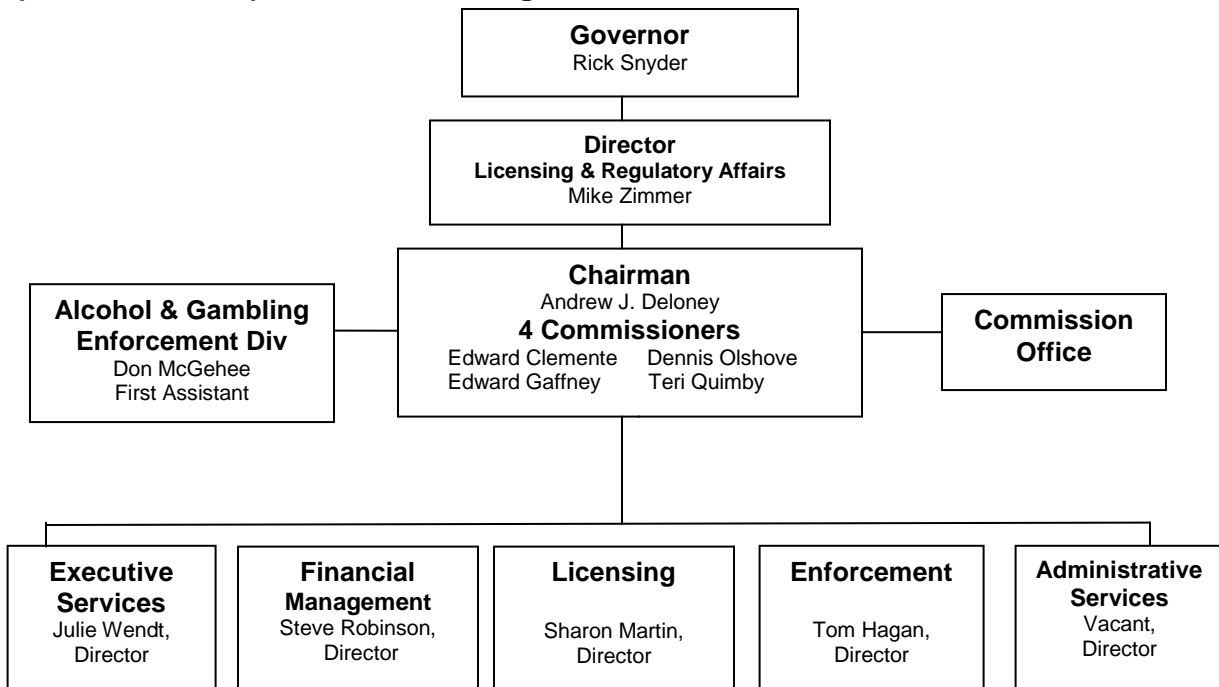
The MLCC

MLCC Personnel (as of 9/30/2014)

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
Commissioners	5	0
Business Manager	1	0
Attorney General Support	2	0
Executive Services	15	0
Financial Management	15	0
Licensing	40	2
Enforcement	62	1
Administrative Services	<u>2</u>	<u>0</u>
TOTAL	<u>142</u>	<u>3</u>

(as of 9/30/2014)

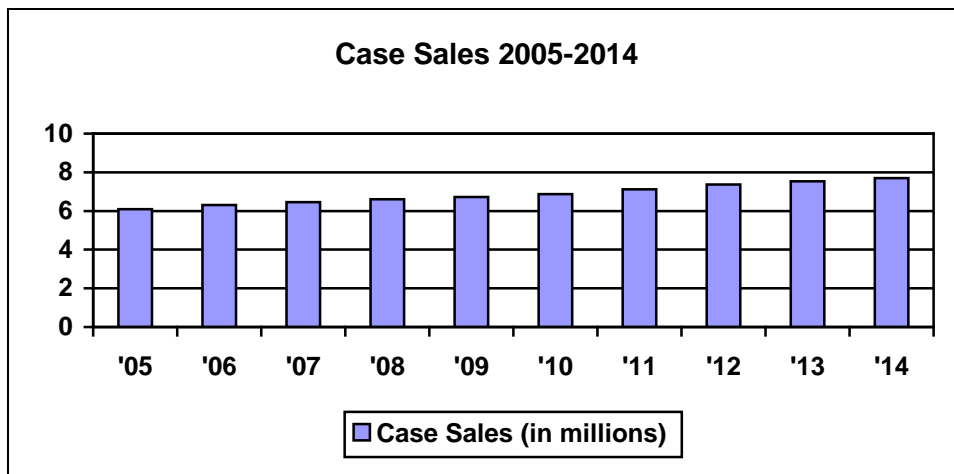
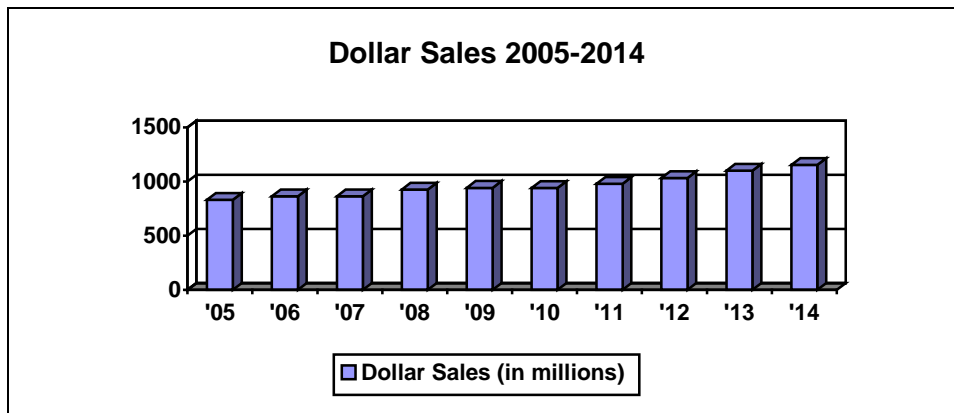
Organization Chart



