

Michigan Department of Energy, Labor and Economic Growth
Jennifer M. Granholm, Governor
Stanley "Skip" Pruss, Director



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Michigan Liquor Control Commission

Annual Financial Report 2008



For Fiscal Year Ended September 30, 2008



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.

During this past year the Commission continued to modernize and improve operations. We automated the Manufacturers & Wholesalers surety bond program, to provide reports and notices of licensees not in compliance. The Commission implemented an electronic system to deliver weekly liquor purchase reports directly to the suppliers. We also restructured several licensing forms to make them writeable from our website.

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.

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

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 2007-08 (In millions)	FY 2006-07 (In millions)	% INCREASE (DECREASE)
Gross Sales ¹	\$925.5	\$895.0	3.4
Licensee Discounts	157.5	152.2	3.5
Cost of Goods Sold	561.3	542.6	3.4
Gross Revenue - Liquor	206.7	200.2	3.2
Operating Expenses ²	67.2	65.6	2.4
Miscellaneous Revenue	2.1	4.7	(55.3)
Income from Operations ³	141.6	139.3	1.7
Specific Liquor Taxes	124.5	120.3	3.5
Other Revenue Collected	67.3	67.1	0.3
Total Net Revenue	333.4	326.7	2.1

NOTES:

(1) For the current fiscal year, off premise licensees (SDDs) accounted for 79.6% or \$737.2 million of total liquor sales. On premise licensees, such as bars, restaurants, hotels and clubs accounted for 20.3% or \$187.5 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 \$2,410,500 for 2008 and \$3,710,500 for 2007 are for Grants to Cities for Fire Protection. Licensing and Enforcement expenses attributable to General Fund are included in Operating Expenses.

(3) 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 \$146.1 million.

OTHER MERCHANDISING STATISTICS	FY 2007-08	FY 2006-07	% INCREASE (DECREASE)
Number of Cases Sold	6,611,415	6,464,739	2.3
Average Price Per Case	\$139.98	\$138.44	1.1
Items Available (brands and sizes)	5,622	5,416	3.8
Number of Bottles Sold	109,483,306	108,340,099	1.1
Average Price Per Bottle	\$8.45	\$8.26	2.3

APPARENT CONSUMPTION STATISTICS	FY 2007-08		FY 2006-07	
	Gallons	Per Capita ⁴	Gallons	Per Capita ⁴
Distilled Spirits	15,491,372	1.55	15,262,267	1.52
Mixed Spirit Drinks	214,314	0.02	266,298	0.03
Wine (21% alcohol or less)	19,230,708	1.92	18,857,615	1.87
Beer	204,635,289	20.46	204,239,944	20.28

Note:

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

The MLCC

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

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 division 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 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:**
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.

