

Michigan Department of Labor and Economic Growth  
Jennifer M. Granholm, Governor  
Keith W. Cooley, Director



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## Michigan Liquor Control Commission

# Annual Financial Report 2007

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For Fiscal Year Ended September 30, 2007





JENNIFER M. GRANHOLM  
GOVERNOR



NIDA R. SAMONA  
CHAIRPERSON

STATE OF MICHIGAN  
LIQUOR CONTROL COMMISSION  
DEPARTMENT OF LABOR AND ECONOMIC GROWTH  
KEITH W. COOLEY, DIRECTOR



*To the Citizens of Michigan and Other Readers:*

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 Annual Financial Report is our accounting to you of the liquor wholesaling operation in Michigan, and related activity.

This year the Commission created and implemented procedures for the new Redevelopment and Development District licenses. These new on-premise licenses were created by Public Acts 501 and 502 of 2006, which were effective on December 29, 2006. This legislation was enacted to provide municipalities with a tool to attract businesses into designated districts in order to promote economic growth.

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 [lccinfo@michigan.gov](mailto:lccinfo@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.

Sincerely,

A handwritten signature in cursive script that reads "Nida R. Samona".

Nida R. Samona, Chairperson



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Authority: P.A. 431 of 1984, MCL 436.1221  
Cost: 200 copies, \$208.00 (\$1.04 per copy).

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# Executive Summary

REVENUE/EXPENSE ITEM	FY 2006-07 (In millions)	FY 2005-06 (In millions)	% INCREASE (DECREASE)
Gross Sales <sup>1</sup>	\$895.0	\$865.1	3.5
Licensee Discounts	152.2	147.1	3.5
Cost of Goods Sold	542.6	524.6	3.4
Gross Revenue - Liquor	200.2	193.4	3.5
Operating Expenses <sup>2</sup>	65.6	64.2	2.2
Miscellaneous Revenue	4.7	4.7	0
Net Income (Not including taxes and grant) <sup>3</sup>	139.3	133.9	4.0
Specific Liquor Taxes	120.3	116.2	3.5
Other Revenue Collected	67.1	66.5	0.9
Total Net Revenue	326.7	316.6	3.2

## NOTES:

(1) For the current fiscal year, off premise licensees (SDDs) accounted for 79.2% or \$708.9 million of total liquor sales. On premise licensees, such as bars, restaurants, hotels and clubs accounted for 20.7% or \$185.0 million of total liquor sales. Sales to other licensees accounted for .1% of total liquor sales.

(2) Operating Expenses do not include Liquor Purchase Revolving Fund transfers for grants. The transfers for grants of \$3,710,500 for 2007 and \$3,710,500 for 2006 are for Grants to Cities for Fire Protection. Licensing and Enforcement expenses attributable to General Fund are included in Operating Expenses.

(3) Net Income is computed after deducting all operating expenses including the General Fund portion of Licensing and Enforcement expenses. Net Income in the Liquor Purchase Revolving Fund is \$154.7 million.

OTHER MERCHANDISING STATISTICS	FY 2006-07	FY 2005-06	% INCREASE (DECREASE)
Number of Cases Sold	6,464,739	6,293,797	2.7
Average Price Per Case	\$138.44	\$137.45	0.7
Items Available (brands and sizes)	5,416	4,958	9.2
Number of Bottles Sold	108,340,099	107,196,288	1.1
Average Price Per Bottle	\$8.26	\$8.07	2.4

APPARENT CONSUMPTION STATISTICS	FY 2006-07		FY 2005-06	
	Gallons	Per Capita <sup>4</sup>	Gallons	Per Capita <sup>4</sup>
Distilled Spirits	15,262,267	1.52	14,979,997	1.48
Mixed Spirit Drinks	266,298	0.03	230,326	0.02
Wine (21% alcohol or less)	18,857,615	1.87	18,000,200	1.78
Beer	204,239,944	20.28	206,070,578	20.41

Note:

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

# The MLCC

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Michigan is one of 18 “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  | Vermont           |
| Idaho       | North Carolina | Virginia          |
| Iowa        | Ohio           | Washington        |
| Maine       | Oregon         | West Virginia     |
| Michigan    | Pennsylvania   | Wyoming           |
| Mississippi | Utah           | Montgomery Co. MD |
| Montana     |                |                   |

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 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 Rules in the areas of licensing, enforcement, purchasing, merchandising and distribution. They also serve as an appeal board for decisions of the Hearing Commissioners and hear licensing appeals.

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

- **Assistant Attorney 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:**  
This staff provides administrative support to the Commissioners in the areas of hearings, appeals, policy research and public affairs.
- **Financial Management:**  
The Financial Management Division provides management support to the Commission in the areas of financial analysis; accounting; budget; tax collections for beer, wine, and spirits; and telecommunications. The division also uses daily order quantities to purchase liquor for sale to licensees. Quotations for all items are processed, accepted or denied, and priced in this division.
- **Licensing:**  
The Licensing Division is responsible for processing retailer, 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:**  
This 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 guidelines for operating licensed establishments.