Trends

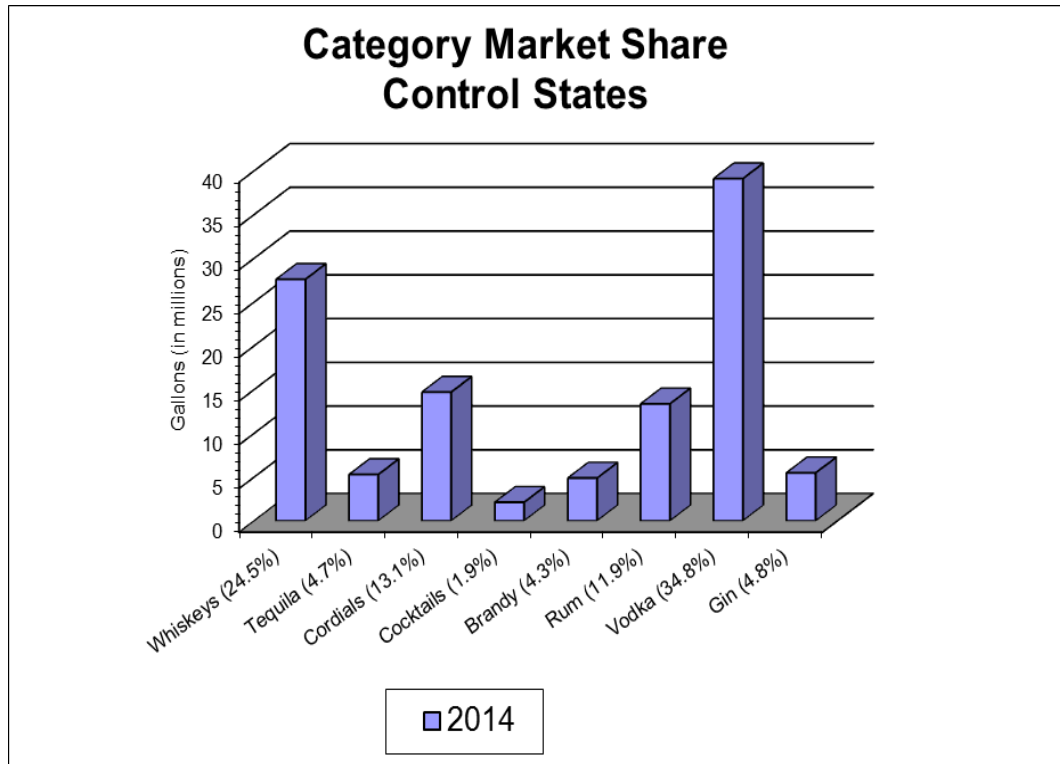
Dollar Sales

Since the 2005 fiscal year, there has been a 38.8% increase in dollar sales from \$830.6m in FY 2005 to \$1,153.0m in FY 2014. News groups are reporting that consumers are enamored with a wide variety of flavors. They are drinking fruit flavored products, products mixed with juices and colorful cocktails. The industry has responded with a broad spectrum of choices. Classic cocktail drinks have also made a comeback in the United States. New products have been introduced into the market at a fast pace.

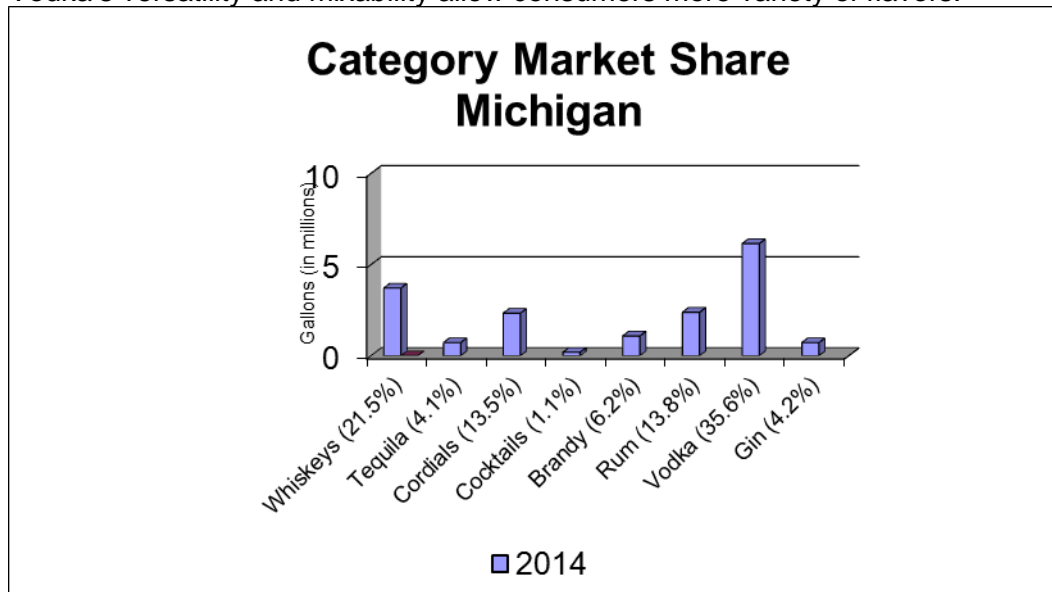


Case Sales

The 10-year case sales history graph shows an increase in case sales every year since FY 2005. This trend continued in 2013-2014 with sales of 7,709,480 cases. This is an increase of 26.2% above the FY 2005 case sales figure of 6,110,122. These increases parallel the increase in dollar sales over the last ten years.



Other Control States and Michigan consumer preferences are very similar. Whiskeys and vodkas are the two most popular categories, comprising 59.3 percent of the Control States market share and 57.1 percent of the Michigan market share. Vodka has been the most popular category in Michigan for the last ten years, with new fruit-flavored products spurring the category's growth. New generations of drinkers are accustomed to a wide variety of flavors in foods and beverages and this desire has carried over into their choice of alcohol drinks. Vodka's versatility and mixability allow consumers more variety of flavors.



Distilled Spirits

The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits in Michigan. Suppliers request approval from the Commission to have products available for sale in Michigan, distributed by the Commission.

There are over 7,300 products available for sale by the Commission. The Commission's Liquor Price Lists are available in xls format on the MLCC internet homepage at:

<http://www.michigan.gov/lcc>. Click on "Publications" on the left side of the screen. Then, click on "Spirit Ordering" and select an option.

Also, it is possible to search for specific product information. On the MLCC homepage, click on "Online Services," located in the scrolling section of the page. Then, click on "Searchable Pricebook".

Licensees may only order their distilled spirits through the State's internet ordering system. Authorized Distribution Agents assemble and deliver orders to the licensees on behalf of the Liquor Control Commission. There are currently three ADAs: General Wine and Liquor, National Wine and Spirits, and Chinese Import & Export. Licensees receive free delivery once a week provided they meet the one case minimum order requirement and adhere to order day assignments.

All proceeds from the sale of liquor go to the State of Michigan, and all profits are transferred to the State Treasury.

The Michigan Liquor Control Commission PRICE ANALYSIS OF SAMPLE BOTTLE

750 ml 80 PROOF SPIRITS

Retail Price to Consumer with 65% Markup by MLCC = \$10.00
(Effective October 1, 2012)

Liquor Tax	\$1.08
Distribution	
4% Specific Tax (Convention Facilities)	.36
4% Specific Tax (School Aid)	.36
4% Specific Tax (General Fund)	.36

Licensee Profit (through discount)	\$1.52
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LCC Profit (Net after Licensee discount)	\$2.00
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Federal Excise Tax (\$13.50 per proof gallon, paid by distillery or importer)	\$2.14
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Distillery or Importer	\$3.26
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TOTAL MINIMUM SELLING PRICE:	\$10.00
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<u>Cost of Distribution</u>	<u>Amount</u>	<u>% of Total</u>
Federal Government	2.14	21.4
Distillery	3.26	32.6
State Government:		
MLCC	2.00	20.0
Specific Taxes	1.08	10.8
Liquor Licensee Minimum Profit (Discount)	1.52	15.2
TOTAL	\$10.00	100.0

Note: As of 11-29-04, P.A. 407 allows licensees to sell liquor at any price at or above the established minimum selling price.

