

Michigan Department of Licensing and Regulatory Affairs  
Rick Snyder, Governor  
Steve Arwood, Director  
[www.michigan.gov/lcc](http://www.michigan.gov/lcc)



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## Michigan Liquor Control Commission

# Annual Financial Report 2013

*(For Fiscal Year October 1, 2012 – September 30, 2013)*

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RICK SNYDER  
GOVERNOR

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

STEVEN H. HILFINGER  
DIRECTOR

*To the Citizens of Michigan and Other Readers:*

Thank you for your interest in the Michigan Liquor Control Commission and the 2013 Annual Financial Report.

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

The last few years have seen great strides made in making the Commission more business-minded and customer-driven. But we still have plenty to do. 2014 will see continued changes to improve our processes and procedures so that applicants can get licenses more quickly and with less hassle. But 2014 will also bring about a new home for the MLCC Lansing office. The new office will be located in downtown Lansing in the Constitution Hall building, southwest of the Capitol. We're excited about the move as it will increase our capability to provide customer service and do it better.

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

The Commission holds public hearings twice each year "for the purpose of hearing complaints and receiving the views of the public with respect to the administration of this act." These hearings are required by law, and usually take place in June and December. You are cordially invited to attend our public hearings to speak to the Commissioners or to make comments to the Commission by other means. You may call our offices in Lansing at 517.322.1345 for the time and location of our next public hearing or email us at [mlccinfo2@michigan.gov](mailto: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](http://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 2013 Annual Financial Report.

Sincerely,

Andrew J. Deloney, Chairman

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

## Summary

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

REVENUE/EXPENSE ITEM	FY 2012-13 (In millions)	FY 2011-12 (In millions)	% INCREASE (DECREASE)
Gross Sales	\$1,098.9	\$1,032.2	6.5
Licensee Discounts	186.8	175.5	6.4
Cost of Goods Sold	666.0	625.3	6.5
Gross Revenue - Liquor	246.1	231.4	6.4
Operating Expenses <sup>1</sup>	83.5	77.9	7.2
Miscellaneous Revenue	.1	.1	0
Income from Operations <sup>2</sup>	162.7	153.6	5.9
Specific Liquor Taxes	131.6	139.5	(5.7)
Other Revenue Collected	68.8	69.4	(0.9)
Total Net Revenue	363.1	362.5	0.2

### NOTES:

(1) Operating Expenses do not include Liquor Purchase Revolving Fund transfers for grants. The transfers for grants of \$773,900 for 2013 and \$773,900 for 2012 are for Grants to Cities for Fire Protection. Licensing and Enforcement expenses attributable to General Fund are included in Operating Expenses.

(2) This figure does not include taxes or grants, and is computed after deducting all operating expenses including the General Fund portion of Licensing and Enforcement expenses. Operating Income in the Liquor Purchase Revolving Fund is \$168.6 million.

OTHER MERCHANDISING STATISTICS	FY 2012-13	FY 2011-12	% INCREASE (DECREASE)
Number of Cases Sold	7,532,846	7,372,714	2.2
Average Price Per Case	\$145.88	\$140.00	4.2
Items Available (brands and sizes)	7,200	6,507	10.7
Number of Bottles Sold	121,778,597	118,209,064	3.0
Average Price Per Bottle	\$9.02	\$8.73	3.3

APPARENT CONSUMPTION STATISTICS	FY 2012-13		FY 2011-12	
	Gallons	Per Capita <sup>3</sup>	Gallons	Per Capita <sup>3</sup>
Distilled Spirits	16,968,827	1.71	16,638,572	1.68
Mixed Spirit Drinks	279,623	0.03	284,340	0.03
Wine (21% alcohol or less)	23,272,063	2.35	22,256,998	2.25
Beer	192,400,015	19.44	195,870,259	19.82

Note:

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

# The MLCC

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

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



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

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

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

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

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

# The MLCC

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

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

## The Liquor Control Code

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

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

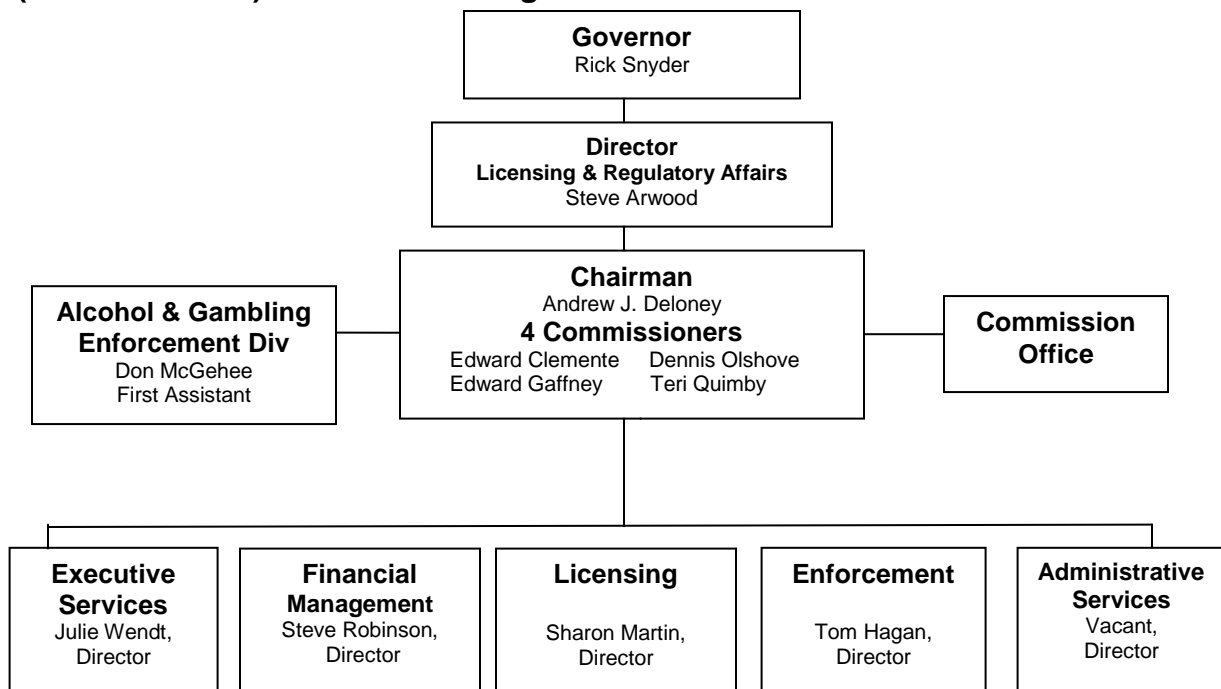
# The MLCC

## MLCC Personnel (as of 9/30/2013)

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
<b>Commissioners</b>	<b>5</b>	<b>0</b>
<b>Business Manager</b>	<b>1</b>	<b>0</b>
<b>Attorney General Support</b>	<b>3</b>	<b>0</b>
<b>Executive Services</b>	<b>16</b>	<b>0</b>
<b>Financial Management</b>	<b>15</b>	<b>0</b>
<b>Licensing</b>	<b>40</b>	<b>1</b>
<b>Enforcement</b>	<b>65</b>	<b>1</b>
<b>Administrative Services</b>	<u><b>2</b></u>	<u><b>0</b></u>
<b>TOTAL</b>	<u><b>147</b></u>	<u><b>2</b></u>

