

2021 ANNUAL
FINANCIAL REPORT



FISCAL YEAR
OCTOBER 1, 2020 TO
SEPTEMBER 30, 2021

MICHIGAN DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
GRETCHEN WHITMER, GOVERNOR
ORLENE HAWKS, DIRECTOR
WWW.MICHIGAN.GOV/LCC



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LANSING

ORLENE HAWKS
DIRECTOR

To the Citizens of Michigan and Other Readers:

Thank you for your interest in the Michigan Liquor Control Commission (MLCC) and the Annual Financial Report for Fiscal Year 2021.

The MLCC 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. Funds are also allocated to local units of government in all 83 counties in Michigan. This report is our accounting to you of the liquor wholesaling operation in Michigan, and related activity.

The MLCC continues to provide a significant return on investment for the benefit of all Michigan citizens. A profit in liquor sales of over \$313 million was transferred to the State's General Fund for Fiscal Year 2021, which is up \$34.2 million from last year, for appropriation by the Michigan Legislature to support a wide range of state programs. Over the last decade, the MLCC has transferred over \$2.2 billion to the State's General Fund from the Liquor Purchase Revolving Fund.

The wholesaling operation involved the sale of more than 10.9 million cases of spirits. Retail liquor sales totaled more than \$1.9 billion in Fiscal Year 2020, compared to \$1.7 billion in Fiscal Year 2019; an overall increase of 11.8 percent over the previous fiscal year. Over 12,600 liquor products were available to consumers this year, among the largest selection of liquor anywhere in the country. This is almost double what we offered just ten years ago. As the 10th largest state in population, Michigan ranks seventh nationally in the sale of distilled spirits.

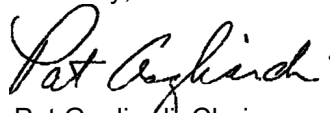
This Annual Financial Report has an informational section and a statement section. We are required by law to provide the statement section, reporting on the activity of the Liquor Purchase Revolving Fund and the revenue our activities generate for the people of Michigan. We have selected other information 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 March and September. 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 Annual Financial Report for Fiscal Year 2021.

Sincerely,



Pat Gagliardi, Chair

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The Department of Licensing and Regulatory Affairs is an equal opportunity employer/program. 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 2010-21 (IN MILLIONS)	FY 2019-20 (IN MILLIONS)	% INCREASE (DECREASE)
Gross Sales	\$1,910.9	\$1,763.1	8.3
Licensee Discounts	(323.5)	(301.2)	7.4
Liquor Buy-Back	0.2	(3.2)	100.0
Cost of Goods Sold	(1,165.9)	(1,073.0)	8.6
Gross Revenue—Liquor	\$421.7	\$385.7	9.3
Operating Expenses	(114.8)	(112.2)	2.3
Miscellaneous Revenue	0.2	1.3	(84.6)
Income from Operations ¹	\$307.1	\$274.8	11.7
Specific Liquor Taxes	230.5	212.9	8.2
Other Revenue Collected	83.2	74.9	11.0
Total Net Revenue	\$620.8	\$562.6	10.3

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. Income Transferred to the General Fund from the Liquor Purchase Revolving Fund is \$313.6 million.

OTHER MERCHANDISING STATISTICS

				
Number of Cases Sold	Average Case Price	Items Available (Brands & Sizes)	Number of Bottles Sold	Average Price Per Bottle
10,911,821	\$175.13	12,643	175,288,987	\$10.90
10,552,801	\$167.07	12,172	170,815,397	\$10.32
3.40% ↑	4.82% ↑	3.86% ↑	2.61% ↑	5.62% ↑

APPARENT CONSUMPTION STATISTICS

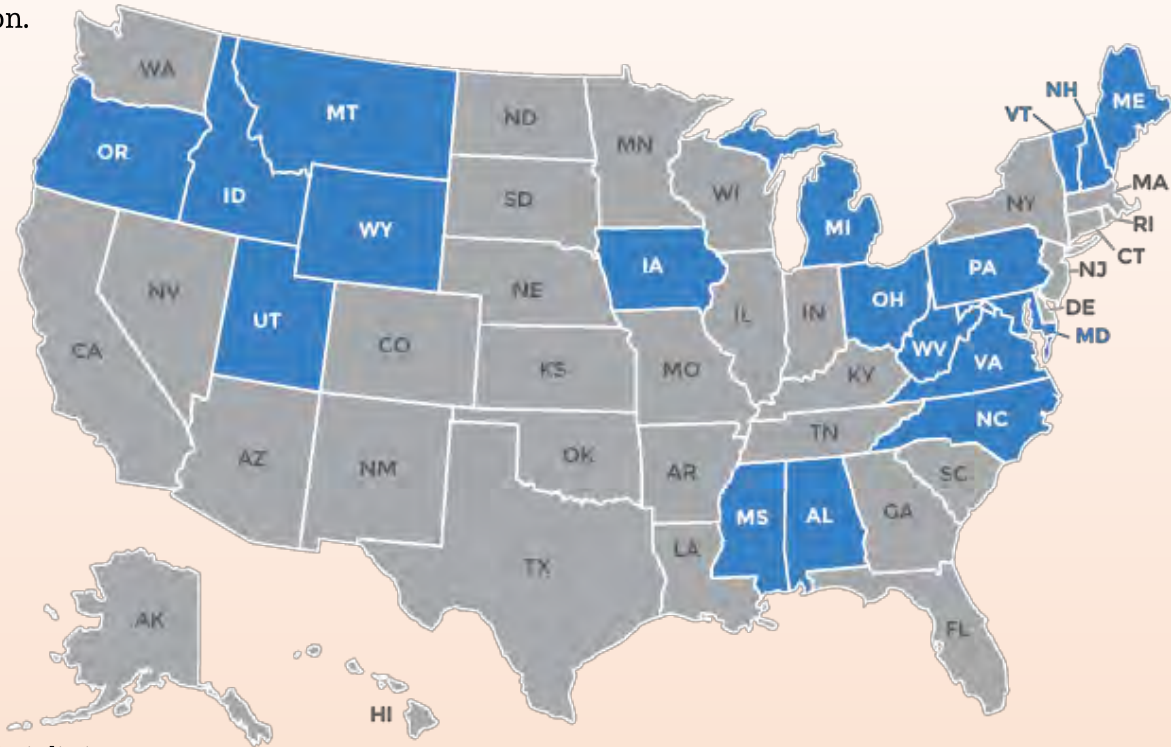
			
Distilled Spirits	Mixed Spirit Drink	Wine (21% Alcohol or Less)	Beer
FY 2020-21 22,226,776 Gallons 2.21 Gal. Per Capita	FY 2020-21 2,128,933 Gallons 0.21 Gal. Per Capita	FY 2020-21 27,210,732 Gallons 2.71 Gal. Per Capita	FY 2020-21 183,534,925 Gallons 18.26 Gal. Per Capita
FY 2019-20 21,986,078 Gallons 2.18 Gal. Per Capita	FY 2019-20 1,169,865 Gallons 0.12 Gal. Per Capita	FY 2019-20 27,124,432 Gallons 2.69 Gal. Per Capita	FY 2019-20 186,034,284 Gallons 18.46 Gal. Per Capita

Per capita consumption based on estimated Michigan population as shown on page 8.



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.



18 Control Jurisdictions

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

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.



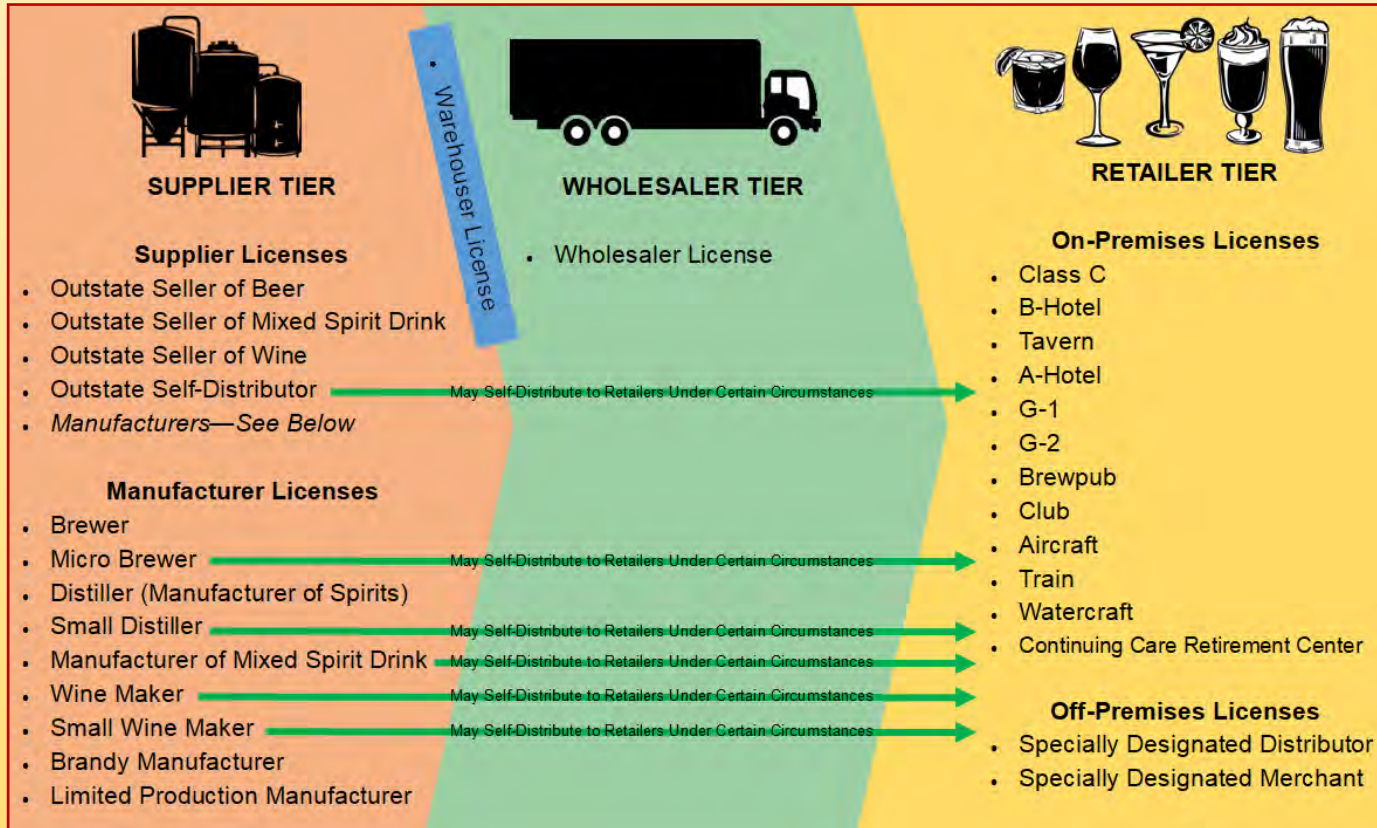
...ALL LICENSEES IN THIS STATE SHALL BE SEPARATED INTO 3 DISTINCT AND INDEPENDENT TIERS....