Beer - Wine - Mixed Spirits

The wholesaler market for beer, wine and mixed spirit drinks is a franchised market in Michigan. Territorial agreements are made between supplier and wholesaler to cover the specific geographic areas of the state.

Tax Rate by Type of Alcohol Beverage

Beer -----	\$ 6.30 per 31 gallon barrel, pro-rated
Wine -----	\$.135 per liter (16% alcohol or less by volume)
	\$.20 per liter (more than 16% alcohol by volume)
Mixed Spirit Drinks -----	\$.48 per liter

2005-2014 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons

<i>Year</i>	<i>Population (Estimated)</i>	<i>Beer</i>	<i>Spirits</i>	<i>Wine</i>	<i>Mixed Spirit Drinks</i>
2005	10,121,000	20.59	1.44	1.72	0.03
2006	10,096,000	20.41	1.48	1.78	0.02
2007	10,072,000	20.28	1.52	1.87	0.03
2008	10,003,422	20.46	1.55	1.92	0.02
2009	9,970,000	20.10	1.58	1.94	0.02
2010	9,884,000	20.22	1.61	2.12	0.03
2011	9,876,000	19.62	1.65	2.18	0.03
2012	9,883,000	19.82	1.68	2.25	0.03
2013	9,896,000	19.44	1.71	2.35	0.03
2014	9,910,000	19.46	1.74	2.45	0.03

Per Capita Consumption

Apparent per capita consumption (volume consumed divided by the estimated population) is often used to determine consumer preferences among the types of alcohol beverages as well as being associated with public health and safety statistics.

For the last several years, Michigan parallels the national trend to consume more wine and distilled spirits. Wine consumption has increased possibly due in part to reaction to recent medical research findings of health benefits with

moderate wine consumption. Distilled spirits consumption has increased due to strong brand loyalty among young adults. Women in particular prefer the taste of wine and distilled spirits to beer.

MLCC TAX AND SALES STATISTICS

	<u>Collection of Taxes</u>			<u>Sales in Barrels/Liters</u>			
	<u>2013-14</u>	<u>2012-13</u>	<u>Increase/ (Decrease)</u>	<u>2013-14</u>	<u>2012-13</u>	<u>Increase/ (Decrease)</u>	
Beer	\$38,994,566	\$38,511,053	\$483,513	Barrels of Beer	6,221,433	6,206,452	14,981
Wine	12,254,604	12,164,846	89,758	Liters of Wine	92,044,380	88,096,394	3,947,986
MSD*	461,987	523,261	(61,274)	Liters of MSD*	1,074,364	1,058,511	15,853
TOTAL	\$51,711,157	\$51,199,160	\$511,997				

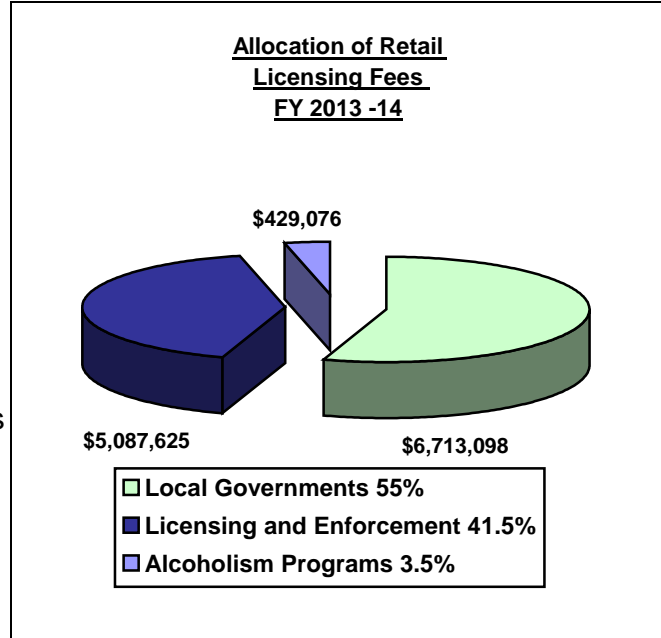
* Mixed Spirit Drinks

Control

Licensing

The Michigan Liquor Control Commission licenses all retailers, wholesalers and other individuals or businesses involved in the manufacture, purchase, sale, or use of alcohol beverages.

Just under 16,000 retail businesses, including bars, grocery stores, restaurants, hotels, convenience stores and pharmacies have one or more active licenses to sell alcohol beverages. In addition to retail licenses, the MLCC had almost 13,100 issued licenses to manufacturers and other agents. The MLCC began issuing direct shipping licenses in May 2006. These licensed U.S. wineries may deliver ordered wine products to Michigan residents' homes. There are currently 964 wineries that hold Direct Shipper Licenses.



The types of licenses available and licensing requirements are set by state law and the administrative rules of the Commission. The number of certain types of licenses available is governed by population quota for the local governmental unit.

Retail license fees are distributed according to state statute. As shown in the chart above, 55% of the returnable retail licensing fees collected by the MLCC are earmarked for local governments. The MLCC collected almost \$15.0 million in retail license and transfer fees in fiscal year 2013-14. This amount included \$12,229,799 in returnable retail license fees.

The Michigan Grape and Wine Industry Council receives the non-retail license fees collected by the MLCC. This fiscal year, these fees amounted to \$927,898.

Active Retail Liquor Licensed Businesses (by type)

<u>On-Premise Licensed Businesses: Total 8,410</u>			
Class C: 5,970	Class C Resort: 932	B-Hotel: 186	B-Hotel Resort: 123
<i>(Bars/Restaurants/Hotels) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
A-Hotel: 1	A-Hotel Resort: 0	Tavern: 169	Tavern Resort: 8
<i>Consumption on the premises: Beer and Wine only</i>			
Clubs: 950			
<i>(Membership required) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
Other : 71 <i>(Aircraft, Watercraft, Train) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
<u>Off-Premise Licensed Businesses: Total 7,579</u>			
SDD: 3,903	SDD-Resort: 261	SDM: 3,415	
<i>Package Liquor Take-out</i>		<i>Beer and Wine Take out</i>	
Total Number of Retail Licensed businesses: 15,989			