(as of 9/30/2013)

## Organization Chart



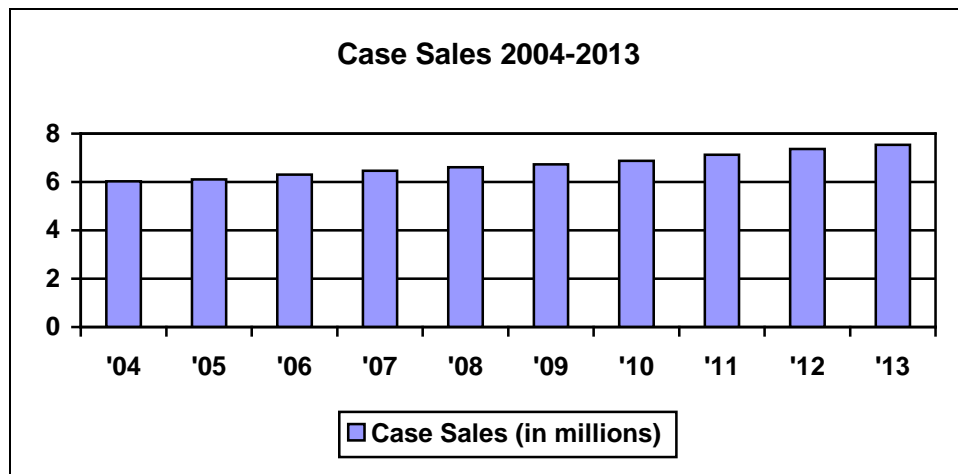
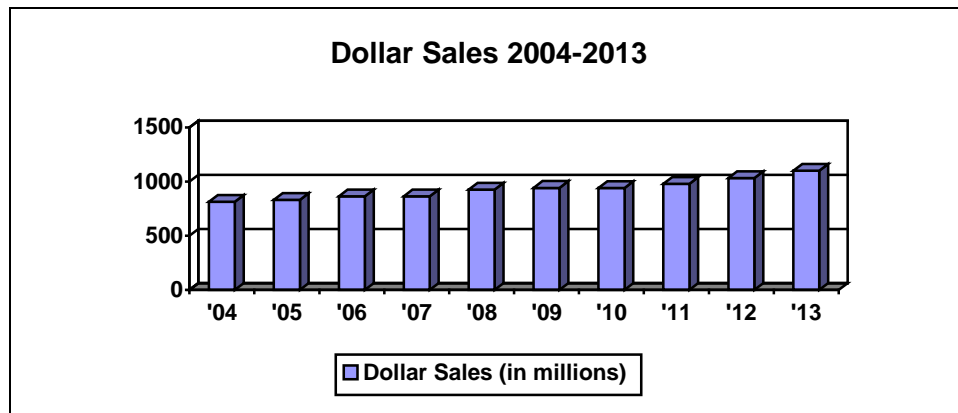


# Trends

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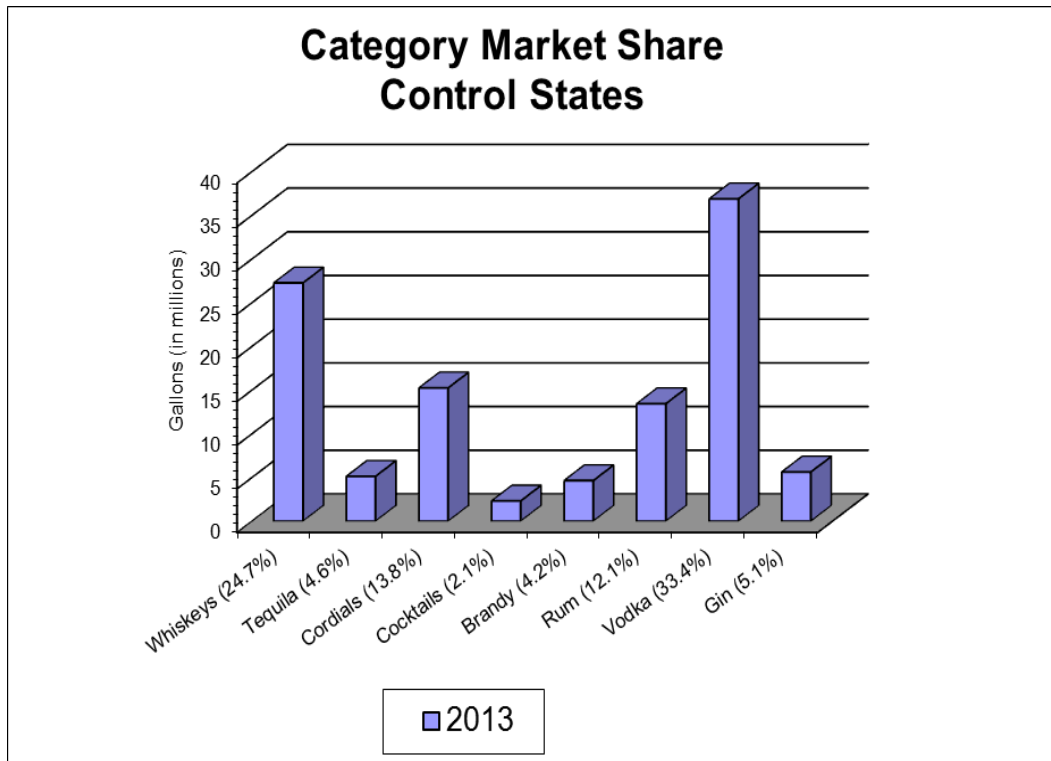
## Dollar Sales

Since the 2004 fiscal year, there has been a 35.0% increase in dollar sales from \$813.8m in FY 2004 to \$1,098.9m in FY 2013. News groups are reporting that consumers are enamored with a wide variety of flavors. They are drinking fruit flavored products, products mixed with juices and colorful cocktails. The industry has responded with a broad spectrum of choices. Classic cocktail drinks have also made a comeback in the United States. New products have been introduced into the market at a fast pace.