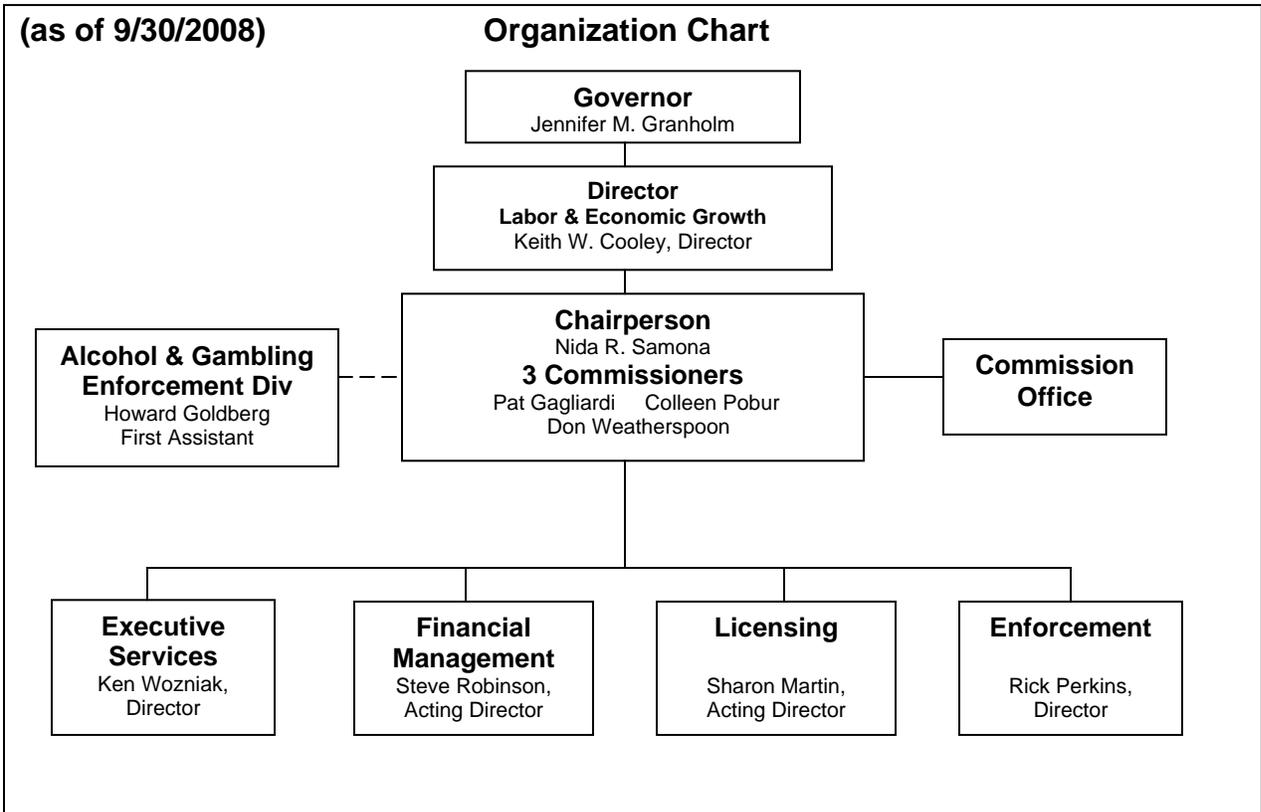
The Liquor Control Code

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

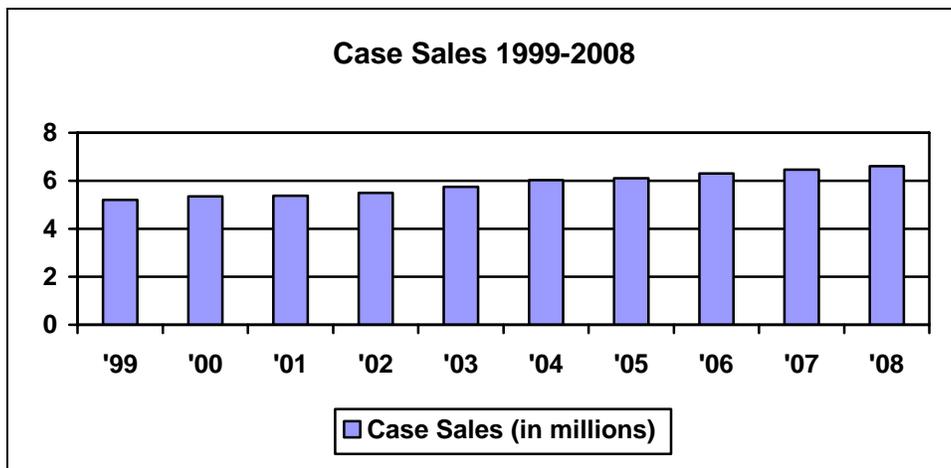
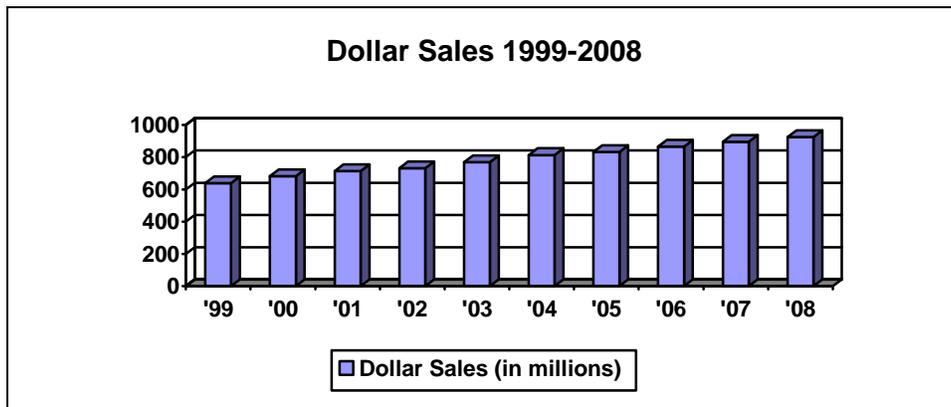
MLCC Personnel (as of 9/30/2008)		
	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
Commissioners	4	0
Attorney General Support	4	0
Executive Services	17	1
Financial Management	17	0
Licensing	41	0
Enforcement	<u>61</u>	<u>1</u>
TOTAL	<u>144</u>	<u>2</u>