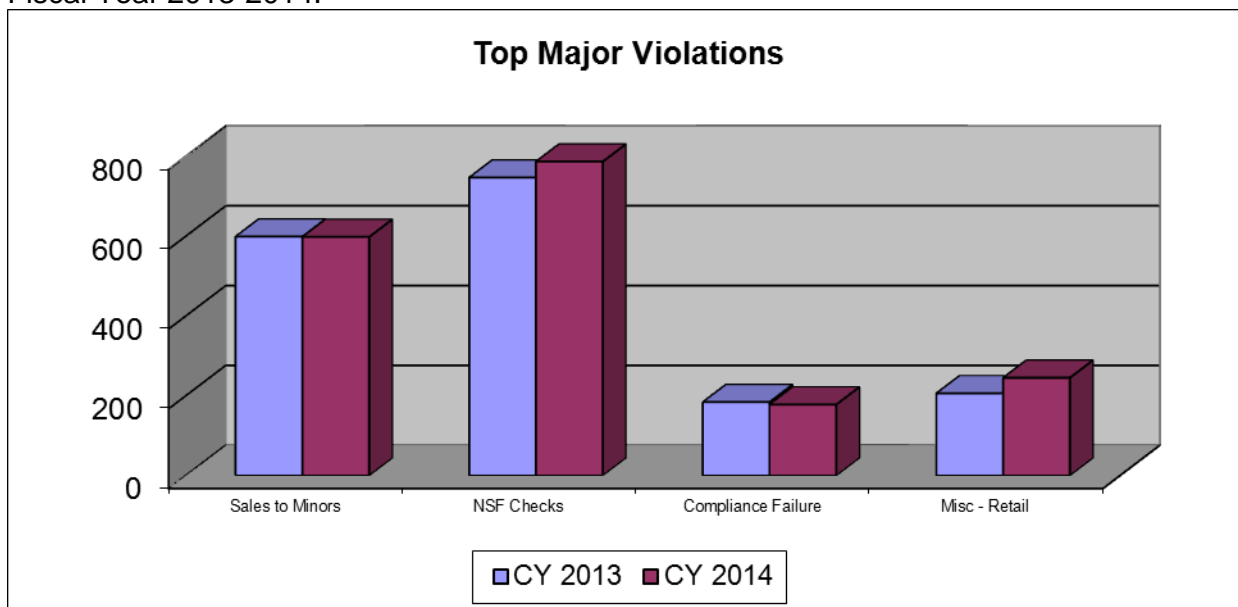
Control

Enforcement

The Enforcement staff is involved in training programs to meet the needs of retail licensees, beer and wine wholesalers, and law enforcement agencies.

The MLCC's enforcement officers regularly conduct surveillance operations in licensed premises as part of their efforts to ensure that the state's liquor laws and MLCC rules are being adhered to by liquor licensees. Their efforts to serve the citizens of the state often go unnoticed due to the nature of their job.

The Enforcement staff is responsible for investigating applicants for liquor licenses and assisting local, county and state law enforcement agencies with the enforcement of Michigan's liquor laws. Local law enforcement agencies submitted 537 liquor law violation reports in Fiscal Year 2013-2014. MLCC enforcement investigators submitted 1,609 violation reports in Fiscal Year 2013-2014.



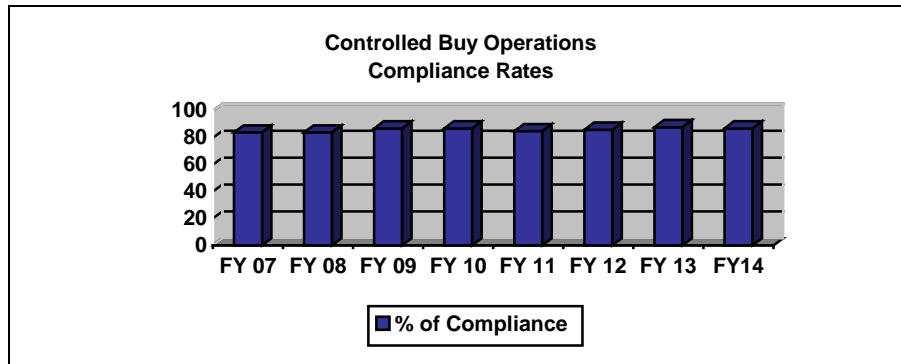
The violations that the Enforcement Division administers are varied. In addition to the top violations listed in the chart above, some of the other violations that Enforcement handles are as follows: sales to intoxicated persons, illegally obtain or transfer license, licensee or employee convicted of illegal act, nudity, operating other than legal hours, failure to cooperate with law enforcement officers, gambling or possession of gaming equipment, and controlled substances/drugs paraphernalia.

Enforcement & Underage Drinking

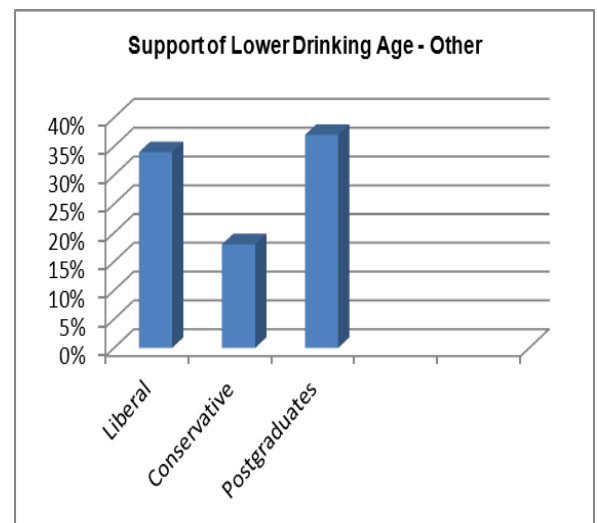
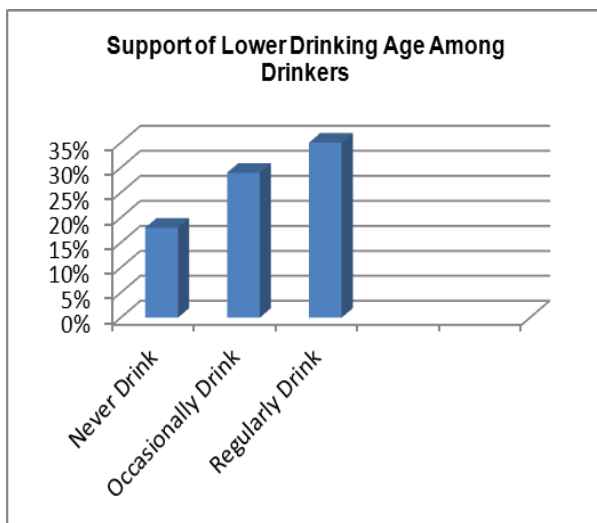
In an effort to minimize underage drinking, the Enforcement Division conducts controlled buy operations, also called decoy sting operations. During a controlled buy operation, a minor will attempt to purchase alcohol from a retailer while the transaction is observed by an undercover enforcement officer. A sale results in a violation of the liquor law and subsequent fine. The Commission has a policy of zero tolerance for sale of alcohol to minors and uses the controlled buy operation as a tool to reinforce this commitment.

Control

During Fiscal Year 2013-14, MLCC enforcement officers conducted 2,507 controlled buy operations and wrote 337 violations for selling to minors, meaning 13% of stops resulted in a violation. This percentage is higher than last fiscal year.



It's been 30 years since federal legislation established 21 as a uniform minimum age to drink alcohol in all states. Americans are still widely opposed to lowering the legal drinking age to 18. According to a July 7-10, 2014 Gallup poll, 74% say they would oppose the legislation and 25% say they would favor the legislation.



Enforcement & Excessive Drinking

Enforcement is also working diligently to reduce excessive drinking among all drinkers. According to a July 7-10, 2014 Gallup poll, the percentage of Americans who admit they sometimes drink too much is 18%. This percentage has been fairly consistent over time, ranging between 17% and 25% over the last decade.