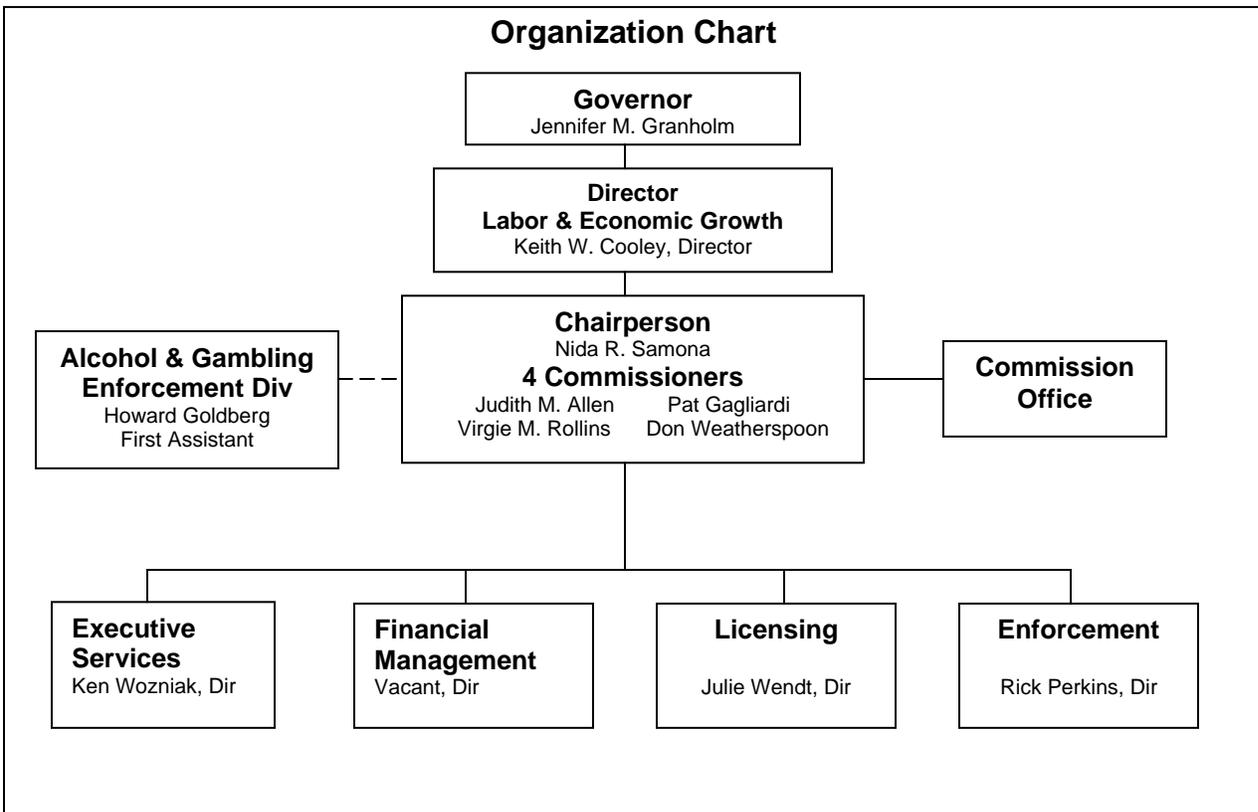
In addition to the Liquor Control Code, the Commission is guided by its administrative rules, which are designed to carry out the laws and assure equal treatment. When filed with the Secretary of State, the rules have the effect of law and are binding on licensees of the MLCC.

# The MLCC

## MLCC Personnel (as of 9/30/2007)

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
<b>Commissioners</b>	<b>5</b>	<b>0</b>
<b>Attorney General Support</b>	<b>4</b>	<b>0</b>
<b>Executive Services</b>	<b>17</b>	<b>1</b>
<b>Financial Management</b>	<b>18</b>	<b>0</b>
<b>Licensing</b>	<b>43</b>	<b>0</b>
<b>Enforcement</b>	<u><b>62</b></u>	<u><b>1</b></u>
<b>TOTAL</b>	<u><b>149</b></u>	<u><b>2</b></u>

## Organization Chart

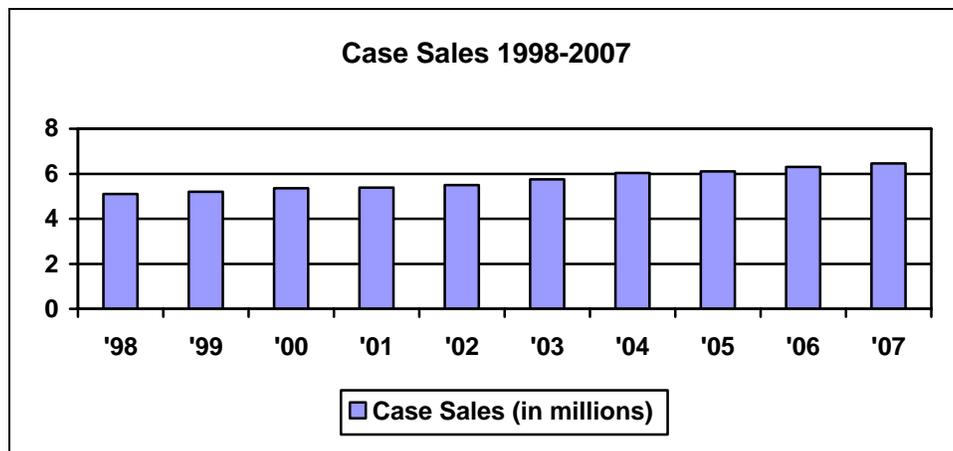
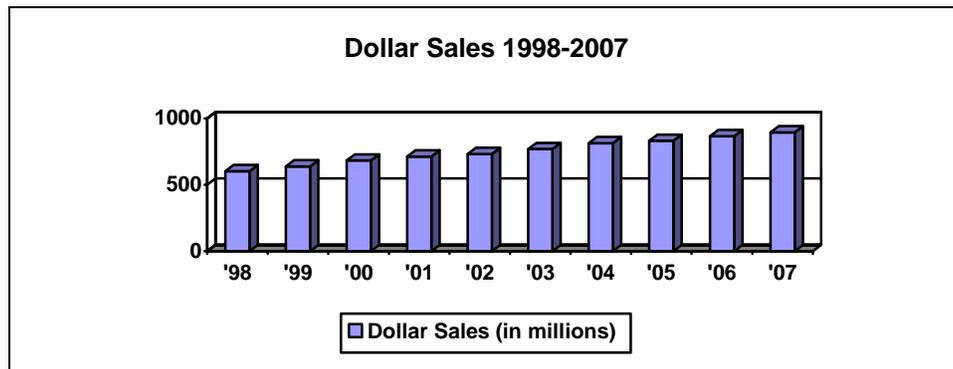


