

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



Michigan Liquor Control Commission

Annual Financial Report 2017

(For Fiscal Year October 1, 2016 – September 30, 2017)





RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LANSING

SHELLY EDGERTON
DIRECTOR

To the Citizens of Michigan and Other Readers:

Thank you for your interest in the Michigan Liquor Control Commission and the 2017 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.

Michigan's economy continues its comeback and continues to improve as it has over the past seven years, and the amount of licensing activity, spirits purchases, and beer and wine taxes, shows it. The amount of applications for new licenses, license transfers, transfers of interest in licenses – along with the market values of transferable quota licenses – has risen dramatically as small business owners and investors look to start new business or grow their existing operations, and the resulting economic activity – new and improved restaurants, taverns, community stores, hotels and resorts, increased purchases of premium-priced spirits and beers and wines – shows as much.

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 2017 Annual Financial Report.

Sincerely,

Andrew J. Deloney, Chairman

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Auxiliary aids, services and other reasonable accommodations are available upon request to individual with disabilities.

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 2016-17 (In millions)	FY 2015-16 (In millions)	% INCREASE (DECREASE)
Gross Sales	\$1,353.4	\$1,303.8	3.8
Licensee Discounts	230.0	221.6	3.8
Cost of Goods Sold	820.2	790.4	3.8
Gross Revenue - Liquor	303.2	291.8	3.9
Operating Expenses	90.9	87.7	3.6
Miscellaneous Revenue	1.3	.5	160.0
Income from Operations ¹	213.6	204.6	4.4
Specific Liquor Taxes	162.2	156.2	3.8
Other Revenue Collected	72.7	71.8	1.3
Total Net Revenue	448.5	432.6	3.7

NOTES:

(1) 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 \$221.4 million.

OTHER MERCHANDISING STATISTICS	FY 2016-17	FY 2015-16	% INCREASE (DECREASE)
Number of Cases Sold	8,549,809	8,370,191	2.1
Average Price Per Case	\$158.29	\$155.76	1.6
Items Available (brands and sizes)	9,102	9,585	(5.0)
Number of Bottles Sold	134,970,686	141,202,350	(4.4)
Average Price Per Bottle	\$10.03	\$9.23	8.7

APPARENT CONSUMPTION STATISTICS	FY 2016-17		FY 2015-16	
	Gallons	Per Capita ²	Gallons	Per Capita ²
Distilled Spirits	17,272,065	1.73	18,363,795	1.85
Mixed Spirit Drinks	410,301	0.04	363,844	0.04
Wine (21% alcohol or less)	25,427,319	2.55	25,218,835	2.54
Beer	188,002,362	18.87	192,878,384	19.43

Note:

(2) 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.

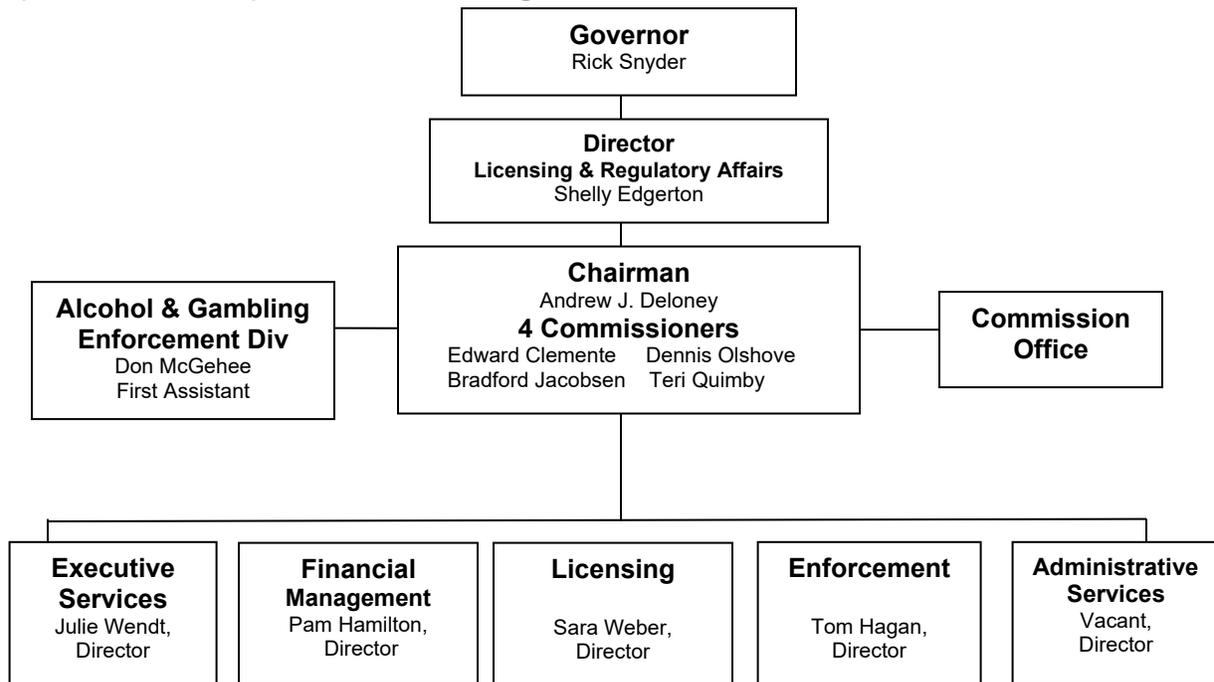
The MLCC

MLCC Personnel (as of 9/30/2017)

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
Commissioners	5	0
Business Manager	1	0
Attorney General Support	2	0
Executive Services	18	0
Financial Management	12	0
Licensing	39	1
Enforcement	58	1
Administrative Services	<u>1</u>	<u>0</u>
TOTAL	<u>136</u>	<u>2</u>

(as of 9/30/2017)