MCL 436.1603(12) – MICHIGAN LIQUOR CONTROL CODE OF 1998

Prior to Prohibition, “tied house” arrangements where large and often out-of-state manufacturers controlled the production, distribution, and, to a certain extent, the retail sales of beer, wine, and spirits were prevalent throughout the United States. Under a tied house arrangement, a manufacturer would induce local bar or saloon owners to sell the manufacturer’s products exclusively in their establishments through various incentives ranging from paying for food for patrons and providing free barware to more grandiose measures like remodeling a building or even building one from the ground up for the proprietor.

After the end of Prohibition, many states and the federal government implemented laws creating distinct tiers of alcohol licensees along with prohibiting tied house arrangements. This effort was focused on ensuring that one tier of licensees did not control all parts of the alcohol sales process – manufacturing, distributing, and selling to the consumers. By creating three distinct tiers – retailers, wholesalers, and suppliers (manufacturers) – and banning a company in one tier from owning interest or aiding someone in another tier, the states aimed to eliminate the problems originating from tied house arrangements.

Both federal law and the Michigan Liquor Control Code prohibit a company licensed in one tier from holding interest, whether direct or indirect, in a licensee in another tier. Michigan law also prohibits licensees in different tiers from aiding or assisting licensees in other tiers through giving them anything of value except for a limited list of items in the law. All of these laws can trace their roots back to the excesses and abuses prior to Prohibition and an attempt to prevent a repeat of that era.



The MLCC has two main administrative offices, one in Lansing and one in Southfield. It employs four 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 labelling 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.

THE LIQUOR CONTROL CODE

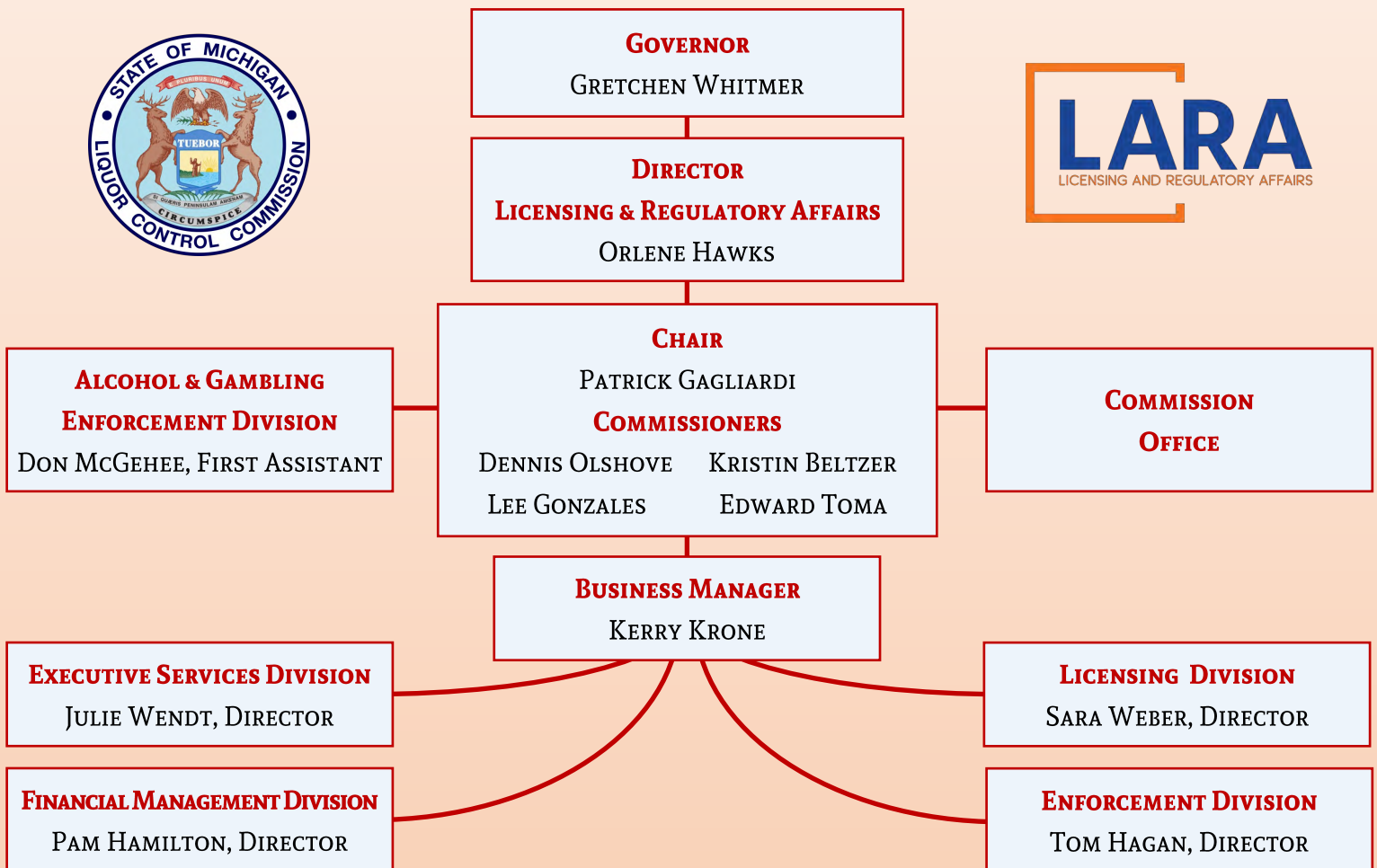
The Liquor Control Code, P.A. 58 of 1998, as amended, prescribes the duties and responsibilities of the Commission. The Liquor Control Code defines the various types of liquor licenses and the licensing requirements; the State liquor markup rate, liquor licensee discount rate, and tax rates; and the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



MLCC PERSONNEL (AS OF SEPTEMBER 30, 20201)	FULL-TIME EMPLOYEES	PART-TIME EMPLOYEES
Commissioners*	5	0
Business Manager	1	0
Executive Services Division	18	0
Financial Management Division	15	0
Licensing Division	45	0
Enforcement Division	66	0
TOTAL (*Commissioners Not Included In Total)	145	0

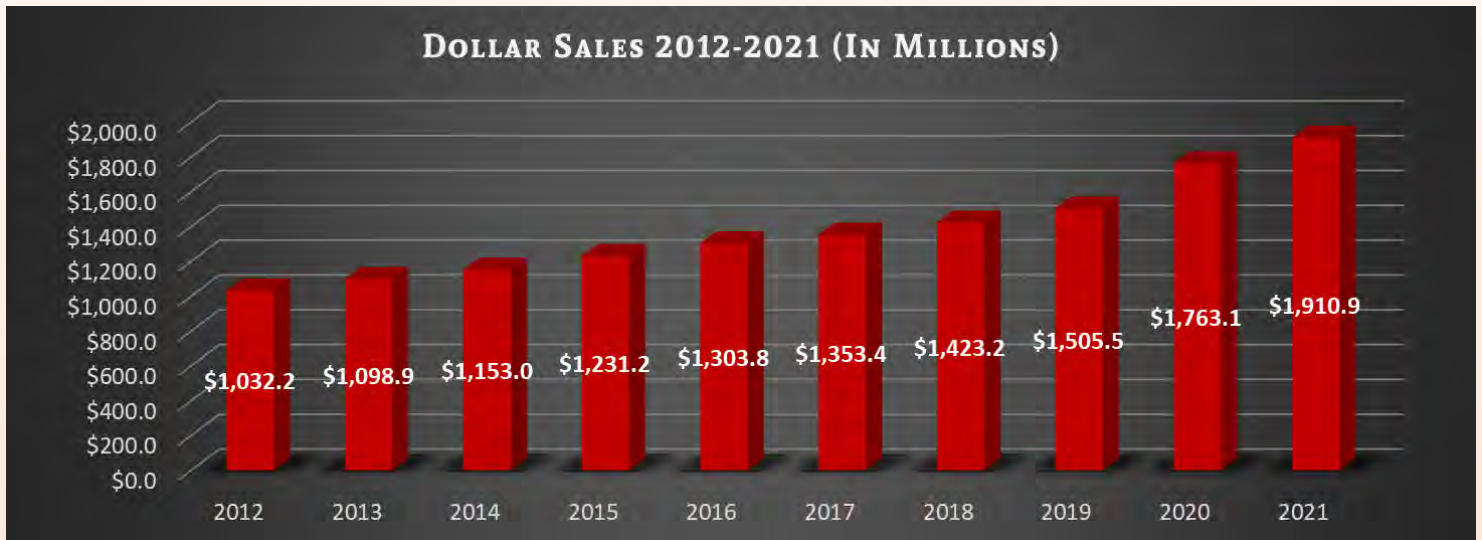
ORGANIZATIONAL CHART (AS OF SEPTEMBER 30, 2021)



TRENDS

DOLLAR SALES

Since the 2012 fiscal year, there has been a 85.1% increase in dollar sales from \$1,032.2m in FY 2012 to \$1,910.9m in FY 2021. 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 2012. This trend continued in FY21 with sales of 10,911,801 cases. This is an increase of 48.0% above the FY 2012 case sales figure of 7,372,714. These increases parallel the increase in dollar sales over the last ten years.