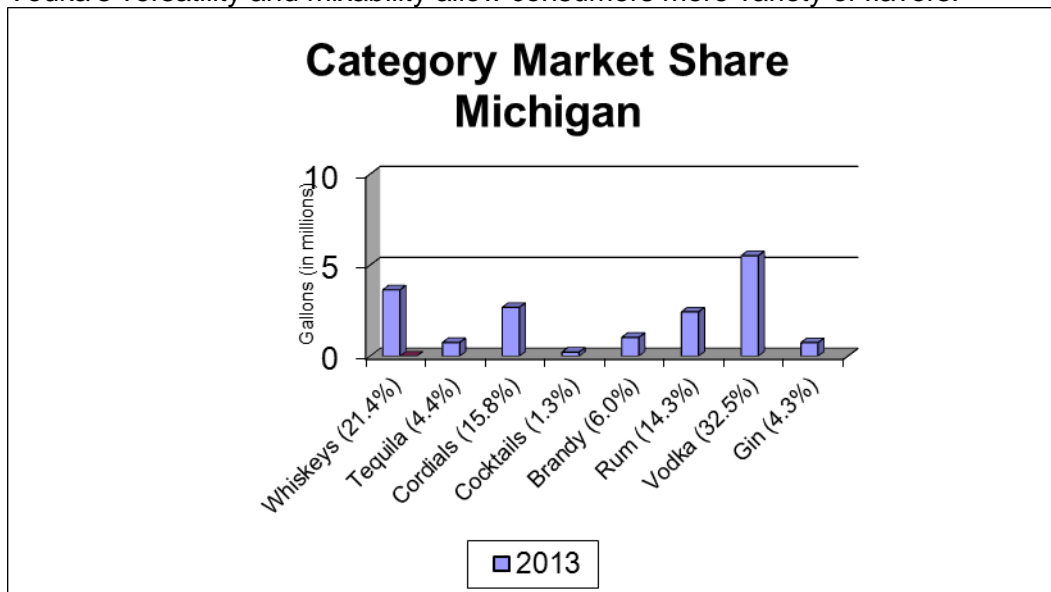


## Case Sales

The 10-year case sales history graph shows an increase in case sales every year since FY 2004. This trend continued in 2012-2013 with sales of 7,532,846 cases. This is an increase of 24.9% above the FY 2004 case sales figure of 6,029,155. These increases parallel the increase in dollar sales over the last ten years.



Other Control States and Michigan consumer preferences are very similar. Whiskeys and vodkas are the two most popular categories, comprising 58.1 percent of the Control States market share and 53.9 percent of the Michigan market share. Vodka has been the most popular category in Michigan for the last ten years, with new fruit-flavored products spurring the category's growth. New generations of drinkers are accustomed to a wide variety of flavors in foods and beverages and this desire has carried over into their choice of alcohol drinks. Vodka's versatility and mixability allow consumers more variety of flavors.



# Distilled Spirits

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

There are 7,200 products available for sale by the Commission. The Commission's Liquor Price Lists are available in xls format on the MLCC internet homepage at:

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

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

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

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

## The Michigan Liquor Control Commission PRICE ANALYSIS OF SAMPLE BOTTLE

750 ml 80 PROOF SPIRITS

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

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

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

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

# Beer - Wine - Mixed Spirits

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

## Tax Rate by Type of Alcohol Beverage

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

## **2004-2013 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons**

<i>Year</i>	<i>Population (Estimated)</i>	<i>Beer</i>	<i>Spirits</i>	<i>Wine</i>	<i>Mixed Spirit Drinks</i>
2004	10,113,000	20.87	1.42	1.71	0.03
2005	10,121,000	20.59	1.44	1.72	0.03
2006	10,096,000	20.41	1.48	1.78	0.02
2007	10,072,000	20.28	1.52	1.87	0.03
2008	10,003,422	20.46	1.55	1.92	0.02
2009	9,970,000	20.10	1.58	1.94	0.02
2010	9,884,000	20.22	1.61	2.12	0.03
2011	9,876,000	19.62	1.65	2.18	0.03
2012	9,883,000	19.82	1.68	2.25	0.03
2013	9,896,000	19.44	1.71	2.35	0.03

## **Per Capita Consumption**

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

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

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

## **MLCC TAX AND SALES STATISTICS**

	<u>Collection of Taxes</u>			<u>Sales in Barrels/Liters</u>		
	<u>2012-13</u>	<u>2011-12</u>	<u>Increase/ (Decrease)</u>	<u>2012-13</u>	<u>2011-12</u>	<u>Increase/ (Decrease)</u>
<b>Beer</b>	\$38,511,053	\$39,726,452	\$(1,215,399)	<b>Barrels of Beer</b>	6,206,452	6,318,395 (111,943)
<b>Wine</b>	12,164,846	11,101,232	1,063,614	<b>Liters of Wine</b>	88,096,394	84,253,865 3,842,529
<b>MSD*</b>	523,261	515,800	7,461	<b>Liters of MSD*</b>	1,058,511	1,076,369 (17,858)
<b>TOTAL</b>	\$51,199,160	\$51,343,484	\$( 144,324)			

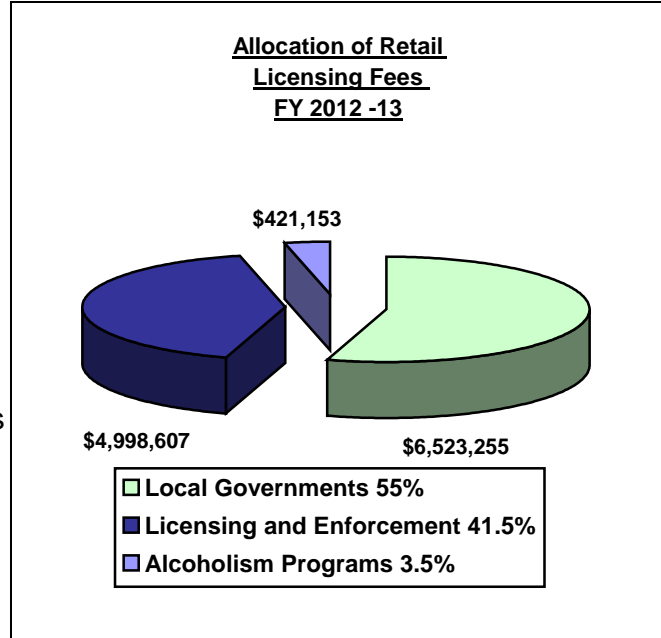
\* Mixed Spirit Drinks

# Control

## Licensing

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

Just over 16,000 retail businesses, including bars, grocery stores, restaurants, hotels, convenience stores and pharmacies have one or more active licenses to sell alcohol beverages. In addition to retail licenses, the MLCC had almost 12,100 issued licenses to manufacturers and other agents. The MLCC began issuing direct shipping licenses in May 2006. These licensed U.S. wineries may deliver ordered wine products to Michigan residents' homes. There are currently 857 wineries that hold Direct Shipper Licenses.