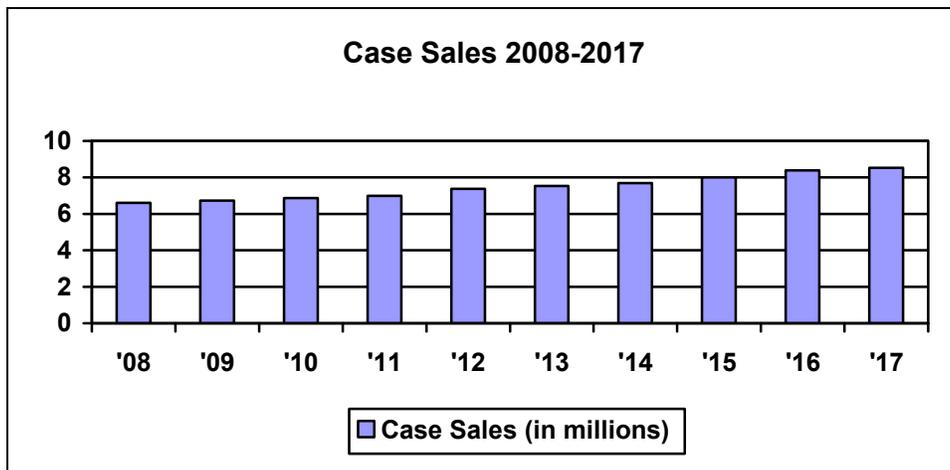
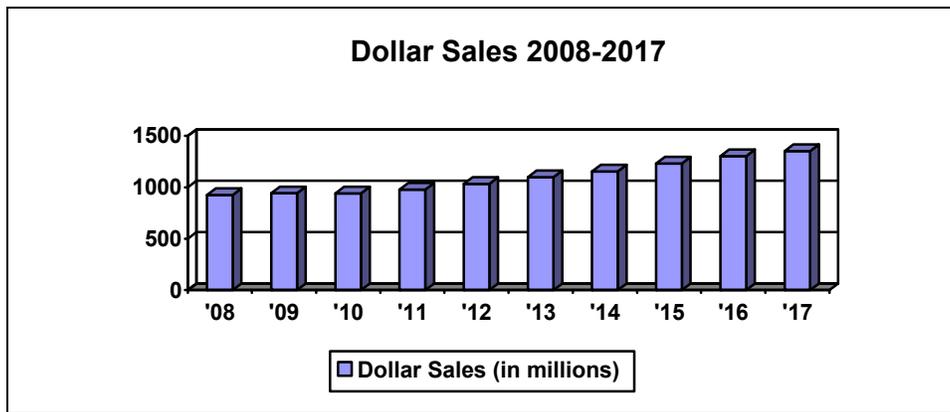
Organization Chart



Trends

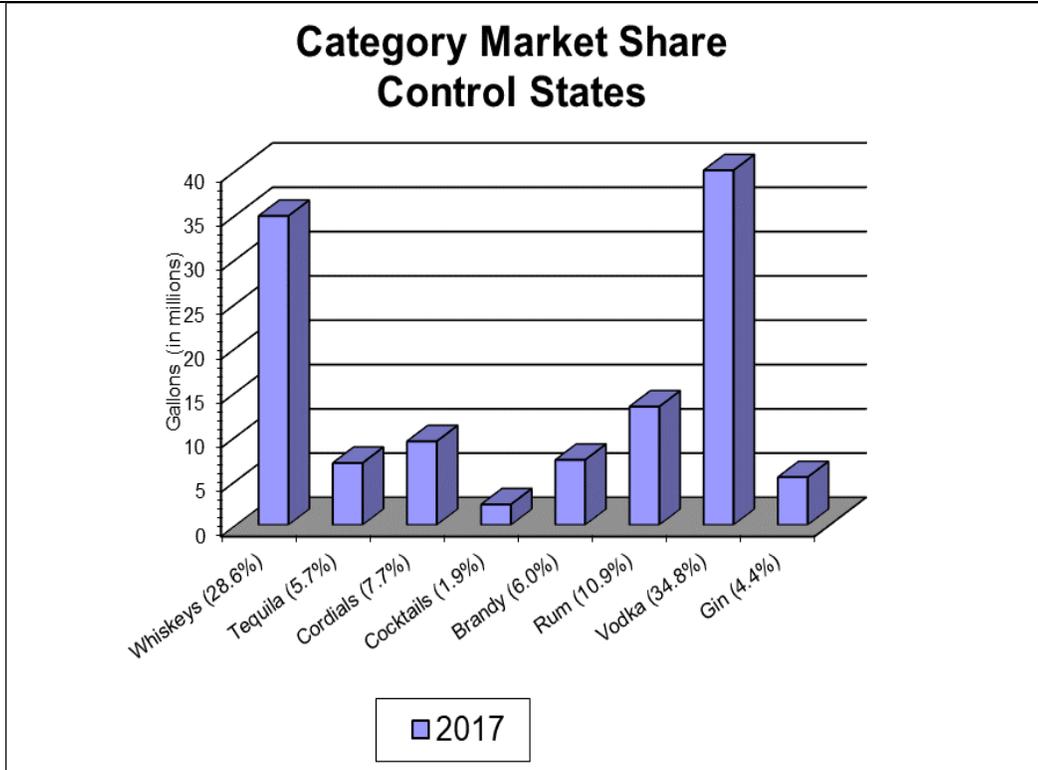
Dollar Sales

Since the 2008 fiscal year, there has been a 46.2% increase in dollar sales from \$925.5m in FY 2008 to \$1,353.4m in FY 2017. 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.

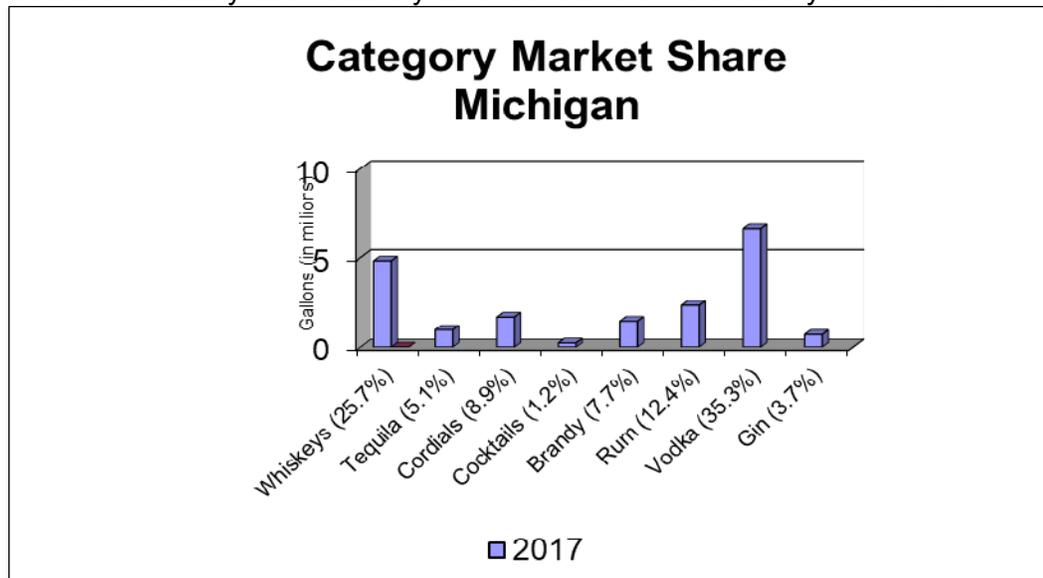


Case Sales

The ten-year case sales history graph shows an increase in case sales every year since FY 2008. This trend continued in 2016-2017 with sales of 8,549,809 cases. This is an increase of 29.3% above the FY 2008 case sales figure of 6,611,415. 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 63.4 percent of the Control States market share and 61.0 percent of the Michigan market share. Vodka has been the most popular category in Michigan for the last twelve 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 9,100 products available for sale by the Commission. The Commission's Liquor Price Lists are available in xls and pdf format on the MLCC internet homepage at the following address: <http://www.michigan.gov/lcc>. Click on "E-Quote & Spirits Purchasers/Suppliers" on the left side of the screen. Then, click on "Price Book Listings (PDF & Excel Files)" and select an option.