Trends

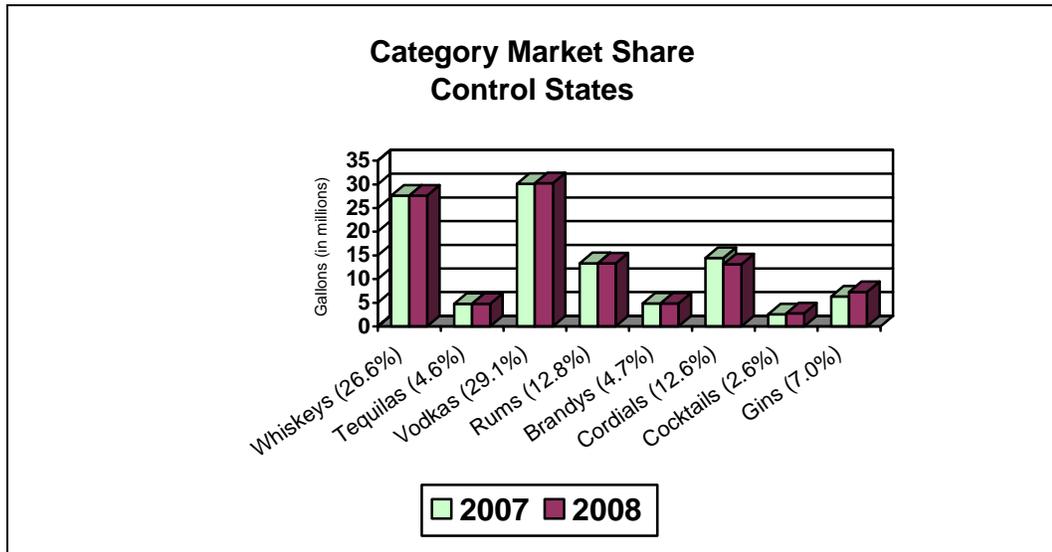
Dollar Sales

Since the 1999 fiscal year, there has been a 45.1% increase in dollar sales from \$638.0m in FY 1999 to \$925.5m in FY 2008. 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.