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 12,600 products available for sale by the Commission. The Commission's spirits price lists are available in Excel and Adobe PDF format on the MLCC website (<http://www.michigan.gov/lcc>) by clicking the [Spirits Price Book Information](#) button on the main webpage.

Also, it is possible to search for specific product information. On the [Spirits Price Book Information](#) webpage click on the [Searchable Price Book link](#) to search by product name, liquor code, or type of liquor.

Licensees may only order their distilled spirits through the State's internet ordering system. Authorized Distribution Agents (ADAs) assemble and deliver orders to the licensees on behalf of the Liquor Control Commission. As of September 30, 2021, there were three ADAs: General Wine and Liquor, National Wine and Spirits, and Imperial Beverage. 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.

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)	\$0.36
4% Specific Tax (School Aid)	\$0.36
4% Specific Tax (General Tax)	\$0.36
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



COST OF DISTRIBUTION	AMOUNT	% OF TOTAL
Federal Government	\$2.14	21.4%
Distillery	\$3.26	32.6%
State Government		
MLCC	\$2.00	20.0%
Specific Taxes	\$1.08	10.8%
Liquor Licensee	\$1.52	15.2%
Minimum Profit (Discount)		
TOTAL	\$10.00	100.0%

Note: As of November 29, 2004, P.A. 407 allows licensees to sell liquor at any price at or above the established minimum selling price.

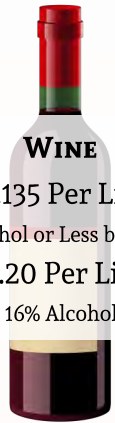



BEER—WINE—MIXED SPIRIT DRINKS

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

 <p>BEER \$6.30 Per 31-Gallon Barrel (Pro-Rated)</p>	 <p>WINE \$0.135 Per Liter (16% Alcohol or Less by Volume) \$0.20 Per Liter (More Than 16% Alcohol by Volume)</p>	 <p>MIXED SPIRIT DRINKS \$0.30 Per Liter</p>
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2011-2020 MICHIGAN APPARENT PER CAPITA ALCOHOL BEVERAGE CONSUMPTION IN GALLONS

YEAR	POPULATION (ESTIMATED)	BEER	SPIRITS	WINE	MIXED SPIRIT DRINKS
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
2018	9,996,000	18.68	1.93	2.58	0.05
2019	9,987,000	18.37	1.98	2.59	0.06
2020	10,077,000	18.46	2.18	2.69	0.12
2021	10,051,000	18.26	2.21	2.71	0.21

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.

MLCC TAX AND SALES STATISTICS

COLLECTION OF TAXES

	2020-2021	2019-2020	Increase (Decrease)
Beer	\$36,961,583	\$37,440,394	(\$478,811)
Wine	14,583,287	13,923,304	659,983
Mixed Spirit Drink	3,816,905	2,188,970	1,627,935
TOTAL	\$55,361,775	\$53,552,668	\$1,809,107

SALES IN BARRELS / LITERS

	2020-2021	2019-2020	Increase (Decrease)
Barrels of Beer	5,920,481	6,001,106	(80,625)
Liters of Wine	103,006,225	102,679,536	326,689
Liters of Mixed Spirit Drink	8,059,074	4,428,526	3,630,548



LICENSING

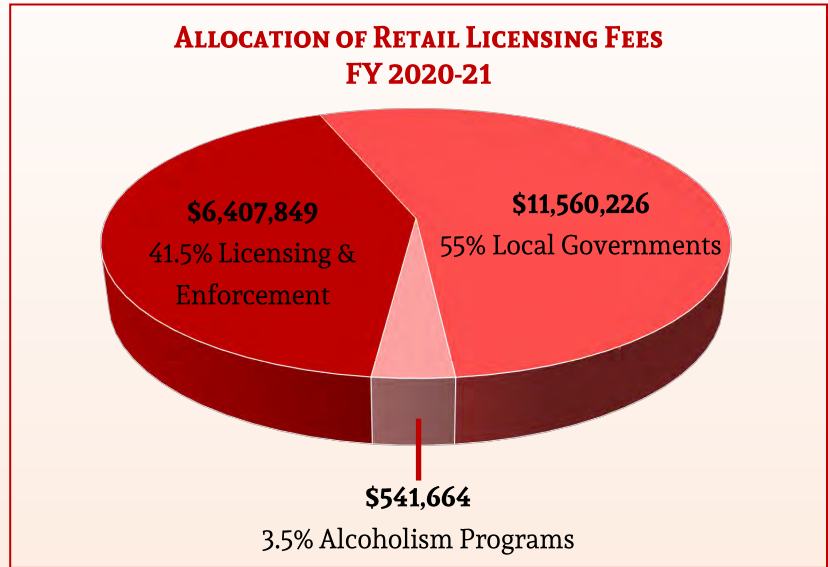
The Michigan Liquor Control Commission licenses all retailers, wholesalers and other individuals or businesses involved in the manufacture, purchase, sale, or use of alcohol beverages.

Over 29,500 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 9,970 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 1,532 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 retail license fees collected by the MLCC are earmarked for local governments. The MLCC collected over \$22.1 million in retail license and transfer fees in fiscal year 2020-21. This amount included \$18,169,913 in retail license fees.

The Michigan Craft Beverage Council receives the non-retail license fees collected by the MLCC. This fiscal year, these fees amounted to \$678,436.



ACTIVE RETAILER LICENSES

On-Premises Retailer Licenses—9,630 Total

License Type	Total	Alcohol Types*
Class C	6,996	B/W/M/S
Class C Resort	1,043	B/W/M/S
B-Hotel	229	B/W/M/S
B-Hotel Resort	137	B/W/M/S
Club (Members Only)	877	B/W/M/S
Class G-1 (Members Only)	11	B/W/M/S
Continuing Care Retirement Center	5	B/W/M/S
Other (Aircraft, Train, Watercraft)	66	B/W/M/S
A-Hotel	1	B/W/M
Tavern	157	B/W/M
Tavern Resort	10	B/W/M
Brewpub	98	B

Off-Premises Retailer Licensees—19,940 Total

License Type	Total	Alcohol Types*
Specially Designated Distributor	4,340	S
Specially Designated Distributor Resort	335	S
Specially Designated Merchant	15,253	B/W/M
Third Party Facilitator Service	12	B/W/M/S (Delivery Only)

*Alcohol Types That The Licensee May Sell

B=Beer / W=Wine / M=Mixed Spirit Drink / S=Spirits



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 299 liquor law violation reports in Fiscal Year 2020-2021. MLCC enforcement investigators submitted 362 violation reports in Fiscal Year 2020-2021.

The violations that the Enforcement Division administers are varied. 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.