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

Retail license fees are distributed according to state statute. As shown in the chart above, 55% of the returnable retail licensing fees collected by the MLCC are earmarked for local governments. The MLCC collected almost \$16.0 million in retail license and transfer fees in fiscal year 2012-13. This amount included \$11,943,015 in returnable retail license fees.

The Michigan Grape and Wine Industry Council receives the non-retail license fees collected by the MLCC. This fiscal year, these fees amounted to \$687,683.

### Active Retail Liquor Licensed Businesses (by type)

<b><u>On-Premise Licensed Businesses: Total 8,397</u></b>			
<b>Class C: 5,943</b>	<b>Class C Resort: 930</b>	<b>B-Hotel: 187</b>	<b>B-Hotel Resort: 124</b>
<i>(Bars/Restaurants/Hotels) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
<b>A-Hotel: 1</b>	<b>A-Hotel Resort: 0</b>	<b>Tavern: 168</b>	<b>Tavern Resort: 9</b>
<i>Consumption on the premises: Beer and Wine only</i>			
<b>Clubs: 965</b>			
<i>(Membership required) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
<b>Other : 70</b> <i>(Aircraft, Watercraft, Train) Consumption on the premises: Liquor, beer, wine and mixed spirit drink</i>			
<b><u>Off-Premise Licensed Businesses: Total 7,629</u></b>			
<b>SDD: 3,867</b>	<b>SDD-Resort: 256</b>	<b>SDM: 3,506</b>	
<i>Package Liquor Take-out</i>		<i>Beer and Wine Take out</i>	
<b>Total Number of Retail Licensed businesses: 16,026</b>			

# Control

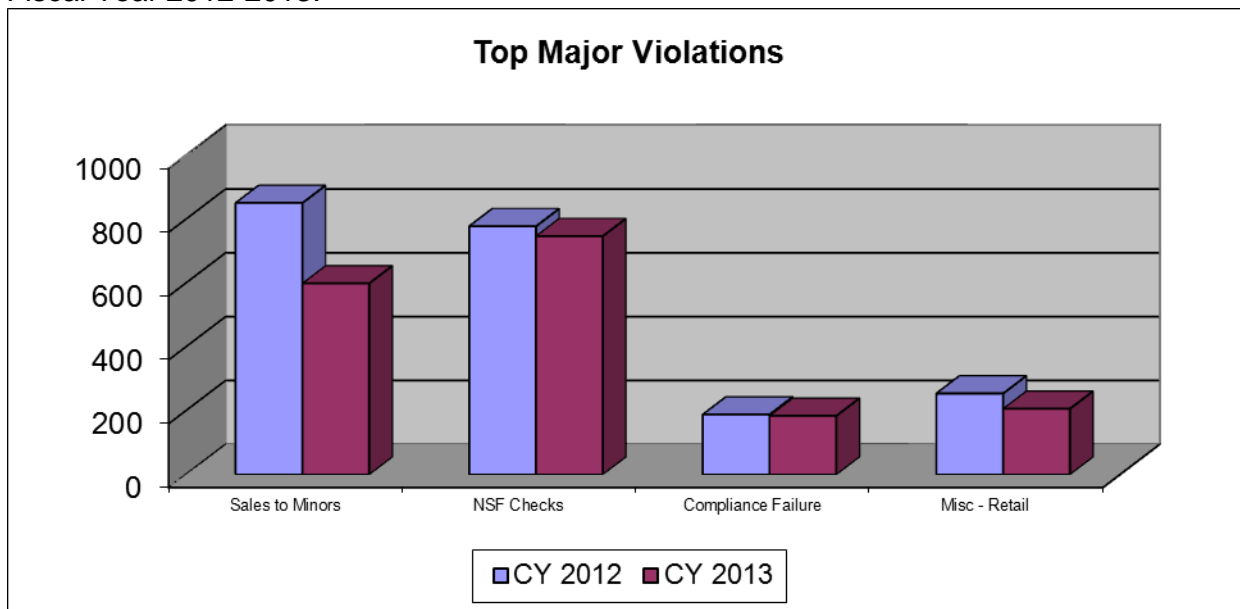
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## **Enforcement**

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 568 liquor law violation reports in Fiscal Year 2012-2013. MLCC enforcement investigators submitted 1,464 violation reports in Fiscal Year 2012-2013.



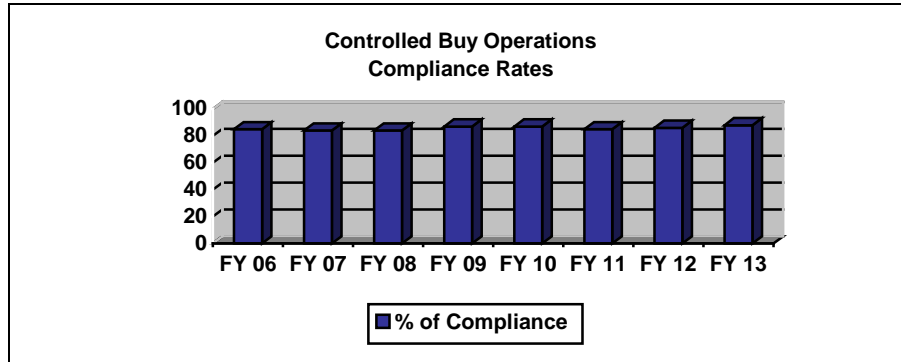
The violations that the Enforcement Division administers are varied. In addition to the top violations listed in the chart above, some of the other violations that Enforcement handles are as follows: Sales to intoxicated persons, illegally obtain or transfer license, licensee or employee convicted of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