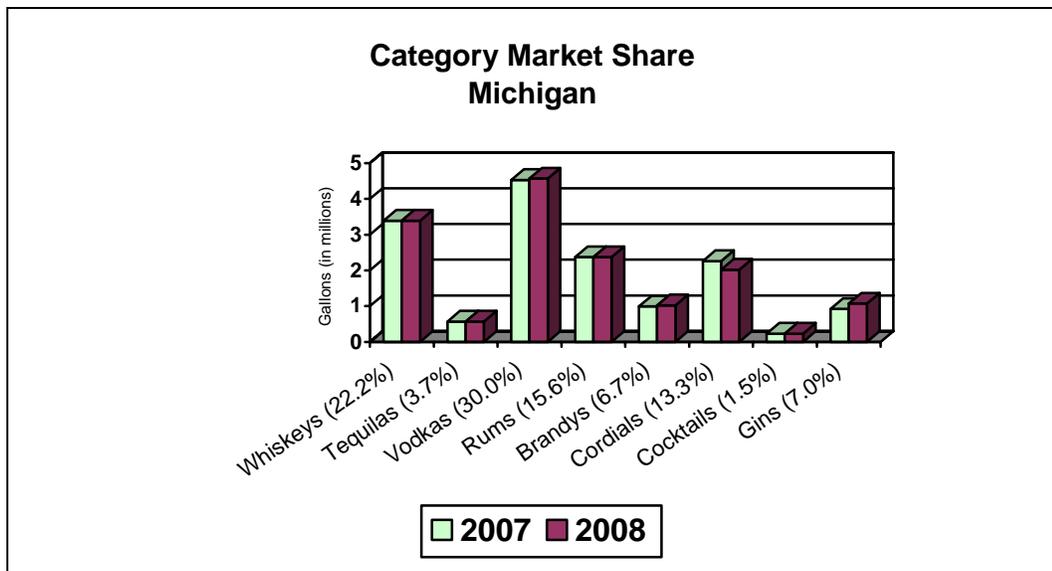


Case Sales

The 10-year case sales history graph shows an increase in case sales every year since FY 1999. This trend continued in 2007-2008 with sales of 6,611,415 cases. This is an increase of 27.5% above the FY 1999 cases sales figure of 5,187,270. 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 55.7 percent of the Control States market share and 52.2 percent of the Michigan market share. Vodka has been the most popular category in Michigan for the last seven 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 5,600 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 three ADAs: General Wine and Liquor, National Wine and Spirits, 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

Liquor Tax	\$1.21
Distribution	
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/>	
Licensee Profit	\$1.50
(through discount)	
<hr/>	
LCC Profit	\$1.97
(Net after Licensee discount)	
<hr/>	
Federal Excise Tax	\$2.14
(\$13.50 per proof gallon, paid by distillery or importer)	
<hr/>	
Distillery or Importer	\$3.19
<hr/>	
TOTAL MINIMUM SELLING PRICE:	\$10.01



<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

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

1999-2008 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons

Year	Population (Estimated)	Beer	Spirits	Wine	Mixed Spirit Drinks
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
2008	10,003,422	20.46	1.55	1.92	0.02

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>		
	2007-08	2006-07	Increase/ (Decrease)	2007-08	2006-07	Increase/ (Decrease)
Beer	\$41,189,860	\$41,711,031	\$ (521,171)	Barrels of Beer 6,601,138	6,588,385	12,753
Wine	9,751,514	9,767,318	(15,804)	Liters of Wine 72,797,847	71,385,503	1,412,344
MSD*	338,747	487,255	(148,508)	Liters of MSD* 811,286	1,008,073	(196,787)
TOTAL	\$51,280,121	\$51,965,604	\$ (685,483)			

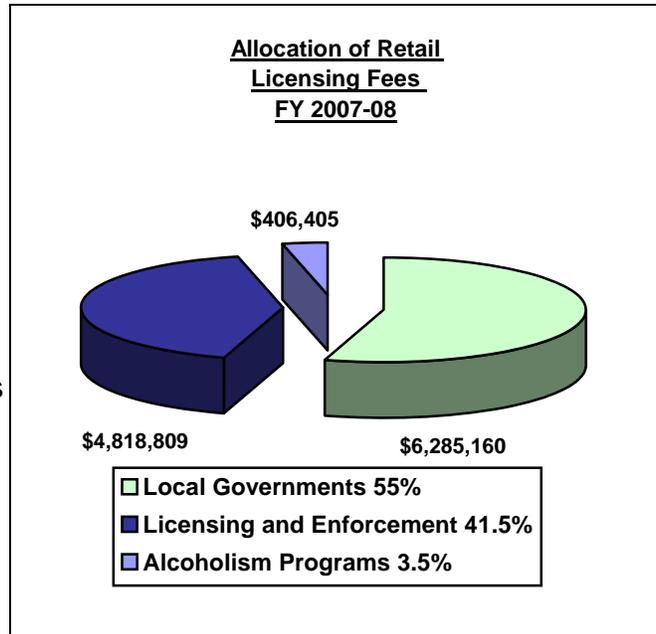
* Mixed Spirit Drinks

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 7,300 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 580 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 nearly \$14.0 million in retail license and transfer fees in fiscal year 2007-08. This amount included \$11,510,374 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 \$720,150.