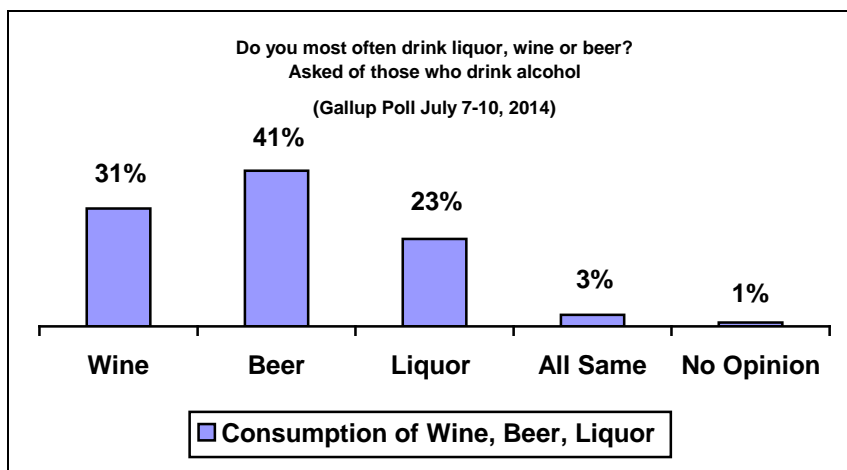
Enforcement Division recognizes the seriousness of overdrinking and issues violations to licensees who serve alcohol to patrons in an intoxicated condition. In addition, the Enforcement Division shares complaint information on sales and service to intoxicated patrons with local law enforcement agencies who can also investigate and cite licensees for such violations.

National Trends and Statistics

Liquor Popularity

According to the Distilled Spirits Council of the United States (DISCUS), gross revenue for U.S. spirits reached \$23.1 billion in 2014, up from 22.2 billion in 2013. Revenue market share for spirits versus beer and wine grew five-tenths of a point, rising to 35.2% of the beverage alcohol market. There are several contributing factors to liquor popularity: industry innovation, the resurgence of cocktail culture across America and the globe; the powerful growth of premiumization (affordable luxury); strong momentum in marketplace modernizations such as Sunday sales and tasting laws; more equitable treatment for spirits in advertising, taxation and market access; record export growth; growing middle class with disposable income; taste for American heritage; ongoing company renovations (flavor fascination spreads to other categories); U.S. market modernization (expands access opportunity); legislatures' continued hospitality tax restraint; and a wider appreciation of moderate consumption. Additionally, there is a trend towards open markets and communication of product heritage in new markets. With countries around the world lowering tariffs and other barriers, American spirit products are finding new audiences.

American Drinking Trends



Although the percentage of Americans who identify themselves as drinkers has remained virtually unchanged (64% in a July 2014 Gallup poll vs. the 63.4% historical average since 1939), there has been a small revival in regular drinking in recent years. Since 2002, polls have shown that the percentage of alcohol drinkers who consumed alcohol in the past week was approximately 67%. In the 2014 Gallup poll, the average number of drinks consumed per drinker in the past week was 4.1.

According to Gallup, there is a significant generational difference in alcohol preferences. Beer is the favorite alcoholic beverage among younger drinkers. Wine is the drink of choice among older drinkers. Gender-wise, the majority of men state they most often drink beer. Among women, the favorite is wine.

Michigan Department of Licensing and Regulatory Affairs

LIQUOR CONTROL COMMISSION
FINANCIAL STATEMENTS FOR THE LIQUOR
PURCHASE REVOLVING FUND

For the Fiscal Years Ended September 30, 2014
and September 30, 2013



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Mr. Andrew J. Deloney, Chairman
Michigan Liquor Control Commission
Constitution Hall
and
Mr. Mike Zimmer, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Deloney and Mr. Zimmer:

Report on the Financial Statements

We have audited the accompanying financial statements of the Liquor Purchase Revolving Fund, Michigan Liquor Control Commission, Department of Licensing and Regulatory Affairs, as of and for the fiscal years ended September 30, 2014 and September 30, 2013 and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

Mr. Andrew J. Deloney, Chairman
Mr. Mike Zimmer, Director
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Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Liquor Purchase Revolving Fund as of September 30, 2014 and September 30, 2013 and the changes in financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Liquor Purchase Revolving Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its enterprise funds as of September 30, 2014 and September 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the Liquor Purchase Revolving Fund's financial statements. The accompanying executive digest and supplemental financial schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The executive digest and supplemental financial schedules have not been subjected to the auditing procedures applied in the audit of the Liquor Purchase Revolving Fund's financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015 on our consideration of the Michigan Liquor Control Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Liquor Control Commission's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive style with a large, looped 'D' and 'R'.

Doug Ringler
Auditor General
April 27, 2015

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
COMPARATIVE STATEMENT OF NET POSITION
AS OF SEPTEMBER 30**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	\$400	\$700
Equity in Common Cash (NOTE 2)	71,524,952	76,297,290
Liquor Inventory (NOTE 3)	7,938,850	7,214,158
Prepaid Distribution Costs of Inventory	601,598	1,752,475
Accounts Receivable	5,838,640	5,043,927
TOTAL ASSETS	\$85,904,440	\$90,308,550
LIABILITIES		
CURRENT LIABILITIES		
Warrants Outstanding	\$4,560,928	\$980,997
Accounts Payable and Other Liabilities	79,121,304	87,341,785
Amounts Due to Other Funds	287,634	258,098
Current Compensated Absences	661,478	569,133
TOTAL CURRENT LIABILITIES	\$84,631,344	\$89,150,013
LONG-TERM LIABILITIES		
Amounts Due to Other Funds	\$24,738	\$117,370
Long Term Compensated Absences	372,619	165,428
TOTAL LONG TERM LIABILITIES	\$397,357	\$282,798
TOTAL LIABILITIES	\$85,028,701	\$89,432,811
NET POSITION		
Unrestricted	\$875,739	\$875,739
TOTAL NET POSITION	\$875,739	\$875,739

The Notes to Financial Statements section is an integral part of these financial statements.