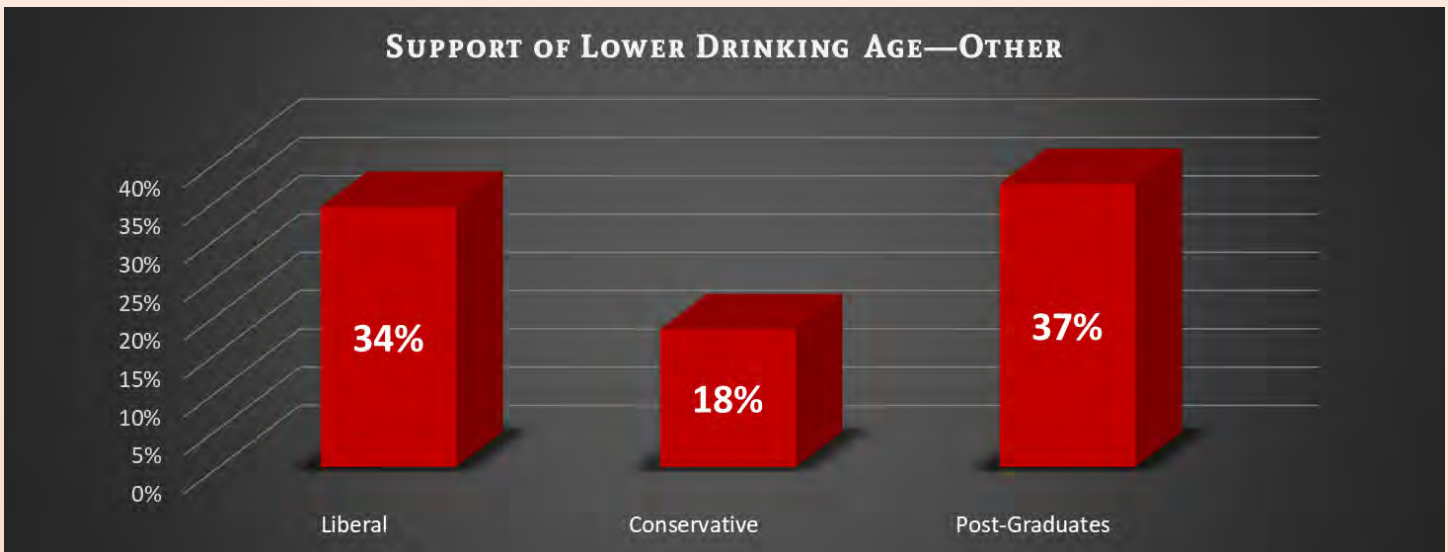
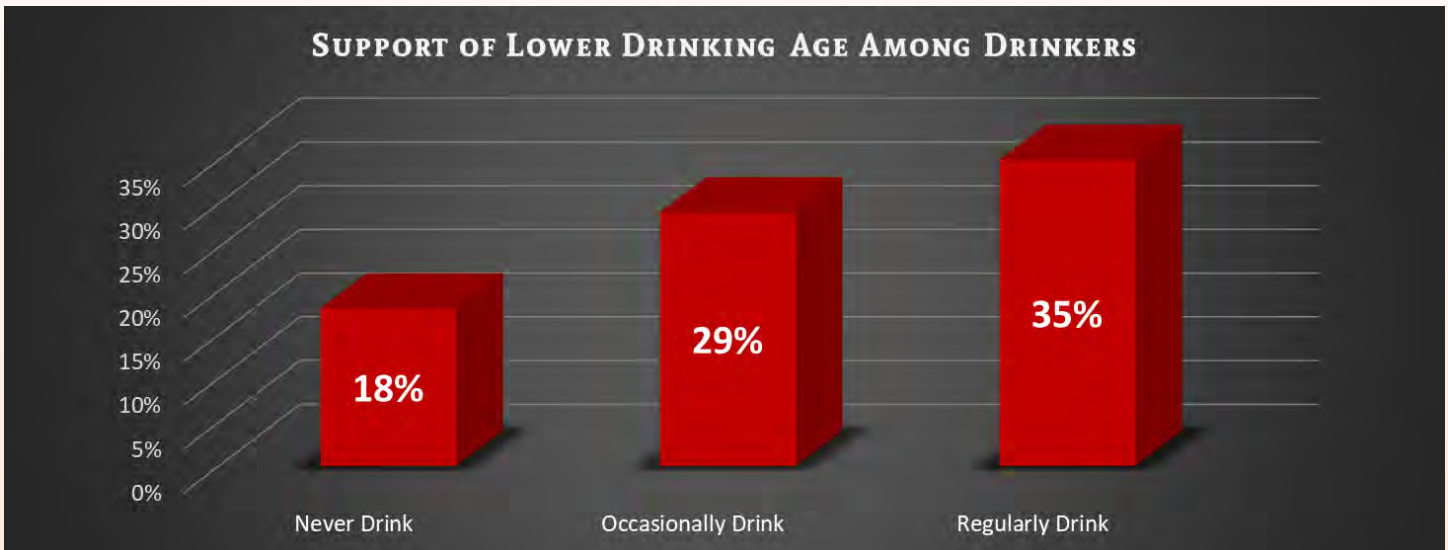
ENFORCEMENT & UNDERAGE DRINKING

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.

During Fiscal Year 2020-21, MLCC enforcement officers conducted 36 controlled buy operations and wrote 13 violations for selling to minors, meaning 36% of stops resulted in a violation. Due to the global Covid-19 pandemic during FY 2020-21, MLCC enforcement officers conducted significantly fewer controlled buy operations than would regularly occur in normal years.



It has been more than 35 years since federal legislation established 21 as a uniform minimum age to drink alcohol in all states. Americans are still widely opposed to lowering the legal drinking age to 18. According to a July 7-10, 2014 Gallup poll, 74% say they would oppose the legislation and 25% say they would favor the legislation.



ENFORCEMENT & EXCESSIVE DRINKING

Enforcement is also working diligently to reduce excessive drinking among all drinkers. According to a July 6-21, 2021 Gallup Survey, the percentage of Americans who admit they sometimes drink too much is 18%. Thirty-six percent surveyed said drinking has been a cause of trouble in their family.

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.



AMERICAN DRINKING TRENDS



The percentage of Americans who identify themselves as drinkers has remained virtually unchanged (60% in a July 2021 Gallup poll vs. the 61.7% historical average since 1939). Slightly fewer than four in ten Americans (39%) claim they do not drink alcohol.

Over a five-year period, the average percentage of drinkers that prefer spirits has averaged 24.2%. The increased preference for spirits to 27% in the 2021 Gallup poll can be attributed to young and middle-aged adults. A higher percentage of women drinkers this year chose spirits over beer. Also, recent health trends such as the popularity of low carbohydrate diets has moved some consumers towards spirits.

Additionally, adults under the age of 55 are most likely to prefer beer as well as spirits, while consumers aged 55 and over generally prefer wine. Around one in seven drinkers said their most recent drink was within the last week and 30% said they last drank over a week ago.

Furthermore, according to a July 1-11, 2018 Gallup poll, the majority of Americans, 55%, believe that drinking in moderation (1-2 drinks daily) has no effect on one's health. Sixteen percent felt drinking in moderation is good for one's health, 28% thought it is bad for one's health and 2% had no opinion.



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, 2021
and September 30, 2020



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. Patrick Gagliardi, Chair
Michigan Liquor Control Commission
Constitution Hall
Lansing, Michigan
and
Ms. Orlene Hawks, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Gagliardi and Ms. Hawks:

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, 2021 and September 30, 2020 and the related notes to the financial statements, which collectively comprise the Liquor Purchase Revolving Fund's 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.



OAG

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

Mr. Patrick Gagliardi, Chair
Ms. Orlene Hawks, Director
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Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Liquor Purchase Revolving Fund as of September 30, 2021 and September 30, 2020 and the changes in financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of 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, 2021 and September 30, 2020, 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 13 to the financial statements, changes in accounting principles and error corrections resulted in restatements to beginning fund balance and fund net position. This was a correction of prior year error related to changes in measurement of other postemployment benefit 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, schedules of required supplementary information - SERS OPEB liability, schedule of the MLCC's proportionate share of PELIB OPEB liability, and related notes as listed in the table of contents 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.



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Office of the Auditor General

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report 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,

A handwritten signature in cursive script that reads "Laura J. Hirst".

Laura J. Hirst, CPA
Deputy Auditor General
February 22, 2023

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

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 400	\$ 400
Cash in Transit	-	-
Equity in Common Cash	120,484,198	111,559,858
Liquor Inventory	4,630,661	535,123
Prepaid Distribution Costs of Inventory	289,196	(4,711)
Returned Checks	750,560	632,102
Accounts Receivable	12,174,584	14,657,817
Total Current Assets	\$ 138,329,599	\$ 127,380,589
NON CURRENT ASSETS		
Capital Assets:		
Buildings and Equipment	\$ 161,744	\$ 161,745
Allowance for Depreciation	(12,779)	(4,698)
Total Capital Assets (NOTE 12)	\$ 148,965	\$ 157,047
TOTAL ASSETS	\$ 138,478,564	\$ 127,537,636
DEFERRED OUTFLOWS OF RESOURCES (NOTE 1)	\$ 7,301,860	\$ 5,429,518
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Other Liabilities	\$ 143,687,015	\$ 130,107,321
Amounts Due to Other Funds	117,567	236,932
Current Compensated Absences	625,304	852,666
Capital lease - Current	237	186
TOTAL CURRENT LIABILITIES	\$ 144,430,123	\$ 131,197,105
LONG-TERM LIABILITIES		
Net Pension Liability	\$ 13,904,691	\$ 13,415,133
Net OPEB Obligation	14,684,080	17,798,105
Long Term Compensated Absences	733,402	413,013
Capital Lease Obligation	161,172	161,379
TOTAL LONG TERM LIABILITIES	\$ 29,483,345	\$ 31,787,630
TOTAL LIABILITIES	\$ 173,913,468	\$ 162,984,735
DEFERRED INFLOWS OF RESOURCES	\$ 9,059,526	\$ 7,174,989
NET POSITION		
Unrestricted (NOTE 10)	\$ (37,180,125)	\$ (37,188,051)
Net Investment in Capital Assets	(12,445)	(4,519)
TOTAL NET POSITION	\$ (37,192,570)	\$ (37,192,570)

* This amount includes the amounts of money collected from the three 4% specific taxed and the sales tax that have not been transferred out of the Liquor Purchase Revolving Fund.