Active Retail Liquor Licensed Businesses (by type)

On-Premise Licensed Businesses: Total 8450

Class C: 5912 Class C Resort: 965 B-Hotel: 187 B-Hotel Resort: 131

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

A-Hotel: 1 A-Hotel Resort: 0 Tavern: 153 Tavern Resort: 9

Beer and Wine only

Clubs: 1029

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

Other : 63 *(aircraft, watercraft, train) Liquor by the glass, beer, wine, mixed spirit drink*

Off-Premise Licensed Businesses: Total 7376

SDD: 3755 SDD-Resort: 220

Package Liquor Take-out

SDM: 3401

Beer and Wine Take out

Total Number of Retail Licensed businesses: 15,826

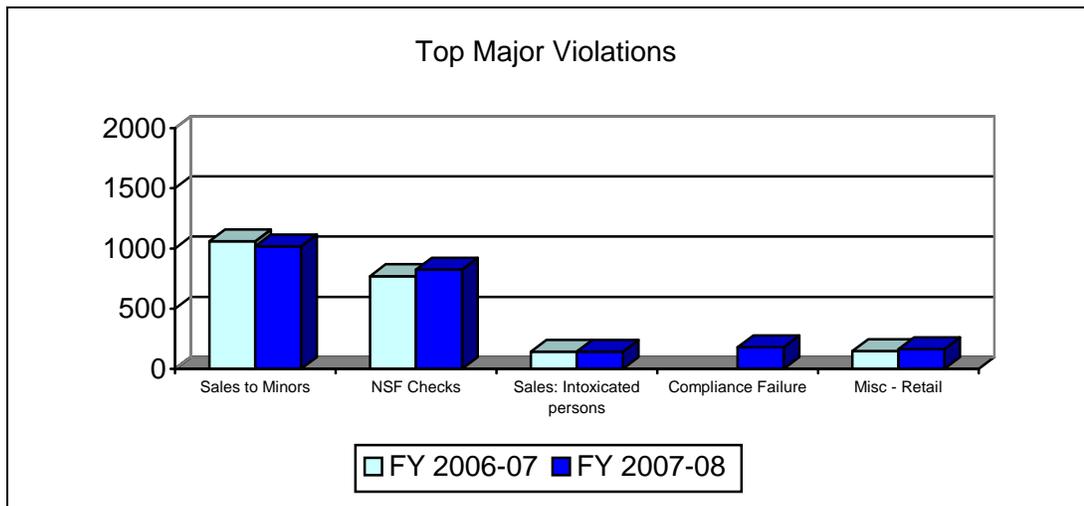
Control

Enforcement

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

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

The Enforcement staff is responsible for investigating applicants for liquor licenses and assisting local, county and state law enforcement agencies with the enforcement of Michigan's liquor laws. Local law enforcement agencies submitted 995 liquor law violation reports in Fiscal Year 2007-2008. MLCC enforcement investigators submitted 1,649 violation reports in Fiscal Year 2007-2008.



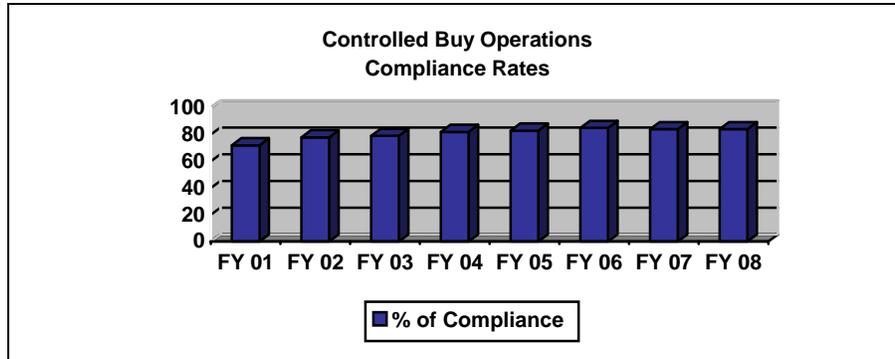
The violations that the Enforcement Division administers are varied. In addition to the top violations listed in the chart above, some of the other violations that Enforcement handles are as follows: illegally obtain or transfer license, licensee or employee convicted of illegal act, nudity, operating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