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30**

	2014	2013
OPERATING REVENUES		
Gross Sales	\$1,152,973,257	\$1,098,877,323
Less: Discounts Allowed	195,936,076	186,778,055
PROCEEDS - SALE OF LIQUOR	\$957,037,181	\$912,099,268
Miscellaneous Revenue	16,395	13,160
TOTAL OPERATING REVENUES	\$957,053,576	\$912,112,428
OPERATING EXPENSES		
Cost of Goods Sold	\$698,828,208	\$666,030,785
Distribution Costs Paid to Suppliers (NOTE 6)	57,840,800	55,367,064
Commission	407,732	413,017
Management Support	4,501,668	3,522,766
Licensing and Enforcement	7,050,105	6,880,720
Compensated Absences	299,537	89,796
DLARA Operating Expenses	3,388,014	3,183,416
Administrative Hearings & Rules	110,819	0
DTMB Information Technology Services	2,493,475	2,865,829
Attorney General Services	1,302,699	1,239,472
Auditor General	69,441	14,500
Bureau of Fire Services	2,983,550	3,003,900
TOTAL OPERATING EXPENSES	\$779,276,048	\$742,611,265
OPERATING INCOME (LOSS)	\$177,777,528	\$169,501,163
NON-OPERATING REVENUES (EXPENSES)		
Interest Revenue	\$66,820	\$82,921
Non-Operating Revenue	3,213	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$70,033	\$82,921
INCOME (LOSS) BEFORE TRANSFERS	\$177,847,561	\$169,584,084
TRANSFERS		
Income Transferred to General Fund (NOTE 1)	(\$176,840,786)	(\$168,585,503)
Other Transfers (NOTE 7)	(1,006,775)	(998,581)
TOTAL TRANSFERS IN (OUT)	(\$177,847,561)	(\$169,584,084)
Change in Net Position	\$0	\$0
Net Position - Beginning of Fiscal Year	875,739	875,739
TOTAL NET POSITION - END OF FISCAL YEAR	\$875,739	\$875,739

The Notes to Financial Statements section is an integral part of these financial statements.

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$957,053,576	\$912,112,428
Payments to Employees and for Administrative Expenses	(21,050,478)	(20,141,822)
Payments to Suppliers	(764,767,572)	(712,553,804)
Other Receipts	(250,792)	(746,682)
Other Payments	(1,556,561)	(1,071,595)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$169,428,173</u>	<u>\$177,598,525</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(\$177,847,562)	(\$169,584,084)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(\$177,847,562)</u>	<u>(\$169,584,084)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	\$66,820	\$82,921
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$66,820</u>	<u>\$82,921</u>
Net Cash Provided (Used) - All Activities	(\$8,352,569)	\$8,097,362
Cash and Cash Equivalents at Beginning of Year	75,316,993	67,219,631
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$66,964,424</u>	<u>\$75,316,993</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per Statement of Net Position Classifications:		
Cash	\$400	\$700
Equity in Common Cash	71,524,952	76,297,290
Warrants Outstanding	(4,560,928)	(980,997)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$66,964,424</u>	<u>\$75,316,993</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$177,777,528	\$169,501,163
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Other Nonoperating Revenues	3,213	0
Net Changes in Assets and Liabilities:		
Inventories	(724,692)	(1,663,541)
Other Assets (Net)	356,165	943,455
Accounts Payable and Other Liabilities	(7,984,041)	8,817,448
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$169,428,173</u>	<u>\$177,598,525</u>

The Notes to Financial Statements section is an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity

The accompanying financial statements report the financial position, changes in financial position, and cash flows of the Liquor Purchase Revolving Fund, a proprietary fund of the State of Michigan, as of and for the fiscal years ended September 30, 2014 and September 30, 2013. They are not intended to present the financial position, changes in financial position, and cash flows of the State of Michigan or its enterprise funds in conformity with accounting principles generally accepted in the United States of America. The Liquor Purchase Revolving Fund is reported as an enterprise fund in the *State of Michigan Comprehensive Annual Financial Report (SoMCAFR)*.

The footnotes accompanying these financial statements relate directly to the Liquor Purchase Revolving Fund. The *SoMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; and pension benefits and other postemployment benefits.

The Michigan Liquor Control Commission (MLCC), within the Department of Licensing and Regulatory Affairs, is primarily responsible for the Liquor Purchase Revolving Fund. MLCC is governed by Sections 436.1101 - 436.2303 of *the Michigan Compiled Laws* (Act 58, P.A. 1998, as amended, the Michigan Liquor Control Code of 1998). MLCC consists of five members, each appointed by the Governor with the advice and consent of the Senate. The responsibilities of MLCC include the oversight of alcoholic liquor distribution within the State; licensing of the manufacture, importation, and sale of liquor; levy and collection of excise and specific taxes on liquor, beer, and wine; and enforcement of the Michigan Liquor Control Code.

Section 436.1221 of the *Michigan Compiled Laws* authorized the MLCC, to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the State Treasurer. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The Fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each year, the "net income" of the fund is transferred to the General Fund in accordance with Section 18.1435 of the *Michigan Compiled Laws*.

Measurement Focus, Basis of Accounting, and Presentation

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Operating revenues and expenses generally result from the purchasing and the reselling of liquor. Other revenues and expenses are reported as nonoperating.

Fund Cash Account

The Fund utilizes the State Treasurer's Common Cash pool as its primary cash account. For the purpose of the statement of cash flows, the Fund considers cash and equity in the State's Treasurer's Common Cash pool net of warrants outstanding to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 Equity in the State Treasurer's Common Cash

The investment authority for the MLCC is found in Public Act 58 of 1998, as amended authorizing the MLCC to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the state treasurer. Equity in the State of Michigan Treasurer's (State Treasurer's) Common Cash pool represents the Fund's interest, at market, in an investment pool managed by the Treasurer of the State of Michigan (the State).

The investment authority for the Common Cash pool is found in Public Act 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States Government, its agencies, and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State of Michigan.

The Fund's pro-rata share of the State Treasurer's Common Cash pool was \$71.5 million and \$76.3 million at September 30, 2014 and September 30, 2013 respectively. For the total amount of deposits and investments in the State Treasurer's Common Cash pool and their specific risks, please refer to the *SOMCAFR*.

Common Cash Deposits

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of failure of a depositor financial institution, the State's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized,
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The State Treasurer's Common Cash pool policy requires the following criteria to lessen the custodial credit risk: All financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State's funds; a bank, savings and loan association, or credit union holding the State's funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; and no deposit in any financial organization may be in excess of 50% of the net worth of the organization.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

Public Act 35 of 1997 requires State deposits to be held in a financial institution that maintains a principal office or branch office located in the State of Michigan. The State had no Common Cash pool deposits subject to foreign currency risk at September 30, 2014 and at September 30, 2013.

NOTES TO FINANCIAL STATEMENTS

Common Cash Investments

Types of Investments

State Treasurer's Common Cash pool investments include prime commercial paper, corporate notes, and emergency municipal notes.

Risk

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, investments also require certain disclosures regarding policies and practices with respect to the risk associated with them. The custodial credit risk, the credit risk, the interest rate risk, the concentration of credit risk, and the foreign currency risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure by a counterparty, the Fund will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either:

The counterparty, or

The counterparty's trust department or agent, but not in the government's name.

The State Treasurer's Common Cash pool does not have an investment policy for managing custodial credit risk. At September 30, 2014 and at September 30, 2013, Common Cash pooled investments were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

The State Treasurer's Common Cash pool requires prime commercial paper investments be rated A-1 or P-1 at the time of purchase as rated by the two major rating services, Standard & Poor's (A-1) and Moody's Investor Service (P-1). Borrowers must also have at least \$400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of a borrower's outstanding debt. The Common Cash pooled investments are further limited to \$200 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed \$300 million.