Also, it is possible to search for specific product information. On the MLCC homepage, click on "E-Quote & Spirits Purchasers/Suppliers" on the left side of the screen. Then, click on "Searchable Price Book".

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 four ADAs: General Wine and Liquor, National Wine and Spirits, Chinese Import & Export, and CKL Corporation. 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 **\$1.52**
(through discount)

LCC Profit **\$2.00**
(Net after Licensee discount)

Federal Excise Tax **\$2.14**
(\$13.50 per proof gallon, paid by distillery or importer)

Distillery or Importer **\$3.26**

TOTAL MINIMUM SELLING PRICE: **\$10.00**



<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
<u>Liquor Licensee Minimum Profit (Discount)</u>	<u>1.52</u>	<u>15.2</u>
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

2008-2017 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons

Year	Population (Estimated)	Beer	Spirits	Wine	Mixed Spirit Drinks
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
2015	9,923,000	19.69	1.80	2.47	0.03
2016	9,928,000	19.43	1.85	2.54	0.04
2017	9,962,000	18.87	1.73	2.55	0.04

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>2016-17</u>	<u>2015-16</u>	<u>Increase/ (Decrease)</u>	<u>2016-17</u>	<u>2015-16</u>	<u>Increase/ (Decrease)</u>
Beer	\$37,981,405	\$38,842,268	\$(860,863)	Barrels of Beer	6,064,592	6,221,883
Wine	13,128,037	12,950,455	177,582	Liters of Wine	96,255,115	95,465,899
MSD*	746,143	659,859	86,284	Liters of MSD*	1,553,193	1,377,331
TOTAL	\$51,855,585	\$52,452,582	\$(596,997)			175,862

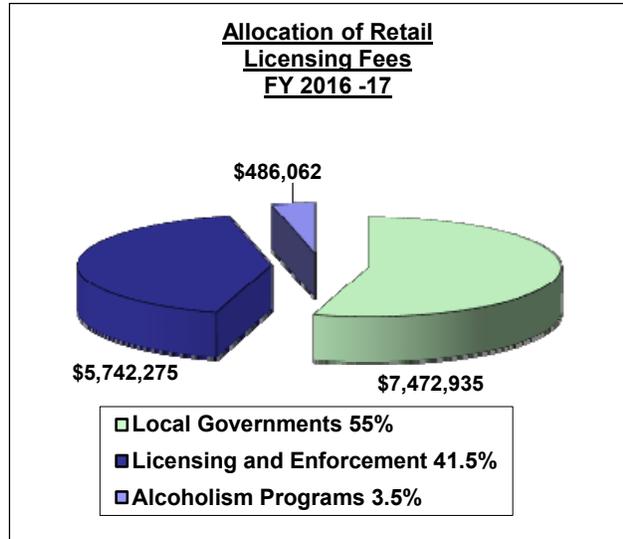
* Mixed Spirit Drinks

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.

Almost 29,000 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 over 11,200 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 1,135 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 \$16.5 million in retail license and transfer fees in fiscal year 2016-17. This amount included \$13,701,272 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 \$1,036,015.

Active Retail Liquor Licensed Businesses (by type)

<u>On-Premise Licensed Businesses: Total 9,409</u>			
Class C: 6,791	Class C Resort: 1,021	B-Hotel: 207	B-Hotel Resort: 127
<i>(Bars/Restaurants/Hotels) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
A-Hotel: 1	A-Hotel Resort: 0	Tavern: 177	Tavern Resort: 11
<i>Consumption on the premises: Beer and Wine only</i>			
Clubs: 918	Class G-1: 11	Consumer Sampling Event: 73	
<i>(Membership required) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
Other : 72 <i>(Aircraft, Watercraft, Train) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
<u>Off-Premise Licensed Businesses: Total 19,023</u>			
SDD: 4,182	SDD-Resort: 301	SDM: 14,539*	Third Party Facilitator Service: 1
<i>Package Liquor Take-out</i>		<i>Beer and Wine Take out</i>	
<u>Other: Total 377</u>			
Vendor of Spirits: 373		Authorized Distribution Agents: 4	
Total Number of Retail Licensed businesses: 28,809			

*The number of SDM licenses are higher compared to the previous year. This is due to the difference in the reporting of major and minor licenses by the new licensing system (AIMS) vs. the old licensing system (Oracle). Oracle only reflected SDMs that were the major license. AIMS reflects all SDM licenses, regardless of whether they were held with another license.

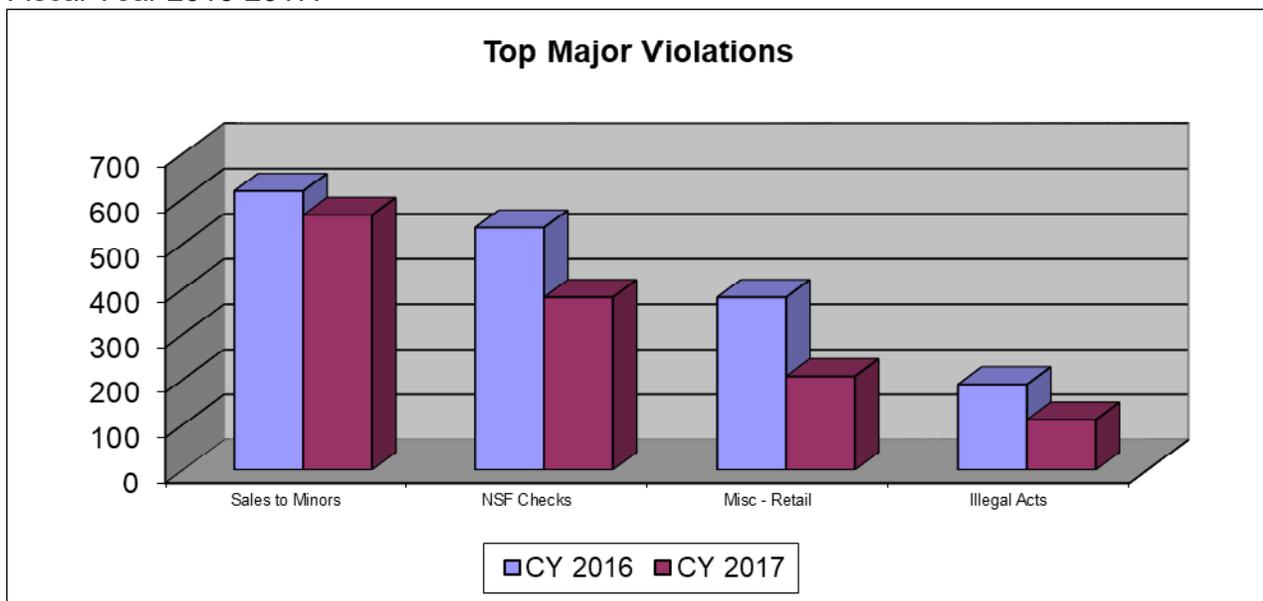
Control

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 546 liquor law violation reports in Fiscal Year 2016-2017. MLCC enforcement investigators submitted 1,357 violation reports in Fiscal Year 2016-2017.