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

	2021	2020
OPERATING REVENUES		
Gross Sales	\$ 1,910,934,330	\$ 1,763,064,119
Liquor Buyback Program	170,225	-
Less: Discounts Allowed	323,536,088	301,163,992
Less: Liquor Buyback Program	-	3,235,854
	\$ 1,587,568,467	\$ 1,458,664,273
PROCEEDS - SALE OF LIQUOR		
Miscellaneous Revenue	169,147	560,696
	\$ 1,587,737,614	\$ 1,459,224,969
OPERATING EXPENSES		
Cost of Goods Sold	\$ 1,165,850,541	\$ 1,073,029,256
Distribution Costs Paid to Suppliers (NOTE 8)	90,260,660	87,133,003
Commission	537,200	490,423
Management Support	4,426,941	3,952,394
Licensing and Enforcement	8,176,000	7,802,713
OPEB/Pension Expense	(2,641,103)	(571,442)
Compensated Absences	93,028	129,499
Depreciation	8,082	8,062
DLARA Operating Expenses	2,163,717	2,175,041
Administrative Hearings & Rules	51,674	20,140
DTMB Information Technology Services	3,565,427	3,893,417
Attorney General Services	1,396,748	1,531,137
Auditor General	92,000	88,200
Premiums and claims	816	398
Bad Debt Expense	-	838,287
	\$ 1,273,981,731	\$ 1,180,520,528
OPERATING INCOME (LOSS)	\$ 313,755,883	\$ 278,704,441
OPERATING REVENUES (EXPENSES)		
Interest Revenue	\$ 149,084	\$ 971,284
Non-Operating Revenue	124	34,553
Interest Expense	(30,784)	(29,043)
Non-Operating Expense	(93,413)	(144,700)
	\$ 25,011	\$ 832,094
INCOME (LOSS) BEFORE TRANSFERS	\$ 313,780,894	\$ 279,536,535
TRANSFERS		
Income Transferred to General Fund (NOTE 1)	\$ (313,590,604)	\$ (279,347,249)
Other Transfers (NOTE 9)	(201,219)	(189,286)
TOTAL TRANSFERS IN (OUT)	\$ (313,791,823)	\$ (279,536,535)
Changes in Net Position	(10,929)	-
Total Net Position - Beginning of Fiscal Year Restated (NOTE 13)	(37,181,641)	(37,192,570)
TOTAL NET POSITION - END OF FISCAL YEAR (NOTE 10)	\$ (37,192,570)	\$ (37,192,570)

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 CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,589,813,259	\$ 1,461,855,175
Payments to Employees and for Administration Expenses	(13,657,159)	(12,399,626)
Payments to Suppliers	(1,253,052,643)	(1,133,147,588)
Claims Paid	(1,194)	(398)
Other Receipts	124	19,943
Other Payments	(915,688)	(978,904)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 322,186,699	\$ 315,348,602
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	\$ (313,520,264)	\$ (279,486,960)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (313,520,264)	\$ (279,486,960)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Lease Payments (Including Imputed Interest Expense)	\$ (30,940)	\$ (30,135)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (30,940)	\$ (30,135)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	\$ 149,084	\$ 971,283
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ 149,084	\$ 971,283
Net Cash Provided (Used) - All Activities	\$ 8,784,579	\$ 36,802,790
Cash and Cash Equivalents at Beginning of Year (Note 13)	111,700,019	74,757,468
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 120,484,598	\$ 111,560,258
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per Statement of Net Position Classifications:		
Cash	\$ 400	\$ 400
Equity in Common Cash	120,484,198	111,559,858
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 120,484,598	\$ 111,560,258
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 313,755,883	\$ 278,704,441
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	8,082	8,062
Pension Expense	1,243,907	1,786,397
OPEB Expense	(263,278)	280,577
Deferred Outflows - Contributions Subsequent to Measurement Date	(3,314,525)	(2,585,975)
Other Nonoperating Revenues	124	34,553
Other Nonoperating Expenses	(93,413)	(144,700)
Other Reconciling Items	(307,207)	(52,441)
Net Changes in Assets and Liabilities:		
Inventories	(4,095,538)	12,748,461
Other Assets (Net)	1,785,996	4,017,632
Accounts Payable and Other Liabilities	13,466,668	20,551,595
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 322,186,699	\$ 315,348,602
SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Cost of Capital Assets Acquisitions Financed by Capital Leases	\$ -	\$ -
Capital Lease Liabilities Entered into During the Year	-	-
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	\$ -	\$ -

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, 2021 and September 30, 2020. 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 Annual Comprehensive Financial Report (SoMACFR)*.

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

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

NOTES TO FINANCIAL STATEMENTS

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.

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 \$120.9 million and \$157.0 million at September 30, 2021 and September 30, 2020 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 *SOMACFR*.

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
- 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% 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.

NOTES TO FINANCIAL STATEMENTS

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, 2021 and at September 30, 2020.

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, 2021 and at September 30, 2020, 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 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% 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, 2021 and September 30, 2020, 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.

NOTES TO FINANCIAL STATEMENTS

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 General Information on Employee Pension Plans 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.

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.

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:

NOTES TO FINANCIAL STATEMENTS

- 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 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

NOTES TO FINANCIAL STATEMENTS

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:

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.

NOTES TO FINANCIAL STATEMENTS

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 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.

NOTES TO FINANCIAL STATEMENTS

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 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 2021 and 2020, the Liquor Purchase Revolving Fund's contribution rate was 23.90% and 23.82% of the defined benefit employee wages and 18.42% and 16.99% of the defined contribution employee wages. The Liquor Purchase Revolving Fund's contributions to SERS for the fiscal years ending September 30, 2021 and September 30, 2020 were \$1,504,194 and \$1,199,079 respectively.

Actuarial Assumptions

The Liquor Purchase Revolving Fund's net pension liability for the year ended September 30, 2021, was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019, and rolled-forward using generally accepted actuarial procedures. Net pension liability for the year ended September 30, 2020 was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018, and rolled-forward using generally accepted actuarial procedures. The pension liability for the year ended September 30, 2021 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	2.75%
Projected Salary Increases	2.75 – 11.75%, including wage inflation at 2.75%
Investment Rate of Return	6.7%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible
Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Table scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Male and Female Healthy Annuitant Mortality Table scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

The pension liability for the year ended September 30, 2020 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	2.75%
Projected Salary Increases	2.75 – 11.75%, including wage inflation at 2.75%
Investment Rate of Return	6.7%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible

NOTES TO FINANCIAL STATEMENTS

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, 2020 and September 30, 2019 are summarized in the following tables:

September 30, 2020

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expect Real Rate of Return*</u>
Domestic Equity Pools	25.0 %	5.6 %
International Equity Pools	15.0	7.4
Private Equity Pools	16.0	9.3
Real Estate and Infrastructure Pools	10.0	4.9
Fixed Income Pools	10.5	0.5
Absolute Return Pools	9.0	3.2
Real Return and Opportunistic Pools	12.5	6.6
Short-Term Investment Pools	2.0	(0.1)
Total	<u>100.0 %</u>	

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

September 30, 2019

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expect Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.5 %
International Equity Pools	16.0	7.3
Private Equity Pools	18.0	8.6
Real Estate and Infrastructure Pools	10.0	4.2
Fixed Income Pools	10.5	1.2
Absolute Return Pools	15.5	5.4
Short-Term Investment Pools	2.0	0.8
Total	<u>100.0 %</u>	

*Long-term Rate of Returns are net of administrative expenses and 2.3 percent inflation.

NOTES TO FINANCIAL STATEMENTS

Discount Rate

A discount rate of 6.7% and 6.7% was used to measure the total pension liability as of September 30, 2021 and 2020, respectively. The discount rates were based on the long term expected rate of return on pension plan investments of 6.7% and 6.7% as of September 30, 2021 and 2020, respectively. 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.

Net Pension Liability

At September 30, 2021 net pension liability was measured as of September 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019 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, 2019 through September 30, 2020, relative to the total required employer contributions from all of SERS's participating employers.

At September 30, 2020 net pension liability was measured as of September 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 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, 2018 through September 30, 2019, 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>	
2021	\$13,904,691	0.21	%
2020	\$13,415,133	0.20	%

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 6.7% 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 5.7%	Current Discount 6.7%	1% Increase 7.7%
2021	\$17,745,107	\$13,904,691	\$10,634,724

	1% Decrease 5.7%	Current Discount 6.7%	1% Increase 7.7%
2020	\$17,261,041	\$13,415,133	\$10,146,627

Pension Plan Fiduciary Net Position

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

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

The Liquor Purchase Revolving Fund recognized pension expense of \$1,243,907 for the year ended September 30, 2021 and \$1,786,397 for the year ended September 30, 2020. The Liquor Purchase Revolving Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021 Deferred Outflow of Resources	2021 Deferred Inflow of Resources	2020 Deferred Outflow of Resources	2020 Deferred Inflow of Resources
Changes in experiences	\$ 0	\$ 0	\$ 0	\$ 0
Changes of assumptions	0	0	0	0
Changes in proportions	0	0	0	0
Net difference between projected and actual earnings on investments	32,282	0	0	554,796
Liquor Purchase Revolving Fund's contributions subsequent to the measurement date	1,504,194	0	1,199,079	0
Total	\$ 1,536,476	\$ 0	\$ 1,199,079	\$ 554,796

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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

NOTES TO FINANCIAL STATEMENTS

Year ended September 30:	Pension Expense Amount
2022	\$(225,433)
2023	3,826
2024	174,226
2025	79,663

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% of payroll with an additional match of up to 3.0%. The contribution requirements of plan members and 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 \$820,044.99 and \$777,709.18 for the years ended September 30, 2021 and 2020, respectively, and are recorded in salaries and benefits expense.

NOTE 5 Other Postemployment Benefits

State Employees Retirement System Other Postemployment Benefits (SERS OPEB)

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. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2016 established the State of Michigan Retirement Board. The board consists of nine members – five appointed by the Governor, which consist of two members of the State Employees' Retirement System at least one of whom is a retiree; one member of the Judges retirement System; one current or former officer or enlisted person in the Michigan military Establishment who is a member or retiree under the Military Retirement Provisions; and one member of the general public; and the attorney general, state treasurer, legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act.

The Michigan State Employees' Retirement System health, dental, and vision benefit is accounted for in a separate OPEB 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.

Benefits Provided

Benefit provisions of the other postemployment benefit (OPEB) plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan.

NOTES TO FINANCIAL STATEMENTS

Defined Benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health prescription drug, dental, and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the Premium Subsidy benefit contribute 20% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earning a 30% subsidy with ten years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy but will become a participant in the Personal Healthcare Fund.

The plan is closed to new hires.

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-percent of payroll value funding principles so the contribution rates do not have to increase over time. For fiscal year 2021, the Liquor Purchase Revolving Fund's contribution rate was 23.09% of the defined benefit employee wages and 23.09% of the defined contribution employee wages. For fiscal year 2020, the Liquor Purchase Revolving Fund's contribution rate was 20.67% of the defined benefit employee wages and 20.67% of the defined contribution employee wages. The Liquor Purchase Revolving Fund's contributions to the OPEB trust for the fiscal years ending September 30, 2021 and 2020 were \$1,733,505 and \$1,323,646 respectively. Active employees are not required to contribute to SERS OPEB.