# Trends

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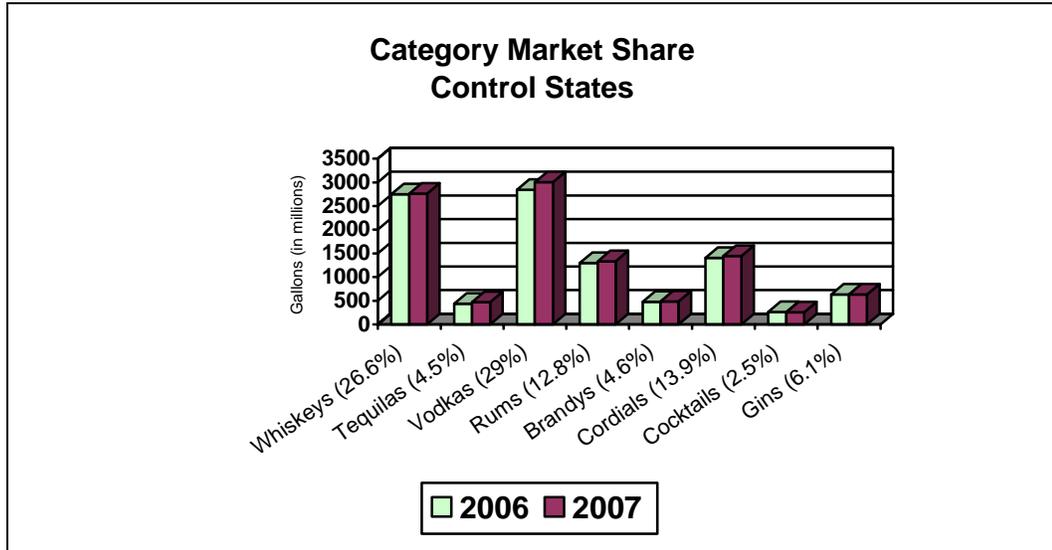
## Dollar Sales

Since the 1998 fiscal year, there has been a 48.5% increase in dollar sales from \$602.7m in FY 1998 to \$895.0m in FY 2007. 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. One of the leading industry research groups reports that consumers are enjoying super premium and ultra super premium brands, and are willing to pay more for these. Classic cocktail drinks have also made a comeback in the United States. New products have been introduced into the market at a fast pace.

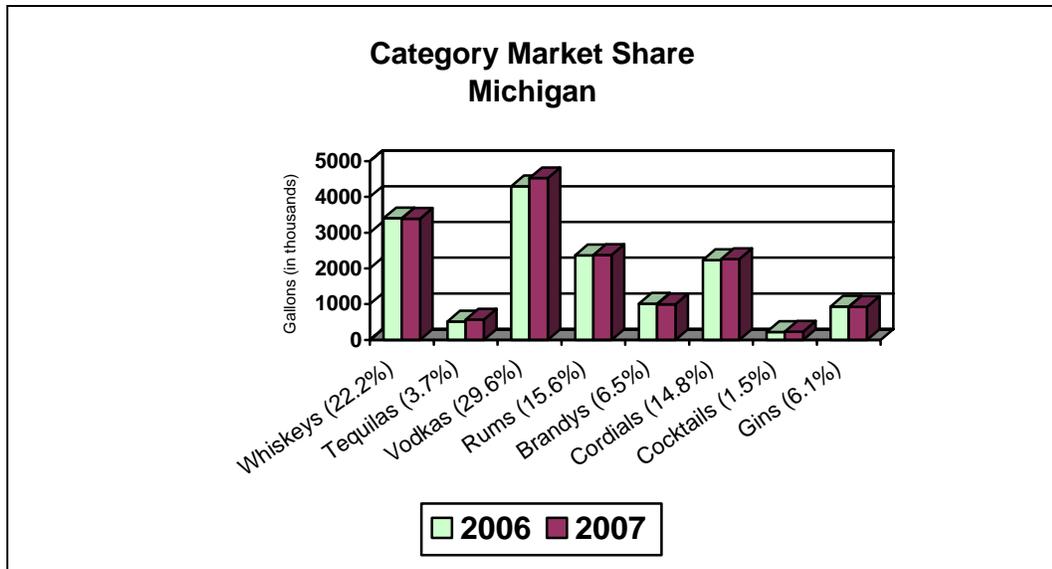


## Case Sales

The 10-year case sales history graph shows an increase in case sales every year since FY 1998. This trend continued in 2006-2007 with sales of 6,464,739 cases. This is an increase of 27.8% above the FY 1998 cases sales figure of 5,059,933. However, these increases do not parallel the increase in dollar sales over the last 10 years. They are much smaller. This could be due, in part, to people consuming more higher-priced premium and super premium brand items.



Other Control States and Michigan consumer preferences are very similar. Whiskeys and vodkas are the two most popular categories, comprising 55.6 percent of the Control States market share and 51.8 percent of the Michigan market share. Vodka has been the most popular category in Michigan for the last six years, with new fruit-flavored products spurring the category's growth. New generations of drinkers are accustomed to a wide variety of flavors in foods and beverages and this desire has carried over into their choice of alcohol drinks. Vodka's versatility and mixability allow consumers more variety of flavors.



# Distilled Spirits

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

There are over 5,400 products available for sale by the commission. The Commission's Liquor Price List is available in xls and pdf formats 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, find the Online Services list located in the middle of the page. Then scroll down and click on "Searchable Pricebook".

Licensees may order their distilled spirits through the State's Internet ordering system. They may also order through individual Authorized Distribution Agents (ADAs). There are currently four ADAs: General Wine and Liquor, National Wine and Spirits, Trans-Con, and Chinese Import & Export.

The ADAs assemble and deliver orders to the licensees on behalf of the Liquor Control Commission. 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 750 ml SPIRITS**  
 Retail Price to Consumer with 65% Markup by MLCC = \$10.01

<b>Liquor Tax</b>	<b>\$1.21</b>
<b>Distribution</b>	
1.85% Specific Tax (LPRF*)	.16
4% Specific Tax (Convention Facilities)	.35
4% Specific Tax (School Aid)	.35
4% Specific Tax (General Fund)	.35
<hr/>	
<b>Licensee Profit</b>	<b>\$1.50</b>
(through discount)	
<hr/>	
<b>LCC Profit</b>	<b>\$1.97</b>
(Net after Licensee discount)	
<hr/>	
<b>Federal Excise Tax</b>	<b>\$2.14</b>
(\$13.50 per proof gallon, paid by distillery or importer)	
<hr/>	
<b>Distillery or Importer</b>	<b>\$3.19</b>
<hr/>	
<b>TOTAL MINIMUM SELLING PRICE:</b>	<b>\$10.01</b>



<u>Cost of Distribution</u>	<u>Amount</u>	<u>% of Total</u>
Federal Government	2.14	21.4
Distillery	3.19	31.8
State Government:		
MLCC	1.97	19.7
Specific Taxes	1.21	12.1
<u>Liquor License Minimum Profit (Discount)</u>	<u>1.50</u>	<u>15.0</u>