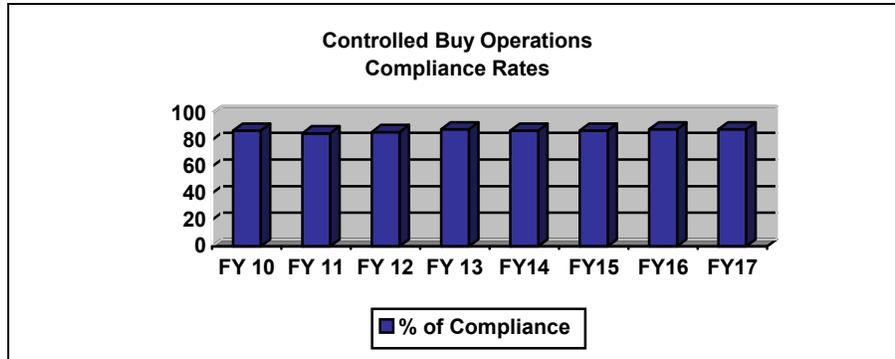
The violations that the Enforcement Division administers are varied. In addition to the top violations listed in the chart above, some of the other violations that Enforcement handles are as follows: sales to intoxicated persons, illegally obtain or transfer license, licensee or employee convicted of 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

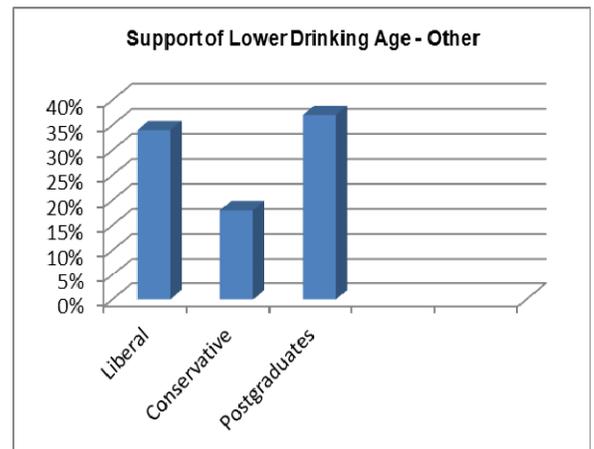
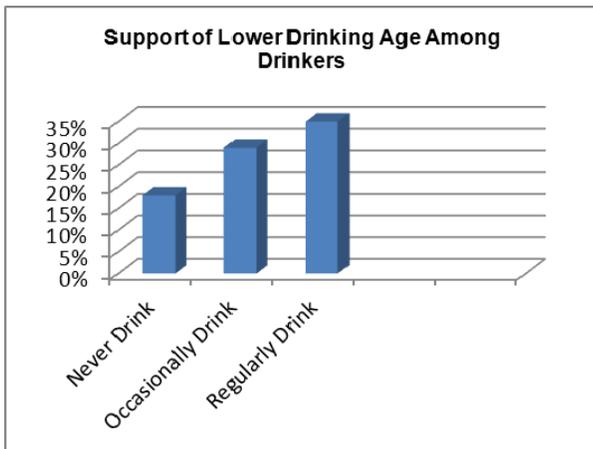
In an effort to minimize underage drinking, the Enforcement Division conducts controlled buy operations, also called decoy sting operations. During a controlled buy operation, a minor will attempt to purchase alcohol from a retailer while the transaction is observed by an undercover enforcement officer. 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 2016-17, MLCC enforcement officers conducted 2,441 controlled buy operations and wrote 298 violations for selling to minors, meaning 12% of stops resulted in a violation. This percentage is equal to 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.



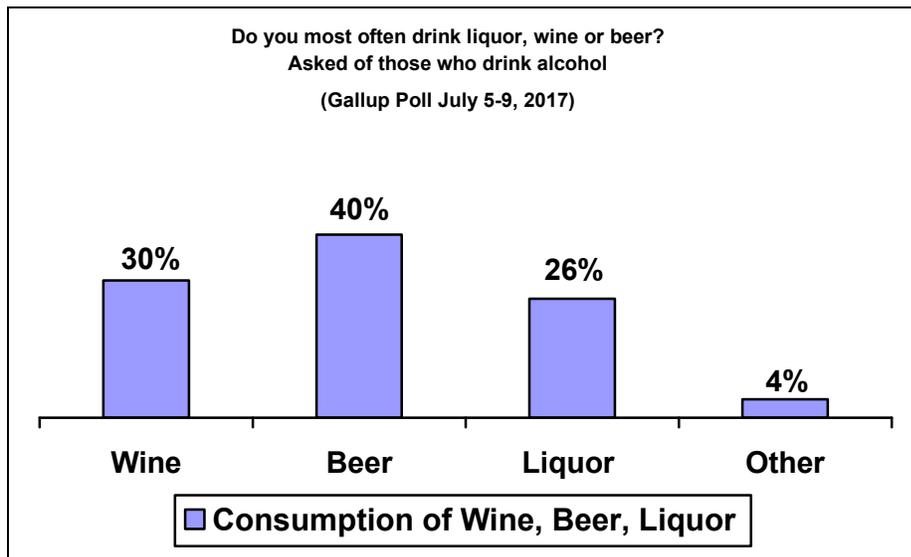
Enforcement & Excessive Drinking

Enforcement is also working diligently to reduce excessive drinking among all drinkers. According to the aggregated results of Gallup's Consumption Habits Survey from 2001-2017, the percentage of younger men (aged 18 to 49) who admit they sometimes drink too much is 32% and the percentage of younger women (aged 18 to 49) is 21%. Nineteen percent of older men (aged 50 and older) report they sometimes drink more than they should and 10% of older women (aged 50 and over) sometimes over drink.

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

American Drinking Trends



Although the percentage of Americans who identify themselves as drinkers has remained virtually unchanged (62% in a July 2017 Gallup poll vs. the 63.4% historical average since 1939), there has been a small revival in regular drinking in recent years.

Additionally, Americans drink of choice varies by gender. According to a July 5-9, 2017 Gallup poll, half of female drinkers prefer wine and 62% of male drinkers prefer beer. The 26% of drinkers who named liquor as their favorite alcoholic beverage is the highest in Gallup's 25-year trend. Less educated and middle-income Americans more often choose beer.

Among the 67% of men who drink alcohol, those aged 50 and over are more likely to drink within the last 24 hours, indicating older men drink more frequently than younger men. However, younger men tend to drink more than older men when they do drink. Men in all age groups drink more often than women do. The types of drinks that men and women prefer may explain the differences in the number of alcoholic beverages they have.

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, 2017
and September 30, 2016



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • 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
Lansing, Michigan
and
Ms. Shelly Edgerton, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Deloney and Ms. Edgerton:

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, 2017 and September 30, 2016 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.