## **Enforcement & Underage Drinking**

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

# Control

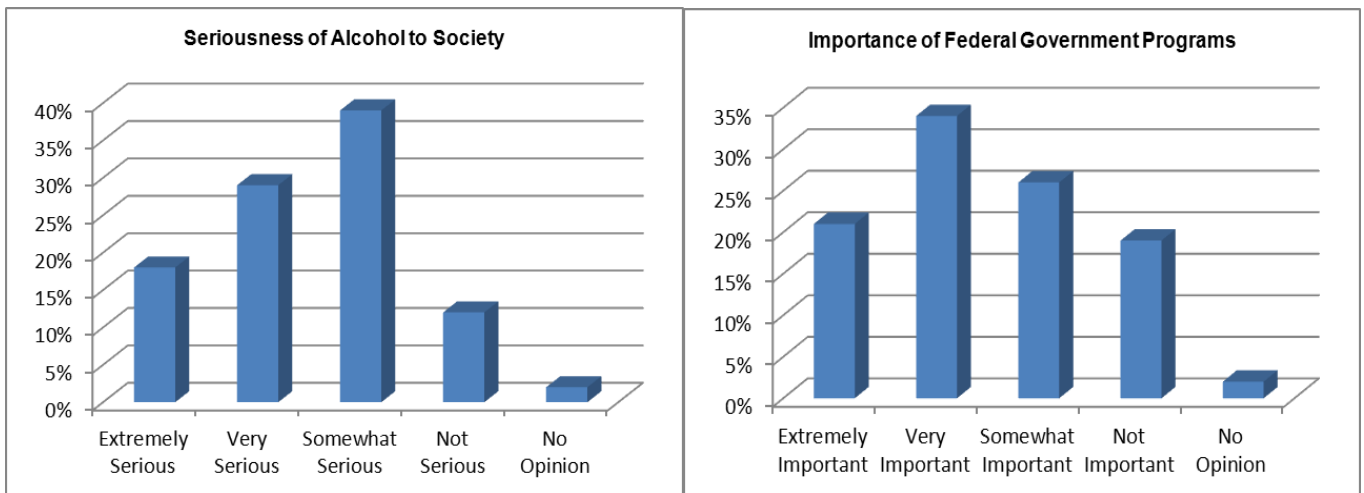
During Fiscal Year 2012-13, MLCC enforcement officers conducted 2,060 controlled buy operations and wrote 257 violations for selling to minors, meaning 12% of stops resulted in a violation. This percentage is slightly lower than last fiscal year.



## Enforcement & Excessive Drinking

Enforcement is also working diligently to reduce excessive drinking among all drinkers. According to a July 10-14, 2013 Gallup poll, the percentage of Americans who admit they sometimes drink too much is 21%. This percentage has been fairly consistent over time, ranging between 17% and 25% over the last decade.

Those questioned in a 2012 Gallop poll were asked how serious a problem they thought alcohol is to society and how important it is to have federal government programs that address health risks. The results of the surveys are shown in the two graphs below:



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

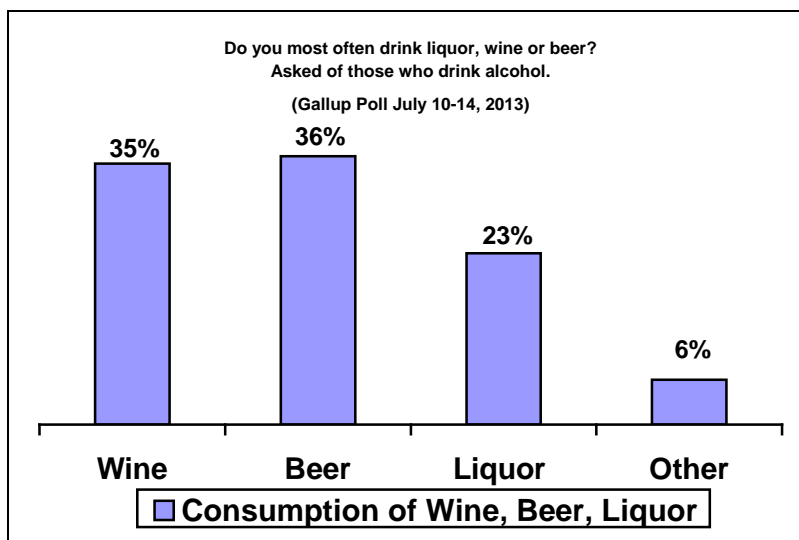
# National Trends and Statistics

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## Liquor Popularity

According to the Distilled Spirits Council of the United States (DISCUS), gross revenue for U.S. spirits reached \$22.2 billion in 2013, up from 21.3 billion in 2012. Revenue market share for spirits versus beer and wine grew four-tenths of a point, rising to 34.7% of the beverage alcohol market. There are several contributing factors to liquor popularity: industry innovation, the resurgence of cocktail culture across America and the globe; the powerful growth of premiumization (affordable luxury); strong momentum in marketplace modernizations such as Sunday sales and tasting laws; more equitable treatment for spirits in advertising, taxation and market access; record export growth; growing middle class with disposable income; taste for American heritage; ongoing company renovations (flavor fascination spreads to other categories); U.S. market modernization (expands access opportunity); legislatures continue hospitality tax restraint; and a wider appreciation of moderate consumption. Additionally, there is a trend towards open markets and communication of product heritage in new markets. With countries around the world lowering tariffs and other barriers, American spirit products are finding new audiences.

## American Drinking Trends



Although the percentage of Americans who identify themselves as drinkers has remained virtually unchanged (60% in a July 2013 Gallup poll vs. the 63.4% historical average since 1939), there has been a small revival in regular drinking in recent years. Since 2002, polls have shown that the percentage of alcohol drinkers who consumed alcohol in the past week was approximately 65%. In the 2013 Gallup poll, the average number of drinks consumed per drinker in the past week was 3.8.

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



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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, 2013  
and September 30, 2012

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STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

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

Mr. Andrew J. Deloney, Chairman  
Michigan Liquor Control Commission  
General Office Building  
Lansing, Michigan  
and  
Mr. Steve Arwood, Director  
Department of Licensing and Regulatory Affairs  
Ottawa Building  
Lansing, Michigan

Dear Mr. Deloney and Mr. Arwood:

**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, 2013 and September 30, 2012 and the related notes to the financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Liquor Purchase Revolving Fund as of September 30, 2013 and September 30, 2012 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, 2013 and September 30, 2012, the changes in financial position, or, where applicable, 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 8 to the financial statements, effective October 1, 2012, the Legislature repealed Section 436.2205 of the *Michigan Compiled Laws*. This section pertained to imposition and levy of a specific tax (liquor 1.85%) on the retail selling price of spirits for consumption off premises and deposit to the Liquor Purchase Revolving Fund. Our opinion is not modified with respect to this matter.