**TOTAL** **\$10.01** **100.0**

\*Liquor Purchase Revolving Fund

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

## **1998-2007 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons**

<b>Year</b>	<b>Population (Estimated)</b>	<b>Beer</b>	<b>Spirits</b>	<b>Wine</b>	<b>Mixed Spirit Drinks</b>
1998	9,817,242	21.02	1.28	1.41	0.03
1999	9,864,000	21.04	1.30	1.41	0.04
2000	9,938,000	21.15	1.33	1.50	0.05
2001	10,006,000	21.11	1.32	1.47	0.05
2002	10,050,000	20.76	1.33	1.42	0.04
2003	10,080,000	20.92	1.37	1.61	0.03
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

## **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 and less beer. In the U.S., based on revenue, spirits market share was 33.1%, up from 32.8% in 2006. The U.S. wine market share increased to 16.8% from 16.6% in

2006. The U.S. beer market share declined to 50.1% in 2007 from 50.7% in 2006. 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**

	<b><u>Collection of Taxes</u></b>			<b><u>Sales in Barrels/Liters</u></b>		
	<u>2006-07</u>	<u>2005-06</u>	<u>Increase/ (Decrease)</u>	<u>2006-07</u>	<u>2005-06</u>	<u>Increase/ (Decrease)</u>
<b>Beer</b>	\$41,711,031	\$41,870,726	\$ (159,695)	<b>Barrels of Beer</b> 6,588,385	6,647,438	(59,053)
<b>Wine</b>	9,767,318	9,345,865	421,453	<b>Liters of Wine</b> 71,385,503	68,139,758	3,245,745
<b>MSD*</b>	487,255	410,946	76,309	<b>Liters of MSD*</b> 1,008,073	871,900	136,173
<b>TOTAL</b>	<b>\$51,965,604</b>	<b>\$51,627,537</b>	<b>\$ 338,067</b>			

\* Mixed Spirit Drinks

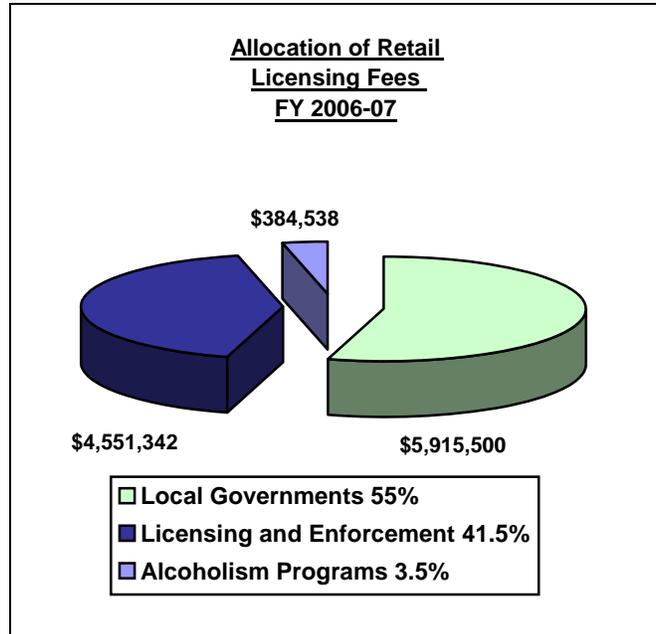
# Control

## Licensing

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

Almost 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 over 8,400 issued licenses to manufacturers and other agents. Furthermore, the MLCC began issuing direct shipping licenses in May 2006. These licensed U.S. wineries may deliver ordered wine products to Michigan residents' homes. Over 450 wineries currently 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 over \$13.0 million in retail license and transfer fees in fiscal year 2006-07. This amount included \$10,851,380 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 \$517,233.

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

**On-Premise Licensed Businesses: Total 8467**

**Class C: 5895    Class C Resort: 978    B-Hotel: 185    B-Hotel Resort: 142**

*(Bars/Restaurants/Hotels) Liquor by the glass, beer, wine, mixed spirit drink*

**A-Hotel: 1    A-Hotel Resort: 0    Tavern: 151    Tavern Resort: 9**

*Beer and Wine only*

**Clubs: 1038**

*(Membership required) Liquor by the glass, beer, wine, mixed spirit drink*

**Other : 68** *(aircraft, watercraft, train) Liquor by the glass, beer, wine, mixed spirit drink*

**Off-Premise Licensed Businesses: Total 7439**

**SDD: 3764    SDD-Resort: 215**

*Package Liquor Take-out*

**SDM: 3460**

*Beer and Wine Take out*

**Total Number of Retail Licensed businesses: 15,906**

# Control

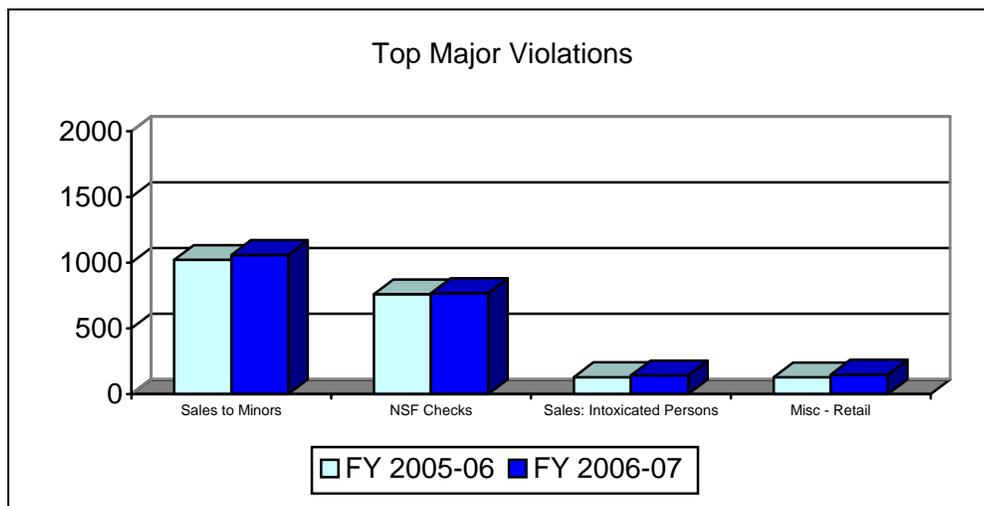
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## Enforcement

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 1,018 liquor law violation reports in Fiscal Year 2006-2007. MLCC enforcement investigators submitted 1,505 violation reports in Fiscal Year 2006-2007.