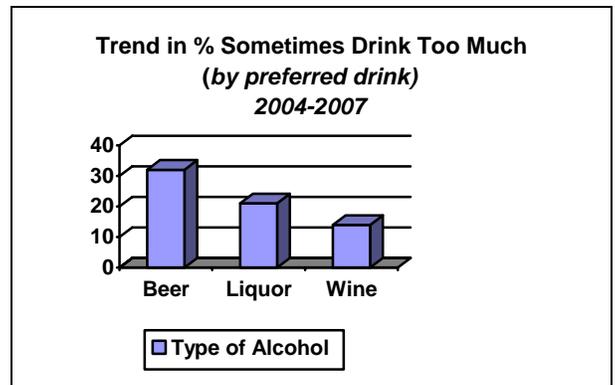
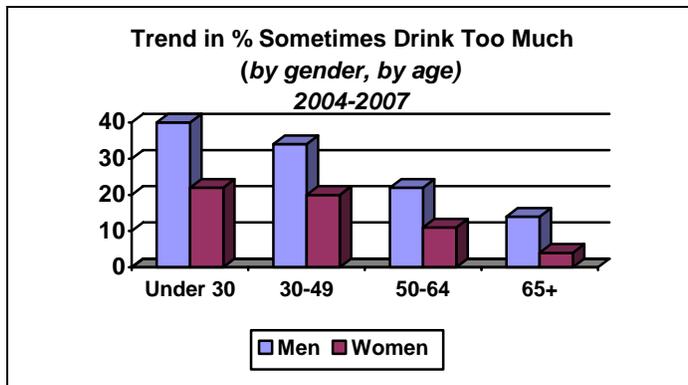
Control

During Fiscal Year 2007-08, MLCC enforcement officers conducted 1,753 controlled buy operations and wrote 286 violations for selling to minors, meaning 16% of stops resulted in a violation. This is equal to last fiscal year, when 16% 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 10-13, 2008 Gallup poll, 62% of Americans say they drink alcoholic beverages. Of these people, the percentage of Americans who admit they sometimes drink too much is 23%. 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:



As noted by one of the above graphs, the trend to over drink is greatest for those under 30. During the 2007 Gallup poll, people were asked if they would favor or oppose a federal law that would lower the drinking age in all states to 18. Seventy-seven percent opposed this idea, 22% favored the idea and 1% had no opinion. Also, when people were asked if they thought the penalties for underage drinking should be made more strict, less strict, or remain the same, the results were as follows: 60% more strict, 6% less strict, 31% remain the same, and 3% no opinion.

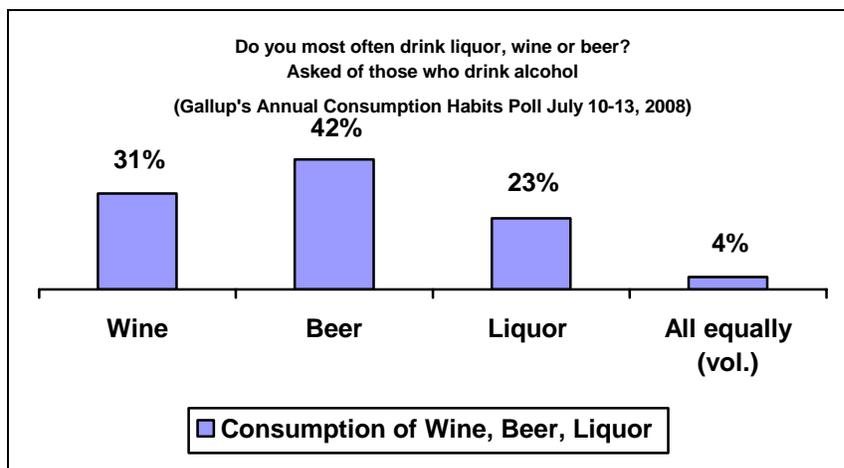
The Enforcement Division recognizes the seriousness of overdrinking and issues violations to licensees who serve alcohol to patrons in an intoxicated condition. In addition, the Enforcement Division shares complaint information on sales and service to intoxicated patrons with local law enforcement agencies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

National Trends and Statistics

Liquor Popularity

According to the Distilled Spirits Council of the United States (DISCUS), gross revenue for U.S. spirits reached \$18.7 billion in 2008, up from \$18.2 billion in 2007. However, this is the first time in seven years that spirits slightly lost market share, down .2% to 32.9% in 2008 from 33.1% in 2007. There are several contributing factors to liquor popularity: 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, Nascar exposure to a huge adult audience and exotic and fresh vegetable, fruit, herb and flower garnishments that are pleasing to the eye as well as the palette.