**Other Matter***Other Information*

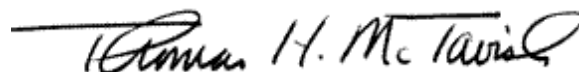
Our audit was conducted for the purpose of forming an opinion on the Liquor Purchase Revolving Fund's financial statements. The accompanying executive digest and supplemental financial schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2014 on our consideration of the Michigan Liquor Control Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Liquor Control Commission's internal control over financial reporting and compliance.

Sincerely,



Thomas H. McTavish, C.P.A.  
Auditor General  
March 3, 2014

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

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$700	\$700
Equity in Common Cash (NOTE 2)	76,297,290	68,459,022
Liquor Inventory (NOTE 3)	7,214,158	5,550,617
Prepaid Distribution Costs of Inventory	1,752,475	398,308
Accounts Receivable	5,043,927	7,341,549
<b>TOTAL ASSETS</b>	<b>\$90,308,550</b>	<b>\$81,750,196</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Warrants Outstanding	\$980,997	\$1,240,091
Accounts Payable and Other Liabilities	87,341,785	78,587,537
Amounts Due to Other Funds	258,098	192,061
Current Compensated Absences	569,133	503,159
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$89,150,013</b>	<b>\$80,522,848</b>
<b>LONG-TERM LIABILITIES</b>		
Amounts Due to Other Funds	\$117,370	\$210,003
Long Term Compensated Absences	165,428	141,606
<b>TOTAL LONG TERM LIABILITIES</b>	<b>\$282,798</b>	<b>\$351,609</b>
<b>TOTAL LIABILITIES</b>	<b>\$89,432,811</b>	<b>\$80,874,457</b>
<b>NET POSITION</b>		
Unrestricted	\$875,739	\$875,739
<b>TOTAL NET POSITION</b>	<b>\$875,739</b>	<b>\$875,739</b>

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

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

	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Gross Sales	\$1,098,866,701	\$1,032,152,214
Less: Discounts Allowed	186,778,055	175,476,424
<b>PROCEEDS - SALE OF LIQUOR</b>	<b>\$912,088,646</b>	<b>\$856,675,790</b>
Miscellaneous Revenue	23,782	41,378
<b>TOTAL OPERATING REVENUES</b>	<b>\$912,112,428</b>	<b>\$856,717,168</b>
<b>OPERATING EXPENSES</b>		
Cost of Goods Sold	\$666,030,785	\$625,322,281
Distribution Costs Paid to Suppliers (NOTE 6)	55,367,064	51,402,042
Commission and DLARA Administration	413,017	438,251
Management Support	3,522,766	3,441,052
Licensing and Enforcement	6,880,720	6,849,326
Compensated Absences	89,796	73,207
DLARA Operating Expenses	3,183,416	3,291,683
DTMB Information Technology Services	2,865,829	2,084,544
Attorney General Services	1,239,472	1,071,797
Auditor General	14,500	12,000
Bureau of Fire Services	3,003,900	2,737,137
<b>TOTAL OPERATING EXPENSES</b>	<b>\$742,611,265</b>	<b>\$696,723,320</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$169,501,163</b>	<b>\$159,993,848</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Specific Tax, Liquor 1.85% (NOTE 8)	\$0	\$15,736,953
Interest Revenue	82,921	89,592
Non-Operating Revenue	0	659
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>\$82,921</b>	<b>\$15,827,204</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>\$169,584,084</b>	<b>\$175,821,052</b>
<b>TRANSFERS</b>		
Income Transferred to General Fund (NOTE 1)	(\$168,585,503)	(\$174,886,346)
Other Transfers (NOTE 7)	(998,581)	(934,706)
<b>TOTAL TRANSFERS IN (OUT)</b>	<b>(\$169,584,084)</b>	<b>(\$175,821,052)</b>
Change in Net Position	\$0	\$0
Net Position - Beginning of Fiscal Year	875,739	875,739
<b>TOTAL NET POSITION - END OF FISCAL YEAR</b>	<b>\$875,739</b>	<b>\$875,739</b>

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

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

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$912,112,428	\$856,717,168
Payments to Employees and for Administrative Expenses	(20,141,822)	(19,040,504)
Payments to Suppliers	(712,553,804)	(672,930,467)
Other Receipts	(746,682)	27,127
Other Payments	(1,071,595)	(958,493)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$177,598,525</b>	<b>\$163,814,831</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Specific Tax on Spirits	\$0	\$15,736,953
Transfers to Other Funds	(169,584,084)	(175,821,052)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(\$169,584,084)</b>	<b>(\$160,084,099)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends on Investments	\$82,921	\$89,592
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>\$82,921</b>	<b>\$89,592</b>
Net Cash Provided (Used) - All Activities	\$8,097,362	\$3,820,324
Cash and Cash Equivalents at Beginning of Year	67,219,631	63,399,307
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$75,316,993</b>	<b>\$67,219,631</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Per Statement of Net Position Classifications:		
Cash	\$700	\$700
Equity in Common Cash	76,297,290	68,459,022
Warrants Outstanding	(980,997)	(1,240,091)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$75,316,993</b>	<b>\$67,219,631</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$169,501,163	\$159,993,848
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Other Nonoperating Revenues	-	659
Net Changes in Assets and Liabilities:		
Inventories	(1,663,541)	353,059
Other Assets (Net)	943,455	(215,183)
Accounts Payable and Other Liabilities	8,817,448	3,682,448
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$177,598,525</b>	<b>\$163,814,831</b>

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

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# NOTES TO FINANCIAL STATEMENTS

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## 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, 2013 and September 30, 2012. They are not intended to present the financial position, changes in financial position, and cash flows of the State of Michigan or its enterprise funds in conformity with accounting principles generally accepted in the United States of America. The Liquor Purchase Revolving Fund is reported as an enterprise fund in the *State of Michigan Comprehensive Annual Financial Report (SoMCAFR)*.

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

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

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

### **Measurement Focus, Basis of Accounting, and Presentation**

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

### **Fund Cash Account**

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

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## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 2 Equity in the State Treasurer's Common Cash**

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

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

The Fund's pro-rata share of the State Treasurer's Common Cash pool was \$76.3 million and \$68.5 million at September 30, 2013 and September 30, 2012 respectively. For the total amount of deposits and investments in the State Treasurer's Common Cash pool and their specific risks, please refer to the *SOMCAFR*.

#### **Common Cash Deposits**

##### Custodial Credit Risk

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

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

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

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

##### Foreign Currency Risk

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

Public Act 35 of 1997 requires State deposits to be held in a financial institution that maintains a principal office or branch office located in the State of Michigan. The State had no Common Cash pool deposits subject to foreign currency risk at September 30, 2013 and at September 30, 2012.