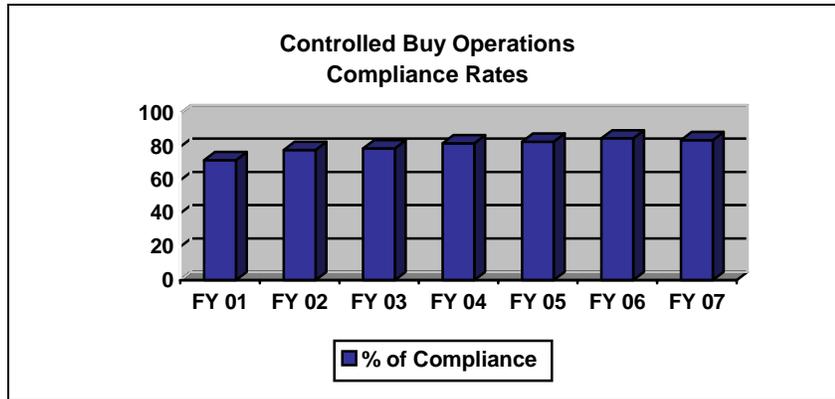
The violations that the Enforcement Division administers are varied. In addition to the top four violations listed in the chart above, some of the other violations that Enforcement handles are as follows: illegally obtain or transfer license, licensee or employee convicted of illegal act, nudity, operating other than legal hours, 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.

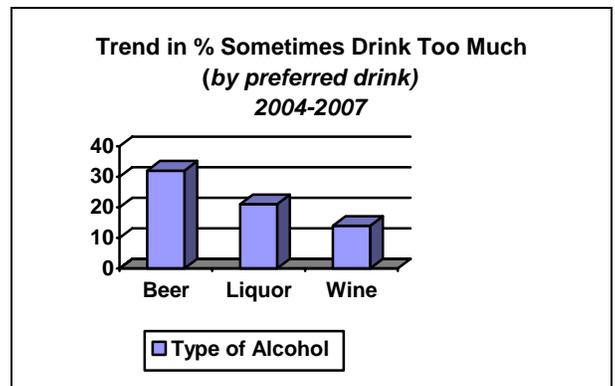
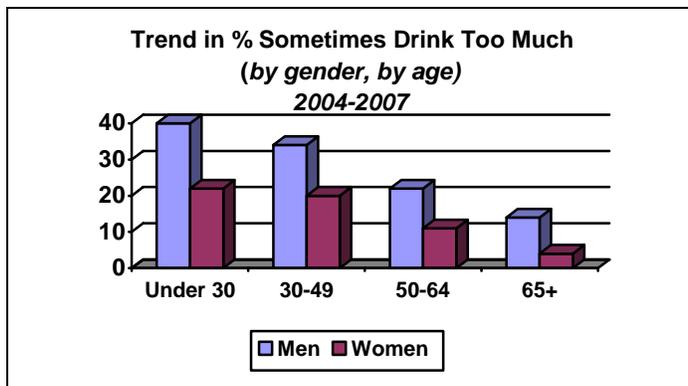
# Control

During Fiscal Year 2006-07, MLCC enforcement officers conducted 1,729 controlled buy operations and wrote 282 violations for selling to minors, meaning 16% of stops resulted in a violation. This is up slightly compared to last fiscal year, when 15% of controlled buys resulted in a violation.



## Enforcement & Excessive Drinking

Enforcement is also working diligently to reduce excessive drinking among all drinkers. According to a July 12-15, 2007 Gallup poll, 64% of Americans say they drink alcoholic beverages. Of these people, the percentage of Americans who admit they sometimes drink too much is 22%. This range has averaged 25% since 1978. Combining the results of its past four overdrinking surveys (July 2004-July 2007), Gallup determined which groups of Americans are most likely to report over drinking. The results are reflected in the following graphs:



The Enforcement Division is working to alleviate overdrinking by issuing violations to licensees who serve liquor to patrons who have had too much to drink. When an Enforcement officer observes a violation or receives a complaint of such an instance, he/she contacts the appropriate police department to investigate the complaint. Based on the department's findings, a violation may be issued.

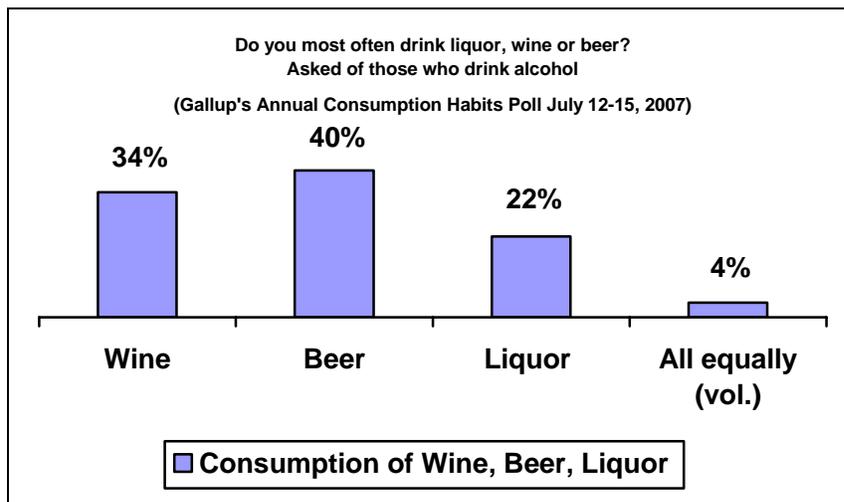
# National Trends and Statistics

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## Liquor Popularity

According to the Distilled Spirits Council of the United States (DISCUS), gross revenue for U.S. spirits reached \$18 billion in 2007, up from \$17 billion in 2006. This is the sixth straight year that spirits have gained market share. There are several contributing factors to this: A thriving cocktail culture, the strength of super-premium products, creative company marketing with new outlets (i.e. hundreds of broadcast affiliates), an increasing cultural acceptance/interest in spirits, and Nascar exposure to a huge adult audience.

## American Drinking Trends



Although the percentage of Americans who identify themselves as drinkers has remained virtually unchanged (64% in a July 2007 Gallup poll vs. the 63% 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 65% or higher. This is significantly more than in the early to mid nineties when the percentage of alcohol drinkers who consumed alcohol in the past week was approximately 50%.