The State Treasurer's investment of the Common Cash pool in sugar beet loans is evidenced by unrated zero-interest promissory notes. The State Treasurer's investment in emergency municipal loans is evidenced by unrated notes held by the State in the State's name. In addition, at September 30, 2014 and at September 30, 2013, prime commercial paper investment were rated at A-1, P-1, or above.

NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State Treasurer's Common Cash pool policy states that cash equivalents are to be invested in short term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk.

The State Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash pool investments in special loan programs (Emergency Financial Assistance Loan Program, Michigan Marina Dredging Loan Program, Michigan Sugar Beet Loan Program). These loan programs are investments created through legislation. Although some interest rate risk exposures exist, interest rate risk is not a consideration when entering into the special loan programs.

NOTE 3 Liquor Inventory

Inventory is stored and handled by private Authorized Distribution Agents on behalf of the MLCC. Inventory is purchased daily in amounts sufficient to fill orders invoiced. Inventory is valued at current quoted cost, primarily using the first-in, first-out method. Expenses are recognized using the consumption method (i.e. when used or sold).

NOTE 4 Pension Plans and Postemployment Benefits

Plan Descriptions - The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Department of Technology, Management and Budget, Office of Retirement Services. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan and other postemployment benefit plan. That report is available on the State's website at <http://www.michigan.gov/ors>. The financial report for the defined contribution plan may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671 or by calling (517) 322-5103 (in Lansing) or (800) 381-5111 (outside Lansing).

NOTES TO FINANCIAL STATEMENTS

New employees hired on or after March 31, 1997 participate in a defined contribution plan that is separate from the State Employee's Retirement System defined benefits plan. Employees hired before March 31, 1997 are covered by the defined benefits plan unless they chose to convert to the defined contribution plan during 1997.

Funding Policy - For the State Employee's Defined Benefit Retirement Plan, LPRF was billed and paid \$98,400 and \$152,377 for pension charges and retiree postemployment benefits in fiscal years 2013-14 and 2012-13, respectively. Effective April 1, 2012, defined benefit plan members are required to contribute 4% of their compensation for pension benefits. For the State Employee's Defined Contribution Retirement Plan, LPRF is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. LPRF contributions for the Plan were \$151,960 and \$121,099 for fiscal years 2013-14 and 2012-13, respectively.

Postemployment Benefits - The MLCC participates in the State of Michigan's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pre-funded basis. Prior to January 1, 2013, the State contributed 90% of healthcare benefits for employees hired on or before March 30, 1997 who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements. For employees who were hired after March 30, 1997 through December 31, 2011 who participate in the defined contribution plan and meet certain vesting and other requirements, the State contributed up to 90% of healthcare benefits. Effective January 1, 2013, the State's contribution rate decreased to 80% for all employees hired on or before December 31, 2011.

Employees hired on or after January 1, 2012 receive a personal healthcare fund and receive up to a 2% matching contribution into a 401(k) account if the employee contributes 2% of his or her pay. Employees are immediately vested in their own contributions and are fully vested in employer contributions after four years of service. Also, the employee will receive a credit into a health reimbursement account (HRA) at termination of employment if he or she has at least 10 years of service at termination.

NOTE 5 Risk Management

MLCC participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MLCC recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Technology, Management, and Budget.

NOTE 6 Distribution Costs Paid to Suppliers

This is the amount paid directly to the liquor suppliers by the MLCC for the Authorized Distribution Agents' warehousing and delivery of spirits to retail licensees. The MLCC paid \$6.97 per case thru December 29, 2012 of fiscal year 2012-13. The liquor suppliers were required to add \$1.35 per case to the State's payment and pay a minimum of \$8.32 per case to the MLCC's Authorized Distribution Agents. Effective December 30, 2012, the MLCC paid

NOTES TO FINANCIAL STATEMENTS

\$7.50 per case for the remainder of fiscal year 2012-13 and all of fiscal year 2013-14. The liquor suppliers were required to add \$1.35 per case to the State's payment and pay a minimum of \$8.85 per case to the MLCC's Authorized Distribution Agents.

NOTE 7 Other Transfers

Includes transfers to the Civil Service Commission as authorized by Article XI, Section 5 of the State Constitution. These transfers represent not less than one percent of the aggregate payroll of the classified service for the preceding fiscal year.



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Andrew J. Deloney, Chairman
Michigan Liquor Control Commission
Constitution Hall
and
Mr. Mike Zimmer, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Deloney and Mr. Zimmer:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Liquor Purchase Revolving Fund, Michigan Liquor Control Commission, Department of Licensing and Regulatory Affairs, as of and for the fiscal years ended September 30, 2014 and September 30, 2013 and the related notes to the financial statements and have issued our report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

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

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



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Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

Mr. Andrew J. Deloney, Chairman
Mr. Mike Zimmer, Director
Page 2

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

Compliance and Other Matters

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

Purpose of This Report

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

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive style.

Doug Ringler
Auditor General
April 27, 2015

Michigan Department of Licensing and Regulatory Affairs
LIQUOR CONTROL COMMISSION
SUPPLEMENTAL FINANCIAL SCHEDULES (UNAUDITED)

For the Fiscal Years Ended September 30, 2014
and September 30, 2013

MICHIGAN LIQUOR CONTROL COMMISSION
UNAUDITED COMPARATIVE COMPREHENSIVE SCHEDULE OF OPERATIONS
FISCAL YEARS ENDED SEPTEMBER 30

	2014	2013	Increase (Decrease)
LIQUOR SALES			
Gross Sales (1)	\$1,152,973,257	\$1,098,877,323	\$54,095,934
Less: Discounts Allowed	195,936,076	186,778,055	9,158,021
PROCEEDS - SALE OF LIQUOR	\$957,037,181	\$912,099,268	\$44,937,913
Less: Cost of Goods Sold	698,828,208	666,030,785	32,797,423
REVENUE FROM SALE OF LIQUOR	\$258,208,973	\$246,068,483	\$12,140,490
OTHER REVENUE			
Miscellaneous Revenue	\$16,395	\$13,160	\$3,235
Non-Operating Revenue	3,213	0	3,213
Interest Revenue	66,820	82,921	(16,101)
TOTAL OTHER REVENUE	\$86,428	\$96,081	(\$9,653)
TOTAL REVENUE	\$258,295,401	\$246,164,564	\$12,130,837
Less: Distribution Costs Paid to Suppliers	57,840,800	55,367,064	2,473,736
INCOME FROM LIQUOR MERCHANDISING	\$200,454,601	\$190,797,500	\$9,657,101
MANAGEMENT EXPENSES			
Commission	\$407,732	\$413,017	(\$5,285)
Management Support	4,622,876	3,643,244	979,632
Licensing and Enforcement	13,631,153	13,952,451	(321,298)
DLARA Services (Excluding MLCC Rent)	3,567,385	3,487,157	80,228
DTMB Information Technology Services	2,493,475	2,865,829	(372,354)
Attorney General	1,302,699	1,239,472	63,227
Auditor General	69,441	14,500	54,941
Bureau of Fire Services	2,983,550	3,003,900	(20,350)
Civil Service - Personnel	232,875	224,681	8,194
Administrative Hearings & Rules	110,819	0	110,819
Compensated Absences	299,537	89,796	209,741
Less: Transfers Not Related to MLCC Operations (2)	773,900	773,900	0
TOTAL MANAGEMENT EXPENSES	\$28,947,642	\$28,160,147	\$787,495
INCOME FROM OPERATIONS (Excluding Taxes and Grants)	\$171,506,959	\$162,637,353	\$8,869,606
Other Revenue Collected (3)	208,091,183	200,500,821	7,590,362
TOTAL CURRENT EARNINGS AND REVENUE	\$379,598,142	\$363,138,174	\$16,459,968
Number of Cases Sold	7,709,480	7,532,846	176,634
Number of Sales Days	261	261	0