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## NOTES TO FINANCIAL STATEMENTS

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### Common Cash Investments

#### Types of Investments

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

#### Risk

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

#### Custodial Credit Risk

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

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

The counterparty, or

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

The State Treasurer's Common Cash pool does not have an investment policy for managing custodial credit risk. At September 30, 2013 and at September 30, 2012, Common Cash pooled investments were not exposed to custodial credit risk.

#### Credit Risk

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

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

The State Treasurer's investment of the Common Cash pool in sugar beet loans is evidenced by unrated zero-interest promissory notes. The State Treasurer's investment in emergency municipal loans is evidenced by unrated notes held by the State in the State's name. In addition, at September 30, 2013 and at September 30, 2012, prime commercial paper investment were rated at A-1, P-1, or above.

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## NOTES TO FINANCIAL STATEMENTS

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### Interest Rate Risk

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

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

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

### **NOTE 3 Liquor Inventory**

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

### **NOTE 4 Pension Plans and Postemployment Benefits**

Plan Descriptions - The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Department of Technology, Management and Budget, Office of Retirement Services. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at <http://www.michigan.gov/ors>. The financial report for the defined contribution plan may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

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## NOTES TO FINANCIAL STATEMENTS

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

Funding Policy - For the State Employee's Defined Benefit Retirement Plan, LPRF was billed and paid \$152,377 and \$1,585,505 for pension charges and retiree postemployment benefits in fiscal years 2012-13 and 2011-12, respectively. Effective April 1, 2012, defined benefit plan members are required to contribute 4% of their compensation for pension benefits. For the State Employee's Defined Contribution Retirement Plan, LPRF is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. LPRF contributions for the Plan were \$121,099 and \$114,469 for fiscal years 2012-13 and 2011-12, respectively.

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

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

### **NOTE 5 Risk Management**

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

### **NOTE 6 Distribution Costs Paid to Suppliers**

This is the amount paid directly to the liquor suppliers by the MLCC for the Authorized Distribution Agents' warehousing and delivery of spirits to retail licensees. The MLCC paid \$6.97 per case during fiscal year 2011-12 and thru December 29, 2012 of fiscal year 2012-13. The liquor suppliers were required to add \$1.35 per case to the State's payment and pay a minimum of \$8.32 per case to the MLCC's Authorized Distribution Agents. Effective December 30, 2012, the MLCC paid \$7.50 per case. The liquor suppliers were required to add \$1.35 per case to the State's payment and pay a minimum of \$8.85 per case to the MLCC's Authorized Distribution Agents.

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## NOTES TO FINANCIAL STATEMENTS

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**NOTE 7 Other Transfers**

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

**NOTE 8 Specific Tax, Liquor**

Section 436.2205 of the Michigan Compiled Laws (Section 1205 of the Michigan Liquor Control Code of 1998, Act 58 of 1998) was repealed by the legislature by Act 166 effective October 1, 2012. The repealed section pertained to imposition and levy of a 1.85% tax on retail selling price of spirits for consumption off premises and deposit to the liquor purchase revolving fund.



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

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

Mr. Andrew J. Deloney, Chairman  
Michigan Liquor Control Commission  
General Office Building  
Lansing, Michigan  
and  
Mr. Steve Arwood, Director  
Department of Licensing and Regulatory Affairs  
Ottawa Building  
Lansing, Michigan

Dear Mr. Deloney and Mr. Arwood:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Liquor Purchase Revolving Fund, Michigan Liquor Control Commission, Department of Licensing and Regulatory Affairs, as of and for the fiscal years ended September 30, 2013 and September 30, 2012 and the related notes to the financial statements and have issued our report thereon dated March 3, 2014.

**Internal Control Over Financial Reporting**

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

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

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

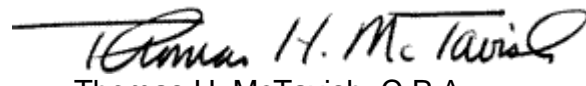
### **Compliance and Other Matters**

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

### **Purpose of This Report**

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

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is written in a cursive style with a horizontal line above the name.

Thomas H. McTavish, C.P.A.  
Auditor General  
March 3, 2014

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

For the Fiscal Years Ended September 30, 2013  
and September 30, 2012

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

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<b>LIQUOR SALES</b>			
Gross Sales (1)	\$1,098,866,701	\$1,032,152,214	\$66,714,487
Less: Discounts Allowed	<u>186,778,055</u>	<u>175,476,424</u>	<u>11,301,631</u>
<b>PROCEEDS - SALE OF LIQUOR</b>	<b>\$912,088,646</b>	<b>\$856,675,790</b>	<b>\$55,412,856</b>
Less: Cost of Goods Sold	<u>666,030,785</u>	<u>625,322,281</u>	<u>40,708,504</u>
<b>REVENUE FROM SALE OF LIQUOR</b>	<b>\$246,057,861</b>	<b>\$231,353,509</b>	<b>\$14,704,352</b>
<b>OTHER REVENUE</b>			
Miscellaneous Revenue	\$23,782	\$42,037	(\$18,255)
Non-Operating Revenue			0
Interest Revenue	<u>82,921</u>	<u>89,592</u>	<u>(6,671)</u>
<b>TOTAL OTHER REVENUE</b>	<b>\$106,703</b>	<b>\$131,629</b>	<b>(\$24,926)</b>
<b>TOTAL REVENUE</b>	<b>\$246,164,564</b>	<b>\$231,485,138</b>	<b>\$14,679,426</b>
Less: Distribution Costs Paid to Suppliers	<u>55,367,064</u>	<u>51,402,042</u>	<u>3,965,022</u>
<b>INCOME FROM LIQUOR MERCHANDISING</b>	<b>\$190,797,500</b>	<b>\$180,083,096</b>	<b>\$10,714,404</b>
<b>MANAGEMENT EXPENSES</b>			
Commission and DLARA Administration	\$413,017	\$438,251	(\$25,234)
Management Support	3,643,244	3,595,317	47,927
Licensing and Enforcement	13,952,451	13,832,260	120,191
DLARA Services (Excluding MLCC Rent)	3,487,157	3,292,222	194,935
DTMB Information Technology Services	2,865,829	2,084,544	781,285
Attorney General	1,239,472	1,071,797	167,675
Auditor General	14,500	12,000	2,500
Bureau of Fire Services	3,003,900	2,737,137	266,763
Civil Service - Personnel	224,681	160,806	63,875
Compensated Absences	89,796	73,207	16,589
Less: Transfers Not Related to MLCC Operations (2)	<u>773,900</u>	<u>773,900</u>	<u>0</u>
<b>TOTAL MANAGEMENT EXPENSES</b>	<b>\$28,160,147</b>	<b>\$26,523,641</b>	<b>\$1,636,506</b>
<b>INCOME FROM OPERATIONS (Excluding Taxes and Grants)</b>	<b>\$162,637,353</b>	<b>\$153,559,455</b>	<b>\$9,077,898</b>
LPRF Specific Tax, Liquor 1.85% (Off Premise)	0	15,736,953	(15,736,953)
Other Revenue Collected (3)	<u>200,500,821</u>	<u>193,245,338</u>	<u>7,255,483</u>
<b>TOTAL CURRENT EARNINGS AND REVENUE</b>	<b>\$363,138,174</b>	<b>\$362,541,746</b>	<b>\$596,428</b>
Number of Cases Sold	7,532,846	7,372,714	160,132
Number of Sales Days	261	260	1