The rise in regular drinking has paralleled some scientists' claims that daily moderate drinking has health benefits. According to those polled, however, only 22% of Americans believe drinking in moderation is good for one's health. Twenty-five percent believe it is detrimental to one's health and 49% believe it has no effect on one's health.

According to the July 2007 poll, the average drinker consumed 4.8 alcoholic beverages in the past week. Prior to 2001, this average was under four drinks. Beer is the favorite alcoholic beverage among male and younger drinkers. Wine is the drink of choice among female and older drinkers.

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Michigan Department of Labor and Economic Growth

**LIQUOR CONTROL COMMISSION**

FINANCIAL REPORTS FOR THE LIQUOR

PURCHASE REVOLVING FUND

(Unaudited)

For the Fiscal Year Ended September 30, 2007

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**MICHIGAN LIQUOR CONTROL COMMISSION  
LIQUOR PURCHASE REVOLVING FUND  
UNAUDITED COMPARATIVE STATEMENT OF NET ASSETS  
FISCAL YEARS ENDED SEPTEMBER 30**

	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Imprest Cash	\$700	\$700
Equity in Common Cash	60,449,413	65,926,067
Liquor Inventory	4,411,770	2,827,292
Prepaid Distribution Costs of Inventory	346,960	230,166
Other Assets	8,735,848	6,705,554
<b>TOTAL ASSETS</b>	<b>\$73,944,691</b>	<b>\$75,689,779</b>
<b>LIABILITIES &amp; FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Warrants Outstanding	\$3,472,406	\$5,504,679
Accounts Payable and Other Liabilities	68,418,166	64,120,570
Amount Due to Other Funds	75,902	131,531
Current Compensated Absences	90,771	127,580
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$72,057,245</b>	<b>\$69,884,360</b>
<b>LONG-TERM LIABILITIES</b>		
Long Term Compensated Absences	1,011,707	929,680
<b>TOTAL LIABILITIES</b>	<b>\$73,068,952</b>	<b>\$70,814,040</b>
<b>NET ASSETS</b>		
Unrestricted	\$875,739	\$4,875,739
<b>TOTAL NET ASSETS</b>	<b>\$875,739</b>	<b>\$4,875,739</b>

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

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

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Gross Sales	\$894,993,141	\$865,059,097
Less: Discounts Allowed	<u>152,225,192</u>	<u>147,121,489</u>
<b>PROCEEDS - SALE OF LIQUOR</b>	<b>\$742,767,949</b>	<b>\$717,937,608</b>
Miscellaneous Revenue	<u>191,462</u>	<u>147,434</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>\$742,959,411</u></b>	<b><u>\$718,085,042</u></b>
<b>OPERATING EXPENSES</b>		
Cost of Goods Sold	\$542,633,561	\$524,559,016
Distribution Costs Paid to Suppliers	45,062,362	43,707,474
Commission and DLEG Administration	442,070	442,048
Management Support	2,452,305	2,929,112
Licensing and Enforcement (1)	4,470,186	5,254,694
Compensated Absences	45,217	57,610
DLEG Operating Expenses	4,180,259	3,664,668
DIT Information Technology Services	2,084,048	1,412,926
Attorney General Services	899,040	943,400
Auditor General	<u>11,300</u>	<u>11,300</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$602,280,348</u></b>	<b><u>\$582,982,248</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b><u>\$140,679,063</u></b>	<b><u>\$135,102,794</u></b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Specific Tax, Liquor 1.85%	\$13,133,121	\$12,653,512
Interest Revenue	<u>4,627,777</u>	<u>4,603,298</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b><u>\$17,760,898</u></b>	<b><u>\$17,256,810</u></b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b><u>\$158,439,961</u></b>	<b><u>\$152,359,604</u></b>
<b>TRANSFERS</b>		
Income Transferred to General Fund	(\$158,651,209)	(\$148,542,537)
Other Transfers	<u>(3,788,752)</u>	<u>(3,817,067)</u>
<b>TOTAL TRANSFERS IN (OUT)</b>	<b><u>(\$162,439,961)</u></b>	<b><u>(\$152,359,604)</u></b>
Change in Net Assets	(\$4,000,000)	\$0
Net Assets - Beginning of Fiscal Year	<u>4,875,739</u>	<u>4,875,739</u>
<b>TOTAL NET ASSETS - END OF FISCAL YEAR</b>	<b><u>\$875,739</u></b>	<b><u>\$4,875,739</u></b>

Notes:

(1) Includes the Revolving Fund portion only.

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

**MICHIGAN LIQUOR CONTROL COMMISSION  
LIQUOR PURCHASE REVOLVING FUND  
UNAUDITED STATEMENT OF CHANGES IN ASSETS AND TRANSFERS  
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2007</u>	<u>2006</u>	<u>INCREASE (DECREASE)</u>
<b>ASSETS AVAILABLE</b>			
Beginning Assets	\$4,875,739	\$4,875,739	\$0
Total Operating Revenues	742,959,411	718,085,042	24,874,369
Total Non-Operating Revenues	<u>17,760,898</u>	<u>17,256,810</u>	<u>504,088</u>
<b>TOTAL ASSETS AVAILABLE</b>	<u>\$765,596,048</u>	<u>\$740,217,591</u>	<u>\$25,378,457</u>
<b>ALLOCATION OF ASSETS</b>			
Income Transferred to General Fund	\$158,651,209	\$148,542,537	\$10,108,672
Other Transfers	3,788,752	3,817,067	(28,315)
Total Operating Expenses	<u>602,280,348</u>	<u>582,982,248</u>	<u>19,298,100</u>
<b>TOTAL ALLOCATION OF ASSETS</b>	<u>\$764,720,309</u>	<u>\$735,341,852</u>	<u>\$29,378,457</u>
<b>ENDING ASSETS</b>	<u><u>\$875,739</u></u>	<u><u>\$4,875,739</u></u>	<u><u>(\$4,000,000)</u></u>