Actuarial Assumptions

The Liquor Purchase Revolving Fund's net OPEB liability for the year ended September 30, 2021 was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuation as of September 30, 2019, and rolled forward using generally accepted actuarial procedures. Net OPEB liability for the year ended September 30, 2020 was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018, and rolled forward using generally accepted actuarial procedures.

For the year ended September 30, 2021, the total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	2.75%
Projected Salary Increases	2.75 – 11.75%, including wage inflation at 2.75%
Investment Rate of Return	6.9%
Health Care Cost Trend Rate	7.5% Year 1 graded to 3.5% Year 15

NOTES TO FINANCIAL STATEMENTS

Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Table scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Male and Female Healthy Annuitant Mortality Table scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

For the year ended September 30, 2020, the total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	2.75%
Projected Salary Increases	2.75 – 11.75%, including wage inflation at 2.75%
Investment Rate of Return	6.9%
Health Care Cost Trend Rate	7.5% Year 1 graded to 3.5% Year 15

Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Table scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
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Active	RP-2014 Male and Female Healthy Annuitant Mortality Table scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
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The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2007 through September 30, 2012.

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2020 and September 30, 2019 are summarized in the following table.

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

Asset Class	Asset Allocation Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.6 %
International Equity Pools	15.0	7.4
Private Equity Pools	16.0	9.3
Real Estate and Infrastructure Pools	10.0	4.9
Fixed Income Pools	10.5	0.5
Absolute Return Pools	9.0	3.2
Real Return and Opportunistic Pools	12.5	6.6
Short Term Investment Pools	2.0	(0.1)
TOTAL	100 %	

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

September 30, 2019

Asset Class	Asset Allocation Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.5 %
International Equity Pools	16.0	7.3
Private Equity Pools	18.0	8.6
Real Estate and Infrastructure Pools	10.0	4.2
Fixed Income Pools	10.5	1.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
TOTAL	100.0 %	

*Long-term Rate of Returns are net of administrative expenses and 2.3 percent inflation.

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTES TO FINANCIAL STATEMENTS

Discount Rate

A discount rate of 6.9% and 6.9% was used to measure the total OPEB liability as of September 30, 2021 and 2020, respectively. This discount rate was based on the long term expected rate of return on OPEB plan investments of 6.9% and 6.9% as of September 30, 2021 and 2020, respectively. 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 (retiree) rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Net OPEB Liability

The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019 and rolled-forward using generally accepted actuarial procedures. The Liquor Purchase Revolving Fund's proportion of the net OPEB liability was based on the Liquor Purchase Revolving Fund's required OPEB contributions received by SERS during the measurement period October 1, 2019 through September 30, 2020, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2020, the Liquor Purchase Revolving Fund's proportion was .20%. At September 30, 2021 and 2020, the Liquor Purchase Revolving Fund reported a liability of \$11,626,029 and \$15,311,177, respectively, for its proportionate share of participating employers' net OPEB liability.

The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The Liquor Purchase Revolving Fund's proportion of the net OPEB liability was based on the Liquor Purchase Revolving Fund's required OPEB contributions received by SERS during the measurement period October 1, 2018 through September 30, 2017, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2019, the Liquor Purchase Revolving Fund's proportion was .19%. At September 30, 2020 and 2019, the Liquor Purchase Revolving Fund reported a liability of \$15,311,177 and \$15,834,644, respectively, for its proportionate share of participating employers' net OPEB liability.

The investment return assumption was updated beginning with the September 30, 2017 valuation to reflect reductions in capital market assumptions for the asset classes in which the System invests. The investment return assumption was updated again beginning with the September 30, 2018 valuation in accordance with the Dedicated Gains Policy adopted by the Board of Trustees. This assumption change will increase the computed liabilities.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

As required by GASB Statement No. 75 we have determined the sensitivity of the net OPEB liability to changes in the Single Discount Rate. The following table presents the Liquor Purchase Revolving Fund's net OPEB liability, calculated using a Single Discount Rate of 6.9%, as well as what the Liquor Purchase Revolving Fund's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher.

NOTES TO FINANCIAL STATEMENTS

	<u>1% Decrease</u> <u>5.9%</u>	<u>Current Single</u> <u>Rate Discount</u> <u>6.9%</u>	<u>1% Increase</u> <u>7.9%</u>
2021 Liquor Purchase Revolving Fund's proportionate share of the net OPEB liability	\$13,844,065	\$11,626,029	\$9,763,487

	<u>1% Decrease</u> <u>5.9%</u>	<u>Current Single</u> <u>Rate Discount</u> <u>6.9%</u>	<u>1% Increase</u> <u>7.9%</u>
2020 Liquor Purchase Revolving Fund's proportionate share of the net OPEB liability	\$17,852,594	\$15,311,177	\$13,182,966

Sensitivity of the NET OPEB Liability to Healthcare Cost Trend Rates

As required by GASB Statement No. 75, we have determined the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following table presents the Liquor Purchase Revolving Fund's net OPEB liability, calculated using the assumed trend rates as well as what the Liquor Purchase Revolving Fund's net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher.

	<u>1% Decrease</u>	<u>Current</u> <u>Healthcare Cost</u> <u>Trend Rate</u>	<u>1% Increase</u>
2021 Liquor Purchase Revolving Fund's proportionate share of the net OPEB liability	\$9,669,838	\$11,626,029	\$13,887,092

	<u>1% Decrease</u>	<u>Current</u> <u>Healthcare Cost</u> <u>Trend Rate</u>	<u>1% Increase</u>
2020 Liquor Purchase Revolving Fund's proportionate share of the net OPEB liability	\$13,068,844	\$15,311,177	\$17,913,796

OPEB Plan Fiduciary Net Position

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The Liquor Purchase Revolving Fund recognized OPEB expense of \$(332,173) for the year ended September 30, 2021 and \$281,570 for the year ended September 30, 2020. The Liquor Purchase Revolving Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTES TO FINANCIAL STATEMENTS

	2021 Deferred Outflow of Resources	2021 Deferred Inflow of Resources	2020 Deferred Outflow of Resources	2020 Deferred Inflow of Resources
Changes in experiences	\$ 0	\$ 6,394,131	\$ 0	\$ 2,872,694
Changes of assumptions	2,897,790	0	2,552,406	0
Changes in proportions	407,595	2,061,355	40,977	2,859,983
Net difference between projected and actual earnings on investments	66,430	0	0	72,353
Liquor Purchase Revolving Fund's contributions subsequent to the measurement date	1,733,505	0	1,323,646	0
Total	\$ 5,105,320	\$ 8,455,486	\$3,917,029	\$ 5,805,030

Amounts reported as deferred outflows of resources related to OPEB resulting from Liquor Purchase Revolving Fund's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	Pension Expense Amount
2022	\$(1,540,854)
2023	\$(1,504,710)
2024	\$(1,038,694)
2025	\$ (634,764)
2026	\$ (364,649)
Thereafter	\$ 0

NOTE 6 General Information about Other Postemployment Benefit Plans: Life Insurance

Plan Description

The State of Michigan provides postemployment life insurance benefits (the Plan) to eligible individuals upon retirement from State employment. Members of the State Employees Retirement System (SERS) may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, state-wide, defined benefit other postemployment benefits (OPEB) plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the State of Michigan Annual Comprehensive Financial Report (SOMACFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

NOTES TO FINANCIAL STATEMENTS

Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with non-career appointments and those working less than 40% of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage (which amount is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse and \$1,000 for each dependent under age 23. The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$200,000; or b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

Contributions

The State contributes 100% of the premiums for employee and retiree life insurance coverage. The premium rates for FY 2020 and FY 2021 were \$.28 and \$.28 respectively for each \$1,000.00 of coverage. The employee contributes 100% of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

Actuarial Valuations and Assumptions

The MLCC's total OPEB liability for PELIB as of the September 30, 2020 measurement date is based on an actuarial valuation performed as of September 30, 2019. The total OPEB liability for PELIB as of the September 30, 2019 measurement date is based on an actuarial valuation performed as of September 30, 2018 and rolled-forward using general accepted actuarial procedures.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method with these characteristics: a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and b) each annual normal cost is a constant percentage of the members' year by year projected covered pay.

NOTES TO FINANCIAL STATEMENTS

The total OPEB liability was measured using the following actuarial assumptions:

Wage Inflation Rate: 2.75%
Investment Rate of Return (discount rate): 2.41% per year
Mortality: Healthy Life and Disabled Life Mortality (Percentage of the rates used in the pension valuation):

	Post Retirement Mortality Percentage
SERS	110%

IBNR: A liability equal to 25% of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees: The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees as follows:

SERS plan Members: 1.5%

Spouse Benefits for Current Retirees: Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees as follows:

SERS retirees: 2%

Compensation: For some SERS retirees, FAC was not reported. The FAC for these members was assumed to be \$54,575 (the average of all SERS retiree records reported with FAC).

For purposes of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement. The factor used to convert an FAC to a base wage is based on the length of the FAC period for each group. The factor used for each affected plan follows:

SERS: Conservation: 0.986618 (2 year FAC)
Corrections and All Others: 0.973475 (3 year FAC)

For MSERS DC plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the SERS Defined Benefit plan.

Other: The face values of The Plan policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the postemployment life insurance benefit policies for retirees as follows:

Individuals retired after July 1974: $25\% \times [2 \times \text{compensation at retirement (compensation reported for the 2019 retirement system valuations)}]$

Individuals retired on or before July 1974: A minimum benefit of \$1,000 and a maximum benefit of \$5,000 for an average of \$3,000

Spousal benefits: \$1,000.