American Drinking Trends



Although the percentage of Americans who identify themselves as drinkers has remained virtually unchanged (62% in a July 2008 Gallup poll vs. the 65% 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%. Also, in the last four polls, Gallup discovered that 36% of Americans reported drinking alcohol in the last 24 hours. This is up from a 30% average from 2000-2004. This "daily drinking" was reported more by college graduates rather than non-college graduates.

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 2008 poll, the average drinker consumed 3.8 alcoholic beverages in the past week. This was the first time the average dropped below four drinks since 2001. Beer is the favorite alcoholic beverage among younger drinkers. Wine is the drink of choice among older drinkers.

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, 2008

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

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Imprest Cash	\$700	\$700
Equity in Common Cash	55,057,159	60,449,413
Liquor Inventory	8,772,511	4,411,770
Prepaid Distribution Costs of Inventory	683,206	346,960
Other Assets	<u>4,060,301</u>	<u>8,735,848</u>
TOTAL ASSETS	<u>\$68,573,877</u>	<u>\$73,944,691</u>
LIABILITIES & FUND EQUITY		
CURRENT LIABILITIES		
Warrants Outstanding	\$3,656,448	\$3,472,406
Accounts Payable and Other Liabilities	62,743,186	68,418,166
Amount Due to Other Funds	141,910	75,902
Current Compensated Absences	<u>319,291</u>	<u>90,771</u>
TOTAL CURRENT LIABILITIES	\$66,860,835	\$72,057,245
LONG-TERM LIABILITIES		
Long Term Compensated Absences	<u>837,303</u>	<u>1,011,707</u>
TOTAL LIABILITIES	<u>\$67,698,138</u>	<u>\$73,068,952</u>
NET ASSETS		
Unrestricted	<u>\$875,739</u>	<u>\$875,739</u>
TOTAL NET ASSETS	<u><u>\$875,739</u></u>	<u><u>\$875,739</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 COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Gross Sales	\$925,477,120	\$894,993,141
Less: Discounts Allowed	<u>157,548,125</u>	<u>152,225,192</u>
PROCEEDS - SALE OF LIQUOR	\$767,928,995	\$742,767,949
Miscellaneous Revenue	<u>155,944</u>	<u>191,462</u>
TOTAL OPERATING REVENUES	<u>\$768,084,939</u>	<u>\$742,959,411</u>
OPERATING EXPENSES		
Cost of Goods Sold	\$561,268,719	\$542,633,561
Distribution Costs Paid to Suppliers	46,107,737	45,062,362
Commission and DLEG Administration	400,600	442,070
Management Support	2,656,654	2,452,305
Licensing and Enforcement (1)	4,793,775	4,470,186
Compensated Absences	54,116	45,217
DLEG Operating Expenses	3,820,547	4,180,259
DIT Information Technology Services	1,844,656	2,084,048
Attorney General Services	1,032,875	899,040
Auditor General	<u>11,300</u>	<u>11,300</u>
TOTAL OPERATING EXPENSES	<u>\$621,990,979</u>	<u>\$602,280,348</u>
OPERATING INCOME (LOSS)	<u>\$146,093,960</u>	<u>\$140,679,063</u>
NON-OPERATING REVENUES (EXPENSES)		
Specific Tax, Liquor 1.85%	\$13,662,505	\$13,133,121
Interest Revenue	<u>1,973,450</u>	<u>4,627,777</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>\$15,635,955</u>	<u>\$17,760,898</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>\$161,729,915</u>	<u>\$158,439,961</u>
TRANSFERS		
Income Transferred to General Fund	(\$159,239,475)	(\$158,651,209)
Other Transfers	(2,490,440)	(3,788,752)
TOTAL TRANSFERS IN (OUT)	<u>(\$161,729,915)</u>	<u>(\$162,439,961)</u>
Change in Net Assets	\$0	(\$4,000,000)
Net Assets - Beginning of Fiscal Year	<u>875,739</u>	<u>4,875,739</u>
TOTAL NET ASSETS - END OF FISCAL YEAR	<u>\$875,739</u>	<u>\$875,739</u>