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

**MICHIGAN LIQUOR CONTROL COMMISSION  
LIQUOR PURCHASE REVOLVING FUND  
UNAUDITED STATEMENT OF CHANGES IN CASH FLOW  
FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	<b>NET CHANGE</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$742,959,411
Payments to Employees and for Administrative Expenses	(13,315,483)
Payments to Suppliers	(583,353,108)
Other Receipts	(3,787,195)
Other Payments	(1,268,942)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$141,234,683</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Non-Operating Revenues	\$0
Specific Tax on Spirits	13,133,120
Transfers to Other Funds	(162,439,961)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(\$149,306,841)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and Dividends on Investments	\$4,627,777
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>\$4,627,777</b>
Net Cash Provided (Used) - All Activities	(\$3,444,381)
Cash and Cash Equivalents at Beginning of Year	60,422,088
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$56,977,707</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>	
Per Statement of Net Assets Classifications:	
Cash	\$700
Equity in Common Cash	60,449,413
Warrants Outstanding	(3,472,406)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$56,977,707</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$140,679,064
Net Changes in Assets and Liabilities:	
Inventories	(1,584,478)
Other Assets (Net)	(2,147,087)
Accounts Payable and Other Liabilities	4,287,184
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$141,234,683</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. Significant Accounting Policies

#### ***A. Reporting Entity***

These financial statements reflect the results of the Liquor Purchase Revolving Fund financial transactions. The Michigan Liquor Control Commission, in the Department of Labor and Economic Growth (DLEG), is primarily responsible for the fund.

The Liquor Purchase Revolving Fund was authorized by P.A. 259 of 1941. Under state monopoly, liquor is sold at wholesale by the State of Michigan, and at retail through various licensees. The State began using Authorized Distribution Agents to warehouse and deliver liquor on January 23, 1997. The fund accounts for the sale, replenishing and transportation of the liquor stock from the suppliers to the retail licensees.

As required by statute, the net income earned by the Liquor Purchase Revolving Fund is transferred to the General Fund throughout the year.

The notes accompanying these financial statements relate directly to the Liquor Purchase Revolving Fund. The State of Michigan Comprehensive Annual Financial Report provides general disclosures regarding the State Treasurer's common cash fund, retirement benefits, worker's compensation, unemployment compensation and litigations.

Amounts may not match between schedules due to rounding.

#### ***B. Basis of Accounting***

The financial data presented in the Liquor Purchase Revolving Fund reports have been prepared on an accrual basis in accordance with all Governmental Accounting Standards Board (GASB) pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

#### ***C. Inventory***

Inventory is stored and handled by private Authorized Distribution Agents on behalf of the Commission. The inventory is valued at the latest quoted price. Inventory is purchased daily in amounts sufficient to fill the orders received the prior day.

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## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 2. Retirement Contributions**

All classified Liquor Control Commission employees are members of the State Employees Retirement System. During the 2007 fiscal year, \$1,481,333.96 was paid into the Retirement Fund on behalf of the employees. All new employees hired after March 30, 1997 participate in a defined contribution plan. Employees hired before March 30, 1997 are covered by a defined benefits plan unless they chose to convert to the defined contribution plan during 1997.

### **NOTE 3. Employees' Compensation, Absences and Longevity Benefits**

The amounts owed for accumulated leave benefits and longevity are recorded as a liability in these financial reports. Salaries, wages and employee benefits are appropriated in and paid from the Liquor Purchase Revolving Fund.

### **NOTE 4. Interest Earnings**

For investment purposes, the Liquor Purchase Revolving Fund is kept in the State Treasurer's Common Cash Pool. The Liquor Purchase Revolving Fund began receiving credit for the interest earned on its cash balances deposited with the State Treasurer effective April 14, 1998.

### **NOTE 5. 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 for each case purchased through the fiscal year. The suppliers were required to add \$1.35 per case to the state's payment and pay at least \$8.32 per case to the Commission's Authorized Distribution Agents.

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Michigan Department of Labor and Economic Growth

**LIQUOR CONTROL COMMISSION**

Other Financial Schedules – All Funds

(Unaudited)

For the Fiscal Year Ended September 30, 2007

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

	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease)</b>
<b>LIQUOR SALES</b>			
Gross Sales (1)	\$894,993,141	\$865,059,097	\$29,934,044
Less: Discounts Allowed	152,225,192	147,121,489	5,103,703
<b>PROCEEDS - SALE OF LIQUOR</b>	<b>\$742,767,949</b>	<b>\$717,937,608</b>	<b>\$24,830,341</b>
Less: Cost of Goods Sold	542,633,561	524,559,016	18,074,545
<b>GROSS REVENUE FROM SALE OF LIQUOR</b>	<b>\$200,134,388</b>	<b>\$193,378,592</b>	<b>\$6,755,796</b>
<b>OTHER REVENUE</b>			
Miscellaneous Revenue	\$191,462	\$147,434	\$44,028
Interest Revenue	4,627,777	4,603,298	24,479
<b>TOTAL OTHER REVENUE</b>	<b>\$4,819,239</b>	<b>\$4,750,732</b>	<b>\$68,507</b>
<b>TOTAL REVENUE</b>	<b>\$204,953,627</b>	<b>\$198,129,324</b>	<b>\$6,824,303</b>
Less: Distribution Costs Paid to Suppliers	45,062,362	43,707,474	1,354,888
<b>INCOME FROM LIQUOR MERCHANDISING</b>	<b>\$159,891,265</b>	<b>\$154,421,850</b>	<b>\$5,469,415</b>
<b>MANAGEMENT EXPENSES</b>			
Commission and DLEG Administration	\$442,070	\$442,048	\$22
Management Support (2)	2,649,421	3,056,027	(406,606)
Licensing and Enforcement (2)	11,020,170	11,506,725	(486,555)
DLEG Services (Excluding MLCC Rent)	7,065,168	6,726,417	338,751
DIT Information Technology Services	2,084,048	1,412,926	671,122
Attorney General	899,040	943,400	(44,360)
Auditor General	11,300	11,300	0
Civil Service - Personnel	69,402	71,667	(2,265)
Compensated Absences	45,217	57,610	(12,393)
Less: Transfers Not Related to MLCC Operations (3)	3,710,500	3,710,500	0
<b>TOTAL MANAGEMENT EXPENSES</b>	<b>\$20,575,336</b>	<b>\$20,517,620</b>	<b>\$57,716</b>
<b>INCOME FROM OPERATIONS (Excluding Taxes and Grants)</b>	<b>\$139,315,929</b>	<b>\$133,904,230</b>	<b>\$5,411,699</b>
Specific Tax, Liquor 1.85% (Off Premise)	13,133,121	12,653,512	479,609
Revenue Collected for Other Funds	174,287,632	170,043,077	4,244,555
<b>TOTAL CURRENT EARNINGS AND REVENUE</b>	<b>\$326,736,682</b>	<b>\$316,600,819</b>	<b>\$10,135,863</b>
Number of Cases Sold	6,464,739	6,293,797	170,942
Number of Sales Days	260	260	0
<b>Notes:</b>			
(1) This figure is comprised of:			
Off Premise	\$708,941,673	\$683,473,125	\$25,468,548
On Premise	185,006,073	180,479,257	4,526,816
Other	1,045,395	1,106,715	(61,320)

(2) Total expenses per page 21 less any equipment purchases.