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, 2017 and September 30, 2016 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.



OAG

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

Mr. Andrew J. Deloney, Chairman
Ms. Shelly Edgerton, Director
Page 2

Emphasis of Matters

As discussed in Note 1 to the financial statements, 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, 2017 and September 30, 2016, 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.

As discussed in Note 4 to the financial statements, for the fiscal year ended September 30, 2016, the State of Michigan began allocating a portion of the Statewide net other postemployment benefits (OPEB) liability to its proprietary funds. As a result, the financial statements now include a net OPEB liability. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of required supplementary information - pension liability and notes to required supplementary pension information on pages 32 and 33 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the 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 September 14, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Michigan Liquor Control Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Liquor Control Commission's internal control over financial reporting and compliance.

Sincerely,

Laura J. Hirst, CPA
Deputy Auditor General
September 14, 2018

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

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$400	\$400
Equity in Common Cash (NOTE 2)	83,671,491	80,479,250
Liquor Inventory (NOTE 3)	7,423,427	5,694,081
Prepaid Distribution Costs of Inventory	540,749	410,700
Accounts Receivable	10,911,214	13,617,183
TOTAL ASSETS	\$102,547,281	\$100,201,614
DEFERRED OUTFLOWS OF RESOURCES	(NOTE 1) \$2,155,808	\$2,096,986
LIABILITIES		
CURRENT LIABILITIES		
Warrants Outstanding	\$703,932	\$1,167,872
Accounts Payable and Other Liabilities	103,829,363	98,290,516
Amounts Due to Other Funds	198,497	206,354
Current Compensated Absences	598,159	639,401
TOTAL CURRENT LIABILITIES	\$105,329,951	\$100,304,143
LONG-TERM LIABILITIES		
Amounts Due to Other Funds	\$0	\$0
Net Pension Liability (NOTE 5)	14,094,742	16,636,344
Net OPEB Obligation (NOTE 6)	5,683,019	5,679,245
Long Term Compensated Absences	89,130	398,966
TOTAL LONG TERM LIABILITIES	\$19,866,891	\$22,714,555
TOTAL LIABILITIES	\$125,196,842	\$123,018,698
DEFERRED INFLOWS OF RESOURCES	(NOTE 1) \$360,847	\$134,502
NET POSITION		
Unrestricted (NOTE 10)	(\$20,854,600)	(\$20,854,600)
TOTAL NET POSITION	(\$20,854,600)	(\$20,854,600)

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**

	2017	2016
OPERATING REVENUES		
Gross Sales	\$1,353,377,222	\$1,303,771,680
Less: Discounts Allowed	<u>229,956,882</u>	<u>221,578,940</u>
PROCEEDS - SALE OF LIQUOR	\$1,123,420,340	\$1,082,192,740
Miscellaneous Revenue	<u>232,907</u>	<u>63,285</u>
TOTAL OPERATING REVENUES	<u>\$1,123,653,246</u>	<u>\$1,082,256,025</u>
OPERATING EXPENSES		
Cost of Goods Sold	\$820,195,307	\$790,347,994
Distribution Costs Paid to Suppliers (NOTE 8)	65,372,258	62,785,702
Commission	488,600	476,700
Management Support	2,048,999	2,957,900
Licensing and Enforcement	7,697,688	7,638,461
Compensated Absences	(351,078)	(56,517)
DLARA Operating Expenses	1,532,283	1,827,181
Administrative Hearings & Rules	844,131	81,318
DTMB Information Technology Services	3,825,545	5,393,274
Attorney General Services	1,300,245	1,291,060
Auditor General	<u>74,800</u>	<u>28,100</u>
TOTAL OPERATING EXPENSES	<u>\$903,028,778</u>	<u>\$872,771,173</u>
OPERATING INCOME (LOSS)	<u>\$220,624,468</u>	<u>\$209,484,852</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Revenue	\$1,043,897	\$401,575
Non-Operating Revenue	31,916	473
Non-Operating Expense - Bureau of Fire Services	<u>(121,536)</u>	<u>(130,900)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>\$954,277</u>	<u>\$271,148</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>\$221,578,745</u>	<u>\$209,756,000</u>
TRANSFERS		
Income Transferred to General Fund (NOTE 1)	(\$221,372,432)	(\$209,559,512)
Other Transfers (NOTE 9)	<u>(206,313)</u>	<u>(196,488)</u>
TOTAL TRANSFERS IN (OUT)	<u>(\$221,578,745)</u>	<u>(\$209,756,000)</u>
Change in Net Position	\$0	\$0
Total Net Position - Beginning of Fiscal Year - Restated (NOTE 4)	<u>(20,854,600)</u>	<u>(20,854,600)</u>
TOTAL NET POSITION - END OF FISCAL YEAR (NOTE 10)	<u><u>(\$20,854,600)</u></u>	<u><u>(\$20,854,600)</u></u>

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**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$1,123,653,246	\$1,082,256,025
Payments to Employees and for Administrative Expenses	(16,698,600)	(20,192,598)
Payments to Suppliers	(880,379,796)	(840,527,441)
Other Receipts	31,916	473
Other Payments	(2,415,737)	(7,002,089)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$224,191,029	\$214,534,370
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(\$221,578,745)	(\$209,756,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(\$221,578,745)	(\$209,756,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	\$1,043,896	\$401,575
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$1,043,896	\$401,575
Net Cash Provided (Used) - All Activities	\$3,656,181	\$5,179,945
Cash and Cash Equivalents at Beginning of Year	79,311,778	74,131,833
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$82,967,959	\$79,311,778
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per Statement of Net Position Classifications:		
Cash	\$400	\$400
Equity in Common Cash	83,671,491	80,479,250
Warrants Outstanding	(703,932)	(1,167,872)
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$82,967,959	\$79,311,778
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$220,624,468	\$209,484,852
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Pension Expense	(536,844)	1,429,185
Deferred Outflows - Contributions Subsequent to Measurement Date	(1,837,235)	(1,903,384)
Other Nonoperating Revenues	31,916	473
Other Nonoperating Expenses	(121,536)	(130,900)
Other Reconciling Items	3,774	(903,035)
Net Changes in Assets and Liabilities:		
Inventories	(1,729,346)	(877,867)
Other Assets (Net)	2,575,920	(5,132,730)
Accounts Payable and Other Liabilities	5,179,912	12,567,776
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$224,191,029	\$214,534,370

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, 2017 and September 30, 2016. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has deferred outflows

NOTES TO FINANCIAL STATEMENTS

of resources related to pensions that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has deferred inflows of resources related to pensions that qualify for reporting in this category.

Pensions

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

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 (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 \$83.7 million and \$80.5 million at September 30, 2017 and September 30, 2016 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:

- Uncollateralized
- Collateralized with securities held by the pledging financial institution, or

NOTES TO FINANCIAL STATEMENTS

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

The Treasurer's policy requires the following criteria to lessen 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 state 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; no deposit in any financial organization may be in excess of 50.0 percent 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.