Notes:

(1) This figure is comprised of the following:

Off Premise	\$910,435,062	\$849,168,527	\$61,266,535
On Premise	188,009,356	182,475,860	5,533,496
Other	422,283	507,827	(85,544)

(2) Grants to Cities - Fire Protection

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



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

	<u>2013</u>	<u>2012</u>	<u>INCREASE (DECREASE)</u>
<b>GENERAL FUND - GENERAL PURPOSE</b>			
Excise Tax, Beer	\$38,511,053	\$39,726,452	(\$1,215,399)
Specific Tax, Liquor 4%	43,842,594	41,266,229	2,576,365
Excise Tax, Wine	12,164,846	11,101,232	1,063,614
Excise Tax, Mixed Spirit Drink	523,261	515,800	7,461
Sunday Sales Fees (7am-12pm)	1,331,634	1,196,167	135,467
Fines & Costs	673,450	853,787	(180,337)
Miscellaneous Revenue	74,461	74,908	(447)
<b>TOTAL GENERAL FUND - GENERAL PURPOSE</b>	<u>\$97,121,299</u>	<u>\$94,734,575</u>	<u>\$2,386,724</u>
<b>GENERAL FUND - RESTRICTED</b>			
RETAIL LICENSE FEES:			
55% To Local Governments	\$6,523,255	\$6,647,626	(\$124,371)
41.5% To Licensing & Enforcement	4,998,607	5,089,668	(91,061)
3.5% To Alcoholism Prevention Programs	421,153	429,253	(8,100)
Additional Resort License Fees	57,500	76,900	(19,400)
Direct Shipper License Fees	90,608	85,673	4,935
License Transfer Fees	743,189	910,943	(167,754)
Sunday Sales Fees	1,596,809	1,628,582	(31,773)
License Permit Fees	31,998	2,400	29,598
Non-Retail License Fees-Wine Industry Council	687,683	650,311	37,372
Liquor Control Act Sales	3,055	2,994	61
Inspection Fees	321,678	356,408	(34,730)
Specific Tax, Liquor 4%-Tourism & Conv. Facility	43,992,702	41,304,739	2,687,963
Miscellaneous Revenue	68,691	59,037	9,654
<b>TOTAL GENERAL FUND - RESTRICTED</b>	<u>\$59,536,928</u>	<u>\$57,244,534</u>	<u>\$2,292,394</u>
<b>SCHOOL AID FUND</b>			
Specific Tax, 4%	\$43,842,594	\$41,266,229	\$2,576,365
<b>TOTAL SCHOOL AID FUND</b>	<u>\$43,842,594</u>	<u>\$41,266,229</u>	<u>\$2,576,365</u>
<b>OTHER FUNDS REVENUE</b>	\$200,500,821	\$193,245,338	\$7,255,483
LPRF Specific Tax, Liquor 1.85% (Off Premise)	0	15,736,953	(15,736,953)
Income From Operations (Excluding Taxes & Grants) (1)	162,637,353	153,559,455	9,077,898
<b>TOTAL CURRENT EARNINGS AND REVENUE</b>	<u>\$363,138,174</u>	<u>\$362,541,746</u>	<u>\$596,428</u>

Note:

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

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

	<b>2013</b>				TOTAL 2012
	COMMISSION AND DLARA ADMINISTRATION(1)	MANAGEMENT SUPPORT	LICENSING & ENFORCEMENT	TOTAL 2013	
<b>MLCC APPROPRIATED EXPENSES</b>					
Salaries & Wages	\$413,017	\$1,431,843	\$6,844,408	\$8,689,268	\$8,579,403
Longevity & Insurance		453,046	1,500,042	1,953,088	2,163,338
Retirement & FICA		1,055,209	3,866,683	4,921,892	4,674,502
<b>SUBTOTAL</b>	<u>\$413,017</u>	<u>\$2,940,098</u>	<u>\$12,211,133</u>	<u>\$15,564,248</u>	<u>\$15,417,243</u>
Communications	\$0	\$27,352	\$130,275	\$157,627	\$151,965
Travel	0	45,398	246,074	291,472	301,229
Utilities	0	8,772	3,175	11,947	17,979
Contractual Services	0	282,552	558,611	841,163	532,467
Supplies & Materials	0	68,578	237,744	306,322	380,362
Equipment Replacement, Additions & Rentals	0	150,016	117,151	267,167	252,707
Misc - Unemployment Insurance Claims	0	0	190	190	8,415
<b>SUBTOTAL</b>	<u>\$0</u>	<u>\$582,668</u>	<u>\$1,293,220</u>	<u>\$1,875,888</u>	<u>\$1,645,124</u>
<b>TOTAL MLCC APPROPRIATED EXPENSES</b>	<u>\$413,017</u>	<u>\$3,522,766</u>	<u>\$13,504,353</u>	<u>\$17,440,136</u>	<u>\$17,062,367</u>
<b>TRANSFERS OUT &amp; OTHER EXPENSES</b>					
Rent and Building Occupancy (2)	\$0	\$120,478	\$448,098	\$568,576	\$803,461
Other Transfers Out (3)	0	0	0	10,928,357	9,431,713
<b>TOTAL TRANSFERS OUT &amp; OTHER EXPENSES</b>	<u>\$0</u>	<u>\$120,478</u>	<u>\$448,098</u>	<u>\$11,496,933</u>	<u>\$10,235,174</u>
<b>GRAND TOTAL</b>	<u>\$413,017</u>	<u>\$3,643,244</u>	<u>\$13,952,451</u>	<u>\$28,937,069</u>	<u>\$27,297,541</u>

Notes:

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