Data for current retiree members of the Plan was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life

NOTES TO FINANCIAL STATEMENTS

insurance benefits and reported in connection with the 2019 retirement valuations were included in this valuation of the Plan.

Discount Rate

A discount rate of 2.75% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2020. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the plan has no assets. The municipal bond rate of 2.41% was used for determining the beginning total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2019.

For the prior valuation, dated September 30, 2018, the discount rate used was 3.83%. A decrease in the discount rate used affects the measurement of total OPEB liability for the Postemployment Life Insurance Benefits Plan by increasing its total OPEB liability.

Total OPEB Liability for Postemployment Life Insurance Benefits

The MLCC reported a liability of \$3,058,051 as of September 30, 2021 and \$2,486,928 as of September 30, 2020 for its proportionate share of the State's Postemployment Life Insurance Benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019. The MLCC's proportion of the total OPEB liability was determined by dividing the MLCC's actual contributions to the Plan during the measurement period of October 1, 2018, through September 30, 2020, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2020, the MLCC's proportion was .217%.

Sensitivity of the Total OPEB Liability for Postemployment Life Insurance

As required by GASB Statement No. 75, the following table presents the MLCC's total OPEB liability, calculated using a Single Discount Rate of 2.41%, as well as what the MLCC's total OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1% Decrease	Current Discount	1% Increase
	1.41%	2.41%	3.41%
MLCC's proportionate share of the total OPEB liability	\$3,658,125	\$3,058,051	\$2,593,125

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits

For the year ended September 30, 2021, the MLCC recognized OPEB expense of \$68,895. At September 30, 2021, the MLCC's reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTES TO FINANCIAL STATEMENTS

	2021 Deferred Outflows of Resources	2021 Deferred Inflows of Resources	2020 Deferred Outflows of Resources	2020 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 898	\$ 196,153	\$ 1,285	\$ 266,579
Changes of assumptions	336,722	126,638	146,074	169,441
Changes in proportion and differences between actual contributions and proportionate share of contributions	245,618	281,249	102,801	379,143
Contributions subsequent to the measurement date	78,826	0	63,250	0
Total	\$ 662,064	\$ 604,040	\$ 313,410	\$ 815,163

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	OPEB Expense Amount
2022	\$(64,842)
2023	(60,972)
2024	(18,539)
2025	82,539
2026	41,012
Thereafter	0

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. Effective February 1, 2017, the MLCC paid a \$7.75 per case distribution fee and the liquor suppliers were required to pay an

NOTES TO FINANCIAL STATEMENTS

additional \$1.35 per case distribution fee for a total of \$9.10 per case to the MLCC's Authorized Distribution Agents. Effective January 28, 2018, the MLCC paid a \$7.90 per case distribution fee and the liquor suppliers were required to pay an additional \$1.35 per case distribution fee for a total of \$9.25 per case to the MLCC's Authorized Distribution Agents. Effective February 3, 2019, the MLCC paid an \$8.25 per case distribution fee and the liquor suppliers were required to pay an additional \$1.35 per case distribution fee for a total of \$9.60 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 \$37,192,570 primarily caused by the implementation of GASB Statement No.68, Statement No. 45 and Statement No. 75. 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.

NOTE 11 Leases

Accounting Policy

The State leases various assets under non-cancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expenses.

For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures. For budgetary purposes, lease payments are only reported as expenditures when paid.

Most leases have cancellation clauses with one to six-month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting treatment is similar, such agreements are reported together with capital leases.

Primary Government – Business-Type Activities

The historical cost of assets acquired under capital leases follows:

NOTES TO FINANCIAL STATEMENTS

	Business-Type Activities
Buildings and Equipment	\$ 161,744
Accumulated Depreciation	(12,779)
Net Buildings and Equipment	\$ 148,965

A summary of the non-cancelable capital lease commitments to maturity follows:

Year Ended September 30	Capital Leases			
	Principal	Interest	Executory Cost	Total
2022	\$ 206.82	\$ 30,746.01	\$ 13,265.50	\$ 44,218.33
2023	249.85	30,702.97	13,265.50	44,218.32
2024	301.83	30,650.99	13,265.50	44,218.32
2025	364.64	30,588.19	13,265.50	44,218.33
2026	440.50	30,512.32	13,265.50	44,218.32
2027-2031	12,632.50	149,513.79	66,327.50	228,473.79
2032-2036	60,466.86	116,443.77	66,327.50	243,238.13
2037-2040	86,812.39	31,128.03	44,218.33	162,158.75
Total	\$ 161,475.39	\$ 450,286.08	\$ 243,200.83	\$ 854,962.29

NOTE 12 Subsequent Event – COVID-19 Pandemic

The United States and the State of Michigan declared a state of emergency in March 2020 due to the global Coronavirus Disease 2019 (COVID-19) pandemic. The pandemic may have material effects on the MLCC. Although our workforce and business operations continue at normal capacity with some from remote locations, the MLCC may experience disruptions in operations, liquidity, and economic activity over an extended period of time. While it is not yet possible to estimate the financial impact, a large-scale pandemic could have a material effect on the MLCC's financial position and results of operations.

NOTE 13 Restatement of Fund Balance and Fund Net Position

During fiscal year 2021, changes in accounting principles and error corrections resulted in restatements to beginning fund balance and fund net position. This was a correction of prior year error related to changes in measurement of other postemployment benefit liability.

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 Six Fiscal Years*
(Amounts in thousands)**

	2021	2020	2019	2018	2017	2016	2015
LPRF's Proportion of the Net Pension Liability	.21%	.20%	0.20%	0.25%	0.27%	0.30%	0.31%
LPRF's Proportionate Share of the Net Pension Liability	\$13,905	\$13,415	\$12,370	\$13,046	\$14,095	\$16,636	\$15,999
LPRF's Covered-Employee Payroll	\$ 7,565	\$ 7,633	\$ 7,180	\$ 6,602	\$ 7,601	\$ 8,740	\$ 7,296
LPRF's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.81%	175.75%	172.28%	197.61%	185.44%	190.34%	219.28%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	64.7%	67.2%	69.5%	67.5%	66.1%	68.07%

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

	2021	2020	2019	2018	2017	2016	2015
Statutorily Required Contribution	\$1,504	\$1,199	\$1,221	\$1,658	\$1,837	\$1,903	\$2,293
Contributions in relation to the statutorily required contribution	\$1,504	\$1,199	\$1,221	\$1,658	\$1,837	\$1,903	\$2,293
Contribution deficiency (excess)	-	-	-	-	-	-	-
LPRF's covered-employee payroll	\$7,565	\$7,633	\$7,180	\$6,602	\$7,601	\$8,740	\$7,296
Contributions as a percentage of covered-employee payroll	19.88%	15.71%	17.01%	25.11%	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, 2021:

Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	16 years
Asset Valuation Method	5-year smoothed fair value
Inflation	2.3%
Salary Increases	2.8 – 11.8% including wage inflation at 2.8%
Investment Rate of Return	6.7% percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Retirees	RP-2014 Healthy Annuitant Mortality Tables, scaled by 93.0 percent for males and 98.0 percent for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Employee Mortality Tables, scaled by 100 percent for males and females adjusted for mortality improvements using projection scale MP-2017 from 2006.

Schedule of the Liquor Purchase Revolving Fund's Proportionate Share of SERS OPEB Liability
Last Fiscal Year*
(Amounts in thousands)

	2021	2020	2019	2018
LPRF's Proportion of the Total OPEB Liability	00.20%	00.19%	00.20%	00.25%
LPRF's Proportionate share of the Total OPEB Liability	\$11,626	\$15,311	\$15,835	\$20,254
LPRF's Covered Payroll	\$7,565	\$7,633	\$7,180	\$6,602
LPRF's proportionate share of the Total OPEB liability as a percentage of its covered payroll	153.68%	200.59%	220.54%	306.79%
Plan fiduciary net position as a percentage of the total SERS OPEB Liability	38.29%	27.88%	24.41%	19.89%

The amounts presented for each fiscal year were determined as of the prior fiscal year.

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, component units should present information for those years for which information is available.

Schedule of Liquor Purchase Revolving Fund's (LPRF's) Contributions for SERS OPEB
State Employees' Retirement Plan
Last Fiscal Year*
(Amounts in thousands)

	2021	2020	2019	2018
Statutorily Required Contribution	\$1,734	\$1,324	\$1,531	\$1,694
Contributions in relation to the statutorily required contribution	\$1,734	\$1,324	\$1,531	\$1,694
Contribution deficiency (excess)	-	-	-	-
LPRF's covered-employee payroll	\$7,565	\$7,633	\$7,180	\$6,602
Contributions as a percentage of covered-employee payroll	22.92%	17.35%	21.32%	25.66%

*Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than 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 SERS OPEB 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 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 OPEB Liability and Schedule of Contributions for OPEB are schedules that are required in implementing GASB Statement No. 75. 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 OPEB plan follows.

Valuation:

Actuarially determined contribution amounts are calculated as of September 30, 2018.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2021

Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	16 years, as of October 1, 2020
Asset Valuation Method	5 year smoothed fair value
Inflation	2.3%
Salary Increases	2.8 – 11.8%, including wage inflation at 2.8%
Investment Rate of Return	6.9 percent net of investment expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Retirees	RP-2014 Healthy Annuitant Mortality Table, adjusted for mortality improvements using projection scale MP-2017 from 2006; 93.0 percent of the table rates were used for males and 98.0 for females.
Active	RP-2014 Employee Mortality Table, adjusted for mortality improvements using projection scale MP-2017 from 2006; 100.0 percent of the table rates were used for males and females.