MCL Section 487.714 requires state deposits be held in a financial institution which maintains a principal office or branch office located in the State. The State had no Common Cash deposits subject to foreign currency risk at September 30, 2017 and at September 30, 2016.

Common Cash Investments

Types of Investments

Common Cash investments include prime commercial paper, certificates of deposit, and emergency municipal loans.

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. Custodial credit risk, the credit risk, and interest rate 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 Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2017 and at September 30, 2016, Common Cash 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

NOTES TO FINANCIAL STATEMENTS

obligations.

Prime commercial paper investments must 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 (P-1). Borrowers must have at least \$400.0 million in commercial paper outstanding, and the Treasurer may not invest in more than 10.0 percent of a borrower's outstanding debt. The investments are further limited to \$200.0 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed \$300.0 million.

Emergency municipal loans are evidenced by unrated notes held by the State in the State's name. At September 30, 2017 and September 30, 2016, prime commercial paper investments were rated at A-1 or P-1.

Interest Rate Risk

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

The Treasurer's policy states that cash equivalents are 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 Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash special loan programs described earlier. These loan programs are investments created through legislation. Although some interest rate risk exposure exists, this risk is not a consideration when entering into these 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 Change in Accounting/Restatements

During the previous year, the State of Michigan revised its policy and began allocating a portion of the Net Other Post-Employment Benefits (OPEB), measured in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, to its enterprise and other accrual accounting based funds. Previously, the liability had only been recognized in the State's government wide financial statements. As a result, the financial statements now include a net OPEB liability and the beginning net position of the Liquor Purchase Revolving Fund, as of September 30, 2016, was reduced by \$6,610,699. There were no accounting changes or restatements for 2017.

NOTE 5 General Information on Employee Pension Plans

NOTES TO FINANCIAL STATEMENTS

A. Plan Description

The Michigan State Employees Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. The system is overseen by the State of Michigan Retirement Board. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111.

B. Benefits Provided

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Public Act 185 of 2010, established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

Pension Reform of 2012

On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% contribution began on April 1, 2012.
- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of

NOTES TO FINANCIAL STATEMENTS

service, they will switch to the State's DC plan. The 4% contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.

- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation to a 401(k) or 457 account, earning a matching 2% employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5% of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime – for the six-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation FAC times 1.5% times years of service will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

A member may retire and receive a monthly benefit after attaining:

NOTES TO FINANCIAL STATEMENTS

1. age 60 with 10 or more years of credited service; or
2. age 55 with 30 or more years of credited service; or
3. age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5% for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

In either case, the three years immediately preceding retirement must have been in a covered position. Employees in covered positions are responsible for the custody and supervision of inmates.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Health and Human Services employees subject to reduction in force lay-offs by reason of deinstitutionalization.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of \$6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

Survivor Benefit

Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of Duty Death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to \$6,000.

Pension Payment Options

When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose

NOTES TO FINANCIAL STATEMENTS

whether the beneficiary will receive 100%, 75% or 50% of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

Regular Pension - The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

100% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

75% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 75% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

50% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% or 75% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

Equated Pension - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100%, 75% or 50% option. At age 65 the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

Post Retirement Adjustments

One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977 and 1987. Beginning October 1, 1988, a 3% non-compounding increase, up to a maximum of \$25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8% annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3% increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987, are not eligible for the supplemental payment.

C. Contributions

Member Contributions - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as

NOTES TO FINANCIAL STATEMENTS

military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal years ending 2017 and 2016, the Liquor Purchase Revolving Fund's contribution rate was 25.5% and 26.1 % of the defined benefit employee wages and 22.2% and 22.8% of the defined contribution employee wages. The Liquor Purchase Revolving Fund's contributions to SERS for the fiscal years ending September 30, 2017 and September 30, 2016 were \$1,837,464 and \$1,903,384, respectively.

D. Actuarial Assumptions

The Liquor Purchase Revolving Fund's net pension liability for the year ended September 30, 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, and rolled-forward using generally accepted actuarial procedures. Net pension liability for the year ended September 30, 2016 was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability for both years was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	3.5%
Projected Salary Increases	3.5 – 12.5%, including wage inflation at 3.5%
Investment Rate of Return	8%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible

Mortality rates were based on RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 and September 30, 2015 are summarized in the following tables:

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

Asset Allocation		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.8 %
International Equity Pools	16.0	7.4
Private Equity Pools	18.0	8.9
Real Estate and Infrastructure Pools	10.0	4.4
Fixed Income Pools	10.5	0.1
Absolute Return Pools	6.0	3.1
Real Return/Opportunistic	9.5	6.6
Short Term Investment Pools	2.0	(0.7)
TOTAL	<u><u>100.0 %</u></u>	

September 30, 2015

Asset Allocation		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.9 %
International Equity Pools	16.0	7.2
Private Equity Pools	18.0	9.2
Real Estate and Infrastructure Pools	10.0	4.3
Fixed Income Pools	10.5	0.9
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
TOTAL	<u><u>100.0 %</u></u>	

*Long-term Rate of Returns are net of administrative expenses and 2.1 percent inflation.

NOTES TO FINANCIAL STATEMENTS

E. Discount Rate

A discount rate of 8.0% was used to measure the total pension liability as of September 30, 2017 and 2016. This discount rate was based on the long term expected rate of return on pension plan investments of 8.0%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Net Pension Liability

At September 30, 2017 net pension liability was measured as of September 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The Liquor Purchase Revolving Fund's proportion of the net pension liability was based on the Liquor Purchase Revolving Fund's required pension contributions received by SERS during the measurement period October 1, 2015 through September 30, 2016, relative to the total required employer contributions from all of SERS's participating employers.

At September 30, 2016 net pension liability was measured as of September 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The Liquor Purchase Revolving Fund's proportion of the net pension liability was based on the Liquor Purchase Revolving Fund's required pension contributions received by SERS during the measurement period October 1, 2014 through September 30, 2015, relative to the total required employer contributions from all of SERS's participating employers.

Net Pension Liability

	<u>Proportionate Share \$</u>	<u>Proportionate Share %</u>	
2017	\$14,094,742	0.27	%
2016	\$16,636,344	0.30	%

G. Pension Liability Sensitivity

The following presents the Liquor Purchase Revolving Fund's proportionate share of the net pension liability calculated using the discount rate of 8% as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

NOTES TO FINANCIAL STATEMENTS

	1% Decrease 7.0%	Current Discount 8.0%	1% Increase 9.0%
2017	\$18,097,338	\$14,094,742	\$10,640,411
2016	21,259,961	16,636,344	12,652,371

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting (www.michigan.gov/ors).