(3) Grants to Cities - Fire Protection

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

	<u>2007</u>	<u>2006</u>	<u>INCREASE (DECREASE)</u>
<b>GENERAL FUND - GENERAL PURPOSE</b>			
Excise Tax, Beer	\$41,711,031	\$41,870,726	(\$159,695)
Specific Tax, Liquor 4%	35,688,791	34,496,655	1,192,136
Excise Tax, Wine	9,767,318	9,345,865	421,453
Excise Tax, Mixed Spirit Drink	487,255	410,946	76,309
Fines & Costs	1,082,482	1,036,761	45,721
Miscellaneous Revenue	55,860	49,417	6,443
<b>TOTAL GENERAL FUND - GENERAL PURPOSE</b>	<u>\$88,792,737</u>	<u>\$87,210,370</u>	<u>\$1,582,367</u>
<b>GENERAL FUND - RESTRICTED</b>			
RETAIL LICENSE FEES:			
55% To Local Governments	\$5,915,500	\$5,885,251	\$30,249
41.5% To Licensing & Enforcement	4,551,342	4,471,753	79,589
3.5% To Alcoholism Prevention Programs	384,538	377,296	7,242
Additional Resort License Fees	170,331	152,106	18,225
Direct Shipper License Fees	48,032	29,827	18,205
License Transfer Fees	643,867	603,229	40,638
Sunday Sales Fees	1,440,152	1,409,137	31,015
Non-Retail License Fees-Wine Industry Council	517,233	491,234	25,999
Liquor Control Act Sales	3,975	4,142	(167)
Inspection Fees	299,399	283,586	15,813
Specific Tax, Liquor 4%-Tourism & Conv. Facility	35,765,849	34,563,406	1,202,443
Miscellaneous Revenue	65,886	65,085	801
<b>TOTAL GENERAL FUND - RESTRICTED</b>	<u>\$49,806,104</u>	<u>\$48,336,052</u>	<u>\$1,470,052</u>
<b>SCHOOL AID FUND</b>			
Specific Tax, 4%	\$35,688,791	\$34,496,655	\$1,192,136
<b>TOTAL SCHOOL AID FUND</b>	<u>\$35,688,791</u>	<u>\$34,496,655</u>	<u>\$1,192,136</u>
<b>OTHER FUNDS REVENUE</b>	<u>\$174,287,632</u>	<u>\$170,043,077</u>	<u>\$4,244,555</u>
<b>LIQUOR PURCHASE REVOLVING FUND</b>			
Specific Tax, Liquor 1.85% (Off Premise)	\$13,133,121	\$12,653,512	\$479,609
Income From Operations (Excluding Taxes & Grants) (1)	139,315,929	133,904,230	5,411,699
<b>LIQUOR PURCHASE REVOLVING FUND REVENUE</b>	<u>\$152,449,050</u>	<u>\$146,557,742</u>	<u>\$5,891,308</u>
<b>TOTAL REVENUE COLLECTED</b>	<u>\$326,736,682</u>	<u>\$316,600,819</u>	<u>\$10,135,863</u>

Note:

(1) Income from Operations (Page 19) after all operating expenses including General Fund portion of Licensing and Enforcement.

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

	COMMISSION AND DLEG ADMINISTRATION(1)	MANAGEMENT SUPPORT	LICENSING & ENFORCEMENT	TOTAL 2007	TOTAL 2006
<b>MLCC APPROPRIATED EXPENSES</b>					
Salaries & Wages	\$442,070	\$1,301,928	\$6,182,497	\$7,926,495	\$7,694,575
Longevity & Insurance		403,895	1,554,654	1,958,549	1,815,167
Retirement & FICA		474,622	1,700,486	2,175,108	2,533,240
<b>SUBTOTAL</b>	<u>\$442,070</u>	<u>\$2,180,445</u>	<u>\$9,437,637</u>	<u>\$12,060,152</u>	<u>\$12,042,982</u>
Communications		\$25,477	\$95,094	\$120,571	\$136,237
Travel		33,497	235,666	269,163	333,242
Utilities		14,563	3,138	17,701	18,436
Contractual Services		80,785	376,247	457,032	1,431,656
Supplies & Materials		89,798	184,550	274,348	287,355
Equipment Replacement, Additions & Rentals		17,355	43,711	61,066	64,671
Misc - Unemployment Insurance Claims		10,385	6,802	17,187	6,570
<b>SUBTOTAL</b>	<u>\$0</u>	<u>\$271,860</u>	<u>\$945,208</u>	<u>\$1,217,068</u>	<u>\$2,278,167</u>
<b>TOTAL MLCC APPROPRIATED EXPENSES</b>	<u>\$442,070</u>	<u>\$2,452,305</u>	<u>\$10,382,845</u>	<u>\$13,277,220</u>	<u>\$14,321,149</u>
<b>OPERATING TRANSFERS OUT &amp; OTHER EXPENSES</b>					
Rent and Building Occupancy (2)	\$0	\$197,116	\$637,325	\$834,441	\$683,651
Other Operating Transfers Out (3)	0	0	0	10,174,175	9,223,321
<b>TOTAL OPERATING TRANSFERS OUT &amp; OTHER EXPENSES</b>	<u>\$0</u>	<u>\$197,116</u>	<u>\$637,325</u>	<u>\$11,008,616</u>	<u>\$9,906,972</u>
<b>GRAND TOTAL</b>	<u>\$442,070</u>	<u>\$2,649,421</u>	<u>\$11,020,170</u>	<u>\$24,285,836</u>	<u>\$24,228,121</u>

Note:

- (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 Labor and Economic Growth.  
(3) Transfer amounts are appropriated in other departments and bureaus. They are not allocated to the divisions but are included in the totals.