**Schedule of the MLCC's Proportionate Share of PELIB OPEB Liability
Postemployment Life Insurance Benefit
Last Fiscal Year***
(Amounts in thousands)

	2021	2020	2019	2018
MLCC's Proportion of the Total OPEB Liability	00.22%	00.20%	00.19%	00.24%
MLCC's Proportionate share of the Total OPEB Liability	\$3,058	\$2,487	\$2,422	\$3,026
MLCC's Covered Payroll	\$7,450	\$7,840	\$7,180	\$6,602
MLCC's proportionate share of the Total OPEB liability as a percentage of its covered payroll	41.05%	31.72%	33.73%	45.83%

The amounts presented for each fiscal year were determined as of the prior fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, component units should present information for those years for which information is available.

Notes to Required Supplementary PELIB OPEB Information

The Plan is not a trust and has no assets.

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

For the Fiscal Years Ended September 30, 2021
and September 30, 2020

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

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
LIQUOR SALES			
Gross Sales (1)	\$ 1,910,934,330	\$ 1,763,064,119	\$ 147,870,211
Liquor Buyback Program	170,225	-	170,225
Less: Discounts Allowed	323,536,088	301,163,992	22,372,096
Less: Liquor Buyback Program	-	3,235,854	(3,235,854)
PROCEEDS - SALE OF LIQUOR	<u>\$ 1,587,568,467</u>	<u>\$ 1,458,664,273</u>	<u>\$ 128,904,194</u>
Less: Cost of Goods Sold	<u>1,165,850,541</u>	<u>1,073,029,256</u>	<u>92,821,285</u>
REVENUE FROM SALE OF LIQUOR	<u>\$ 421,717,926</u>	<u>\$ 385,635,017</u>	<u>\$ 36,082,909</u>
OTHER REVENUE			
Miscellaneous Revenue	\$ 169,147	\$ 560,696	\$ (391,549)
Non-Operating Revenue	124	34,553	(34,429)
Non-Operating (Expense)	(93,413)	(144,700)	51,287
Interest Revenue	149,084	971,284	(822,200)
Interest (Expense)	(30,784)	(29,043)	(1,741)
TOTAL OTHER REVENUE	<u>\$ 194,158</u>	<u>\$ 1,392,790</u>	<u>\$ (1,198,632)</u>
TOTAL REVENUE	<u>\$ 421,912,084</u>	<u>\$ 387,027,807</u>	<u>\$ 34,884,277</u>
Less: Distribution Costs Paid to Suppliers	<u>90,260,660</u>	<u>87,133,003</u>	<u>3,127,657</u>
INCOME FROM LIQUOR MERCHANDISING	<u>\$ 331,651,424</u>	<u>\$ 299,894,804</u>	<u>\$ 31,756,620</u>
MANAGEMENT EXPENSES			
OPEB/ Pension Expense	\$ (2,641,103)	\$ (571,442)	\$ (2,069,661)
Commission	537,200	490,423	46,777
Management Support (3)	4,494,465	4,019,672	474,793
Licensing and Enforcement (3)	15,601,678	14,878,865	722,813
DLARA Services (Excluding MLCC Rent) (3)	1,176,129	1,190,055	(13,926)
Depreciation	8,082	8,062	20
DTMB Information Technology Services	3,512,109	3,095,477	416,632
Attorney General	1,396,748	1,531,137	(134,389)
Auditor General	92,000	88,200	3,800
Premiums and Claims	816	48	768
Civil Service - Personnel	201,219	189,286	11,933
Administrative Hearings & Rules	51,674	20,140	31,534
Compensated Absences	93,028	129,499	(36,471)
TOTAL MANAGEMENT EXPENSES	<u>\$ 24,524,045</u>	<u>\$ 25,069,422</u>	<u>\$ (545,377)</u>
INCOME FROM OPERATIONS (Excluding Taxes and Grants)	<u>\$ 307,127,379</u>	<u>\$ 274,825,382</u>	<u>\$ 32,301,997</u>
Other Revenue Collected (2)	313,664,963	287,776,178	25,888,785
TOTAL CURRENT EARNINGS AND REVENUE	<u>\$ 620,792,342</u>	<u>\$ 562,601,560</u>	<u>\$ 58,190,782</u>
Number of Cases Sold	10,911,821	10,552,801	359,020
Number of Sales Days	262	262	-

Notes:

(1) This figure is comprised of the following:

Off Premise	\$ 1,712,986,945	\$ 1,588,559,844	\$ 124,427,101
On Premise	197,675,879	173,998,693	23,677,186
Other	271,506	505,582	(234,076)

(2) Other Revenue Collected (Page 49) 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)

(3) Includes Pension Expense

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

	<u>2021</u>	<u>2020</u>	<u>INCREASE (DECREASE)</u>
GENERAL FUND - GENERAL PURPOSE			
Excise Tax, Beer	\$ 36,961,583	\$ 37,440,394	\$ (478,811)
Specific Tax, Liquor 4%	76,717,667	70,882,590	5,835,077
Excise Tax, Wine	14,583,287	13,923,304	659,983
Excise Tax, Mixed Spirit Drink	3,816,905	2,188,970	1,627,935
Sunday Sales Fees (7am-12pm)	1,994,636	1,929,754	64,882
Fines & Costs	2,367,287	1,422,861	944,426
Miscellaneous Revenue	270,628	97,485	173,143
TOTAL GENERAL FUND - GENERAL PURPOSE	<u>\$ 136,711,993</u>	<u>\$ 127,885,358</u>	<u>\$ 8,826,635</u>
GENERAL FUND - RESTRICTED			
RETAIL LICENSE FEES:			
55% To Local Governments	\$ 11,560,226	\$ 7,356,111	\$ 4,204,115
41.5% To Licensing & Enforcement	6,407,849	5,796,104	611,745
3.5% To Alcoholism Prevention Programs	541,664	488,824	52,840
Additional Resort License Fees	78,200	58,200	20,000
Direct Shipper License Fees	168,887	168,709	178
Liquor Enforcement and Licensing Wholesale Fees	379,041	236,644	142,397
License Transfer Fees	776,730	649,922	126,808
Sunday Sales Fees	2,079,959	1,823,538	256,421
License Permit Fees	107,930	100,805	7,125
Third Party Facilitator Fees	13,000	13,000	-
Non-Retail License Fees-MI Craft Beverage Council	678,436	805,230	(126,794)
Liquor Control Act Sales	720	675	45
Inspection Fees	371,616	331,622	39,994
Specific Tax, Liquor 4%-Tourism & Conv. Facility	77,047,918	71,157,691	5,890,227
Miscellaneous Revenue	23,127	21,155	1,972
TOTAL GENERAL FUND - RESTRICTED	<u>\$ 100,235,303</u>	<u>\$ 89,008,230</u>	<u>\$ 11,227,073</u>
SCHOOL AID FUND			
Specific Tax, Liquor 4%	\$ 76,717,667	\$ 70,882,590	\$ 5,835,077
TOTAL SCHOOL AID FUND	<u>\$ 76,717,667</u>	<u>\$ 70,882,590</u>	<u>\$ 5,835,077</u>
OTHER FUNDS REVENUE	\$ 313,664,963	\$ 287,776,178	\$ 25,888,785
Income From Operations (Excluding Taxes & Grants) (1)	<u>307,127,379</u>	<u>274,825,382</u>	<u>32,301,997</u>
TOTAL CURRENT EARNINGS AND REVENUE	<u>\$ 620,792,342</u>	<u>\$ 562,601,560</u>	<u>\$ 58,190,782</u>

(1) Income from Operations (Page 48) 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 YEAR ENDED September 30,

2021

	COMMISSION(1)	MANAGEMENT SUPPORT	LICENSING & ENFORCEMENT	TOTAL 2021	TOTAL 2020
MLCC APPROPRIATED EXPENSES					
Salaries & Wages	\$ 537,200	\$ 2,099,132	\$ 7,184,460	\$ 9,820,792	\$ 9,351,443
Longevity & Insurance	-	429,195	1,614,729	2,043,924	1,971,989
Retirement & FICA	-	1,467,516	4,034,512	5,502,028	4,983,587
SUBTOTAL	\$ 537,200	\$ 3,995,843	\$ 12,833,701	\$ 17,366,744	\$ 16,307,019
Communications	-	\$ 11,456	\$ 68,593	\$ 80,049	\$ 74,864
Travel	-	18,571	202,308	220,879	246,547
Utilities	-	-	15,084	15,084	14,177
Contractual Services	-	274,671	1,262,659	1,537,330	1,421,850
Supplies & Materials	-	8,557	48,860	57,417	68,221
Equipment Replacement, Additions & Rentals	-	6,896	30,257	37,153	39,613
Misc - Unemployment Insurance Claims / other fees	-	110,947	313,943	424,890	376,382
SUBTOTAL	\$ -	\$ 431,098	\$ 1,941,704	\$ 2,372,802	\$ 2,241,654
TOTAL MLCC APPROPRIATED EXPENSES	\$ 537,200	\$ 4,426,941	\$ 14,775,405	\$ 19,739,546	\$ 18,548,673
TRANSFERS OUT & OTHER EXPENSES					
Rent and Building Occupancy (2)	-	\$ 67,524	\$ 826,273	\$ 893,797	\$ 840,288
Depreciation				8,082	8,062
Pension / OPEB				(2,641,103)	(571,442)
Other Transfers Out (3)				6,523,723	6,243,842
TOTAL TRANSFERS OUT & OTHER EXPENSES	\$ -	\$ 67,524	\$ 826,273	\$ 4,784,499	\$ 6,520,750
GRAND TOTAL	\$ 537,200	\$ 4,494,465	\$ 15,601,678	\$ 24,524,045	\$ 25,069,422

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.