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The Liquor Purchase Revolving Fund recognized pension expense of (\$536,844) for the year ended September 30, 2017 and \$1,429,185 for the year ended September 30, 2016. The Liquor Purchase Revolving Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017 Deferred Outflow of Resources	2017 Deferred Inflow of Resources	2016 Deferred Outflow of Resources	2016 Deferred Inflow of Resources
Changes in experiences	\$ 1,685	0	\$ 46,932	0
Changes of assumptions	0	0	0	0
Changes in proportions	0	\$360,847	0	\$134,502
Net difference between projected and actual earnings on investments	316,659	0	146,670	0
Liquor Purchase Revolving Fund's contributions subsequent to the measurement date	1,837,464	0	1,903,384	0
Total	\$2,155,808	\$360,847	\$2,096,986	\$134,502

Amounts reported as deferred outflows of resources related to pensions resulting from Liquor Purchase Revolving Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	Pension Expense Amount
2018	(\$397,545)
2019	(\$ 38,383)
2020	\$363,612
2021	\$ 29,813

J. Defined Contribution Plan

The Commission participates in the State of Michigan's defined contribution plan system. The Commission is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and

NOTES TO FINANCIAL STATEMENTS

the Commission are established and may be amended by the State legislature. The State legislature established the extent to which employer and employees are required to make contributions and established the benefit provisions for the plan. The Commission's contributions to the plan were \$275,654 and \$246,835 for the years ended September 30, 2017 and 2016, respectively, and are recorded in salaries and benefits expense.

NOTE 6 Postemployment Benefits

The Commission participates in the State of Michigan's postemployment benefits. State statutes provide retired employees with other postemployment benefits such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The Commission contributed 21.05% and 20.63% of payroll for the employer cost of other postemployment benefits for the fiscal years ended September 30, 2017 and 2016 respectively. The State pays 80% of the cost of health insurance for retired employees who were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance dependent upon years of service. Employees hired on or after January 1, 2012 will not be eligible for retiree health insurance coverage but receive a personal health care fund where they will contribute up to 2% of their compensation in a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination. For the year ended September 30, 2017, the Liquor Purchase Revolving Fund's net OPEB obligation totaled \$5,683,019. For the year ended September 30, 2016, the Liquor Purchase Revolving Fund's net OPEB obligation totaled \$5,679,245

NOTE 7 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. Settled claims have not exceeded commercial coverage in any of the past 3 fiscal years.

NOTE 8 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 a \$7.50 per case distribution fee during fiscal year 2015-16 and until February 25, 2017 of fiscal year 2016-17. The liquor suppliers were required to pay an additional \$1.35 per case distribution fee for a total

NOTES TO FINANCIAL STATEMENTS

of \$8.85 per case to the MLCC's Authorized Distribution Agents. Effective February 26, 2017, the MLCC paid a \$7.75 per case distribution fee and the liquor suppliers were required to pay an additional \$1.35 per case distribution fee for a total of \$9.10 per case to the MLCC's Authorized Distribution Agents.

NOTE 9 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.

NOTE 10 Fund Deficit

The Liquor Purchase Revolving Fund had a fund balance deficit of \$20,854,600 primarily caused by the implementation of GASB Statement No.68 and Statement No. 45. The Statement of Net Position includes a portion of the net pension liability and net OPEB liability related to the State Employees' Retirement System that was allocated to the fund in accordance with GASB standards.

Schedules of Required Supplementary Information – Pension Liability

**Schedule of the Liquor Purchase Revolving Fund’s (LPRF’s) Proportionate Share of Net Pension Liability
State Employees’ Retirement System
Last Three Fiscal Years*
(Amounts in thousands)**

	2017	2016	2015
LPRF’s Proportion of the Net Pension Liability	0.27%	0.30%	0.31%
LPRF’s Proportionate Share of the Net Pension Liability	\$14,095	\$16,636	\$15,999
LPRF’s Covered-Employee Payroll	\$ 7,601	\$8,740	\$ 7,296
LPRF’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	185.44%	190.34%	219.30%
Plan fiduciary net position as a percentage of the total pension liability	67.5%	66.1%	68.07%

**Schedule of Liquor Purchase Revolving Fund’s (LPRF’s) Contributions
State Employees’ Retirement Plan
Last Three Fiscal Years*
(Amounts in thousands)**

	2017	2016	2015
Statutorily Required Contribution	\$1,837	\$1,903	\$2,293
Contributions in relation to the statutorily required contribution	\$1,837	\$1,903	\$2,293
Contribution deficiency (excess)	-	-	-
LPRF’s covered-employee payroll	\$7,601	\$8,740	\$7,296
Contributions as a percentage of covered-employee payroll	24.17%	21.77%	31.43%

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

Notes to Required Supplementary Pension Information

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The Schedule of Contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

The Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions are schedules that are required in implementing GASB Statement No. 68. The Schedule of the Proportionate Share of the Net Pension Liability represents in actuarial terms, the accrued liability less the market value of assets. The Schedule of Contributions is a comparison of the employer's contributions to the actuarially determined contributions.

The information presented in the Schedule of Contributions was used in the actuarial valuation for purposes of determining actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the pension plan follows.

Valuation:

Actuarially determined contribution amounts are calculated as of September 30, each year, which is 1 day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2017:

Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	20 years
Asset Valuation Method	5-year smoothed fair value
Inflation	3.5 percent
Salary Increases	3.5 percent wage inflation
Investment Rate of Return	8.00 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For retirees, 100 percent of the table rates were used. For active members, 50.0 percent of the table rates were used for males and females.



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Office of the Auditor General

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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
Lansing, Michigan
and
Ms. Shelly Edgerton, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Deloney and Ms. Edgerton:

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, 2017 and September 30, 2016 and the related notes to the financial statements and have issued our report thereon dated September 14, 2018.

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.

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.



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Doug A. Ringler, CPA, CIA
Auditor General

Mr. Andrew J. Deloney, Chairman
Ms. Shelly Edgerton, Director
Page 2

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 cursive script that reads "Laura J. Hirst".