Notes:

(1) This figure is comprised of the following:

Off Premise	\$961,179,233	\$910,445,684	\$50,733,548
On Premise	191,335,260	188,009,356	3,325,904
Other	458,765	422,283	36,482

(2) Grants to Cities - Fire Protection

(3) Other Revenue Collected (Page 27) including taxes and fees collected for the General Fund and School Aid Fund (i.e. Beer and Wine taxes, Specific taxes, as well as Licensing and Enforcement fees)

MICHIGAN LIQUOR CONTROL COMMISSION
UNAUDITED COMPARATIVE COMPREHENSIVE SCHEDULE OF REVENUE COLLECTED
FISCAL YEARS ENDED SEPTEMBER 30

	<u>2014</u>	<u>2013</u>	<u>INCREASE (DECREASE)</u>
GENERAL FUND - GENERAL PURPOSE			
Excise Tax, Beer	\$38,994,566	\$38,511,053	\$483,513
Specific Tax, Liquor 4%	45,952,005	43,842,594	2,109,411
Excise Tax, Wine	12,254,604	12,164,846	89,758
Excise Tax, Mixed Spirit Drink	461,987	523,261	(61,274)
Sunday Sales Fees (7am-12pm)	1,376,281	1,331,634	44,647
Fines & Costs	671,156	673,450	(2,294)
Miscellaneous Revenue	91,030	74,461	16,569
TOTAL GENERAL FUND - GENERAL PURPOSE	<u>\$99,801,629</u>	<u>\$97,121,299</u>	<u>\$2,680,330</u>
GENERAL FUND - RESTRICTED			
RETAIL LICENSE FEES:			
55% To Local Governments	\$6,713,098	\$6,523,255	\$189,843
41.5% To Licensing & Enforcement	5,087,625	4,998,607	89,018
3.5% To Alcoholism Prevention Programs	429,076	421,153	7,923
Additional Resort License Fees	193,300	57,500	135,800
Direct Shipper License Fees	100,363	90,608	9,755
License Transfer Fees	635,058	743,189	(108,131)
Sunday Sales Fees	1,610,949	1,596,809	14,140
License Permit Fees	43,192	31,998	11,194
Non-Retail License Fees-Wine Industry Council	927,898	687,683	240,215
Liquor Control Act Sales	3,885	3,055	830
Inspection Fees	354,381	321,678	32,703
Specific Tax, Liquor 4%-Tourism & Conv. Facility	46,177,154	43,992,702	2,184,452
Miscellaneous Revenue	61,570	68,691	(7,121)
TOTAL GENERAL FUND - RESTRICTED	<u>\$62,337,549</u>	<u>\$59,536,928</u>	<u>\$2,800,621</u>
SCHOOL AID FUND			
Specific Tax, Liquor 4%	\$45,952,005	\$43,842,594	\$2,109,411
TOTAL SCHOOL AID FUND	<u>\$45,952,005</u>	<u>\$43,842,594</u>	<u>\$2,109,411</u>
OTHER FUNDS REVENUE	\$208,091,183	\$200,500,821	\$7,590,362
Income From Operations (Excluding Taxes & Grants) (1)	<u>171,506,959</u>	<u>162,637,353</u>	<u>8,869,606</u>
TOTAL CURRENT EARNINGS AND REVENUE	<u>\$379,598,142</u>	<u>\$363,138,174</u>	<u>\$16,459,968</u>

(1) Income from Operations (Page 26) after all operating expenses including General Fund portion of Licensing and Enforcement

MICHIGAN LIQUOR CONTROL COMMISSION
UNAUDITED COMPREHENSIVE SCHEDULE OF EXPENSES BY TYPE AND ACCOUNT
FISCAL YEARS ENDED SEPTEMBER 30

	2014				TOTAL 2013
	COMMISSION(1)	MANAGEMENT SUPPORT	LICENSING & ENFORCEMENT	TOTAL 2014	
MLCC APPROPRIATED EXPENSES					
Salaries & Wages	\$407,732	\$2,116,946	\$6,257,472	\$8,782,150	\$8,689,268
Longevity & Insurance		529,674	1,538,531	2,068,205	1,953,088
Retirement & FICA		1,397,499	3,834,977	5,232,476	4,921,892
SUBTOTAL	<u>\$407,732</u>	<u>\$4,044,119</u>	<u>\$11,630,980</u>	<u>\$16,082,831</u>	<u>\$15,564,248</u>
Communications	\$0	\$84,472	\$168,085	\$252,557	\$157,627
Travel	0	50,337	248,645	298,982	291,472
Utilities	0	337	3,113	3,450	11,947
Contractual Services	0	173,174	711,250	884,424	841,163
Supplies & Materials	0	94,322	188,417	282,739	306,322
Equipment Replacement, Additions & Rentals	0	54,906	205,895	260,801	267,167
Misc - Unemployment Insurance Claims	0	0	1,448	1,448	190
SUBTOTAL	<u>\$0</u>	<u>\$457,548</u>	<u>\$1,526,853</u>	<u>\$1,984,401</u>	<u>\$1,875,888</u>
TOTAL MLCC APPROPRIATED EXPENSES	<u>\$407,732</u>	<u>\$4,501,667</u>	<u>\$13,157,833</u>	<u>\$18,067,232</u>	<u>\$17,440,136</u>
TRANSFERS OUT & OTHER EXPENSES					
Rent and Building Occupancy (2)	\$0	\$121,209	\$473,320	\$594,529	\$568,576
Other Transfers Out (3)	0	0	0	11,059,781	10,928,357
TOTAL TRANSFERS OUT & OTHER EXPENSES	<u>\$0</u>	<u>\$121,209</u>	<u>\$473,320</u>	<u>\$11,654,310</u>	<u>\$11,496,933</u>
GRAND TOTAL	<u><u>\$407,732</u></u>	<u><u>\$4,622,876</u></u>	<u><u>\$13,631,153</u></u>	<u><u>\$29,721,542</u></u>	<u><u>\$28,937,069</u></u>

Notes:

- (1) Fringe benefits and other expenses are reported in Management Support as appropriated by the Legislature.
(2) Rent and Building Occupancy amounts are appropriated in Management Services, Department of Licensing and Regulatory Affairs.
(3) Transfer amounts are appropriated in other departments and bureaus. They are not allocated to the divisions but are included in the totals.