Laura J. Hirst, CPA
Deputy Auditor General
September 14, 2018

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

For the Fiscal Years Ended September 30, 2017
and September 30, 2016

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

	2017	2016	Increase (Decrease)
LIQUOR SALES			
Gross Sales (1)	\$1,353,377,222	\$1,303,771,680	\$49,605,542
Less: Discounts Allowed	229,956,882	221,578,940	8,377,942
PROCEEDS - SALE OF LIQUOR	\$1,123,420,340	\$1,082,192,740	\$41,227,600
Less: Cost of Goods Sold	820,195,307	790,347,994	29,847,313
REVENUE FROM SALE OF LIQUOR	\$303,225,033	\$291,844,746	\$11,380,287
OTHER REVENUE			
Miscellaneous Revenue	\$232,907	\$63,285	\$169,622
Non-Operating Revenue	31,916	473	31,443
Interest Revenue	1,043,897	401,575	642,322
TOTAL OTHER REVENUE	\$1,308,720	\$465,333	\$843,387
TOTAL REVENUE	\$304,533,753	\$292,310,079	\$12,223,674
Less: Distribution Costs Paid to Suppliers	65,372,258	62,785,702	2,586,556
INCOME FROM LIQUOR MERCHANDISING	\$239,161,495	\$229,524,377	\$9,637,118
MANAGEMENT EXPENSES			
Commission	\$488,600	\$476,700	\$11,900
Management Support (4)	2,049,984	2,964,834	(914,850)
Licensing and Enforcement (4)	15,427,985	12,634,695	2,793,290
DLARA Services (Excluding MLCC Rent) (4)	1,527,547	1,820,247	(292,700)
DTMB Information Technology Services	3,825,545	5,393,274	(1,567,729)
Attorney General	1,300,245	1,291,060	9,185
Auditor General	74,800	28,100	46,700
Bureau of Fire Services	121,536	130,900	(9,364)
Civil Service - Personnel	206,313	196,488	9,825
Administrative Hearings & Rules	844,131	81,318	762,813
Compensated Absences	(351,078)	(56,517)	(294,561)
Less: Transfers Not Related to MLCC Operations (2)	0	0	0
TOTAL MANAGEMENT EXPENSES	\$25,515,608	\$24,961,099	\$554,509
INCOME FROM OPERATIONS (Excluding Taxes and Grants)	\$213,645,887	\$204,563,278	\$9,082,609
Other Revenue Collected (3)	234,845,507	228,015,190	6,830,317
TOTAL CURRENT EARNINGS AND REVENUE	\$448,491,394	\$432,578,468	\$15,912,926
Number of Cases Sold	8,549,809	8,370,191	179,618
Number of Sales Days	260	262	(2)

Notes:

(1) This figure is comprised of the following:

Off Premise	\$1,130,016,065	\$1,090,205,396	\$50,733,548
On Premise	222,485,023	212,803,103	9,681,920
Other	846,780	763,181	83,599

(2) Grants to Cities - Fire Protection

(3) Other Revenue Collected (Page 36) 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)

(4) Includes Pension Expense

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

	<u>2017</u>	<u>2016</u>	<u>INCREASE (DECREASE)</u>
GENERAL FUND - GENERAL PURPOSE			
Excise Tax, Beer	\$37,981,405	\$38,842,268	(\$860,863)
Specific Tax, Liquor 4%	53,972,731	52,000,467	1,972,264
Excise Tax, Wine	13,128,037	12,950,455	177,582
Excise Tax, Mixed Spirit Drink	746,143	659,859	86,284
Sunday Sales Fees (7am-12pm)	1,842,262	1,613,399	228,863
Fines & Costs	813,480	640,192	173,288
Miscellaneous Revenue	155,370	249,624	(94,254)
TOTAL GENERAL FUND - GENERAL PURPOSE	<u>\$108,639,428</u>	<u>\$106,956,264</u>	<u>\$1,683,164</u>
GENERAL FUND - RESTRICTED			
RETAIL LICENSE FEES:			
55% To Local Governments	\$7,472,935	\$7,054,451	\$418,484
41.5% To Licensing & Enforcement	5,742,275	5,357,041	385,234
3.5% To Alcoholism Prevention Programs	486,062	451,798	34,264
Additional Resort License Fees	135,800	235,400	(99,600)
Direct Shipper License Fees	138,432	121,740	16,692
Liquor Enforcement and Licensing Wholesale Fees	3,253	0	3,253
License Transfer Fees	659,091	690,102	(31,011)
Sunday Sales Fees	1,757,261	1,682,521	74,740
License Permit Fees	78,500	71,541	6,959
Third Party Facilitator Fees	5,170	0	5,170
Non-Retail License Fees-Wine Industry Council	1,036,015	777,709	258,306
Liquor Control Act Sales	1,230	1,038	192
Inspection Fees	467,770	355,793	111,977
Specific Tax, Liquor 4%-Tourism & Conv. Facility	54,227,346	52,235,894	1,991,452
Miscellaneous Revenue	22,202	23,431	(1,229)
TOTAL GENERAL FUND - RESTRICTED	<u>\$72,233,342</u>	<u>\$69,058,459</u>	<u>\$3,174,883</u>
SCHOOL AID FUND			
Specific Tax, Liquor 4%	<u>\$53,972,737</u>	<u>\$52,000,467</u>	<u>\$1,972,270</u>
TOTAL SCHOOL AID FUND	<u>\$53,972,737</u>	<u>\$52,000,467</u>	<u>\$1,972,270</u>
OTHER FUNDS REVENUE	\$234,845,507	\$228,015,190	\$6,830,317
Income From Operations (Excluding Taxes & Grants) (1)	<u>213,645,887</u>	<u>204,563,278</u>	<u>9,082,609</u>
TOTAL CURRENT EARNINGS AND REVENUE	<u>\$448,491,394</u>	<u>\$432,578,468</u>	<u>\$15,912,926</u>

(1) Income from Operations (Page 35) 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**

	2017				TOTAL	TOTAL
	COMMISSION(1)	MANAGEMENT SUPPORT	LICENSING & ENFORCEMENT	TOTAL 2017	TOTAL 2016	TOTAL 2016
MLCC APPROPRIATED EXPENSES						
Salaries & Wages	\$488,600	\$2,274,156	\$6,537,122	\$9,299,878	\$8,894,983	\$8,894,983
Longevity & Insurance		433,096	1,477,781	1,910,877	1,914,535	1,914,535
Retirement & FICA		1,284,194	3,812,055	5,096,249	4,030,491	4,030,491
SUBTOTAL	\$488,600	\$3,991,446	\$11,826,958	\$16,307,004	\$14,840,009	\$14,840,009
Communications	\$0	\$26,170	\$121,523	\$147,693	\$175,478	\$175,478
Travel	0	43,313	253,428	296,741	277,071	277,071
Utilities	0	3,580	11,083	14,663	11,878	11,878
Contractual Services	0	(2,214,860)	440,615	(1,774,244)	57,675	57,675
Supplies & Materials	0	35,044	133,226	168,270	175,264	175,264
Equipment Replacement, Additions & Rentals	0	160,556	2,384,868	2,545,423	270,226	270,226
Misc - Unemployment Insurance Claims	0	0	1,400	1,400	6,984	6,984
SUBTOTAL	\$0	(\$1,946,198)	\$3,346,143	\$1,399,945	\$974,576	\$974,576
TOTAL MLCC APPROPRIATED EXPENSES	\$488,600	\$2,045,248	\$15,173,101	\$17,706,949	\$15,814,585	\$15,814,585
TRANSFERS OUT & OTHER EXPENSES						
Rent and Building Occupancy (2)	\$0	\$4,736	\$254,884	\$259,620	\$261,644	\$261,644
Other Transfers Out (3)	0	0	0	7,549,039	8,884,870	8,884,870
TOTAL TRANSFERS OUT & OTHER EXPENSES	\$0	\$4,736	\$254,884	\$7,808,659	\$9,146,514	\$9,146,514
GRAND TOTAL	\$488,600	\$2,049,984	\$15,427,985	\$25,515,608	\$24,961,099	\$24,961,099

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.