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>2008</u>	<u>2007</u>	<u>INCREASE (DECREASE)</u>
ASSETS AVAILABLE			
Beginning Assets	\$875,739	\$4,875,739	(\$4,000,000)
Total Operating Revenues	768,084,939	742,959,411	25,125,528
Total Non-Operating Revenues	<u>15,635,955</u>	<u>17,760,898</u>	<u>(2,124,943)</u>
TOTAL ASSETS AVAILABLE	<u>\$784,596,633</u>	<u>\$765,596,048</u>	<u>\$19,000,585</u>
ALLOCATION OF ASSETS			
Income Transferred to General Fund	\$159,239,475	\$158,651,209	\$588,266
Other Transfers	2,490,440	3,788,752	(1,298,312)
Total Operating Expenses	<u>621,990,979</u>	<u>602,280,348</u>	<u>19,710,631</u>
TOTAL ALLOCATION OF ASSETS	<u>\$783,720,894</u>	<u>\$764,720,309</u>	<u>\$19,000,585</u>
ENDING ASSETS	<u><u>\$875,739</u></u>	<u><u>\$875,739</u></u>	<u><u>\$0</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, 2008**

	NET CHANGE
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$768,084,939
Payments to Employees and for Administrative Expenses	(13,414,769)
Payments to Suppliers	(612,997,320)
Other Receipts	44,568
Other Payments	(1,199,754)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$140,517,664
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Specific Tax on Spirits	\$13,662,505
Transfers to Other Funds	(161,729,915)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(\$148,067,410)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends on Investments	\$1,973,450
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$1,973,450
Net Cash Provided (Used) - All Activities	(\$5,576,296)
Cash and Cash Equivalents at Beginning of Year	56,977,707
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$51,401,411
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Per Statement of Net Assets Classifications:	
Cash	\$700
Equity in Common Cash	55,057,159
Warrants Outstanding	(3,656,448)
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$51,401,411
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$146,093,960
Net Changes in Assets and Liabilities:	
Inventories	(4,360,741)
Other Assets (Net)	4,339,301
Accounts Payable and Other Liabilities	(5,554,856)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$140,517,664

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

NOTES TO FINANCIAL STATEMENTS

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. Retirement Contributions

All classified Liquor Control Commission employees are members of the State Employees Retirement System. During the 2008 fiscal year, \$2,008,322.18 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.

Michigan Department of Labor and Economic Growth

LIQUOR CONTROL COMMISSION

Other Financial Schedules – All Funds

(Unaudited)

For the Fiscal Year Ended September 30, 2008

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

	2008	2007	Increase (Decrease)
LIQUOR SALES			
Gross Sales (1)	\$925,477,120	\$894,993,141	\$30,483,979
Less: Discounts Allowed	157,548,125	152,225,192	5,322,933
PROCEEDS - SALE OF LIQUOR	\$767,928,995	\$742,767,949	\$25,161,046
Less: Cost of Goods Sold	561,268,719	542,633,561	18,635,158
GROSS REVENUE FROM SALE OF LIQUOR	\$206,660,276	\$200,134,388	\$6,525,888
OTHER REVENUE			
Miscellaneous Revenue	\$155,944	\$191,462	(\$35,518)
Interest Revenue	1,973,450	4,627,777	(2,654,327)
TOTAL OTHER REVENUE	\$2,129,394	\$4,819,239	(\$2,689,845)
TOTAL REVENUE	\$208,789,670	\$204,953,627	\$3,836,043
Less: Distribution Costs Paid to Suppliers	46,107,737	45,062,362	1,045,375
INCOME FROM LIQUOR MERCHANDISING	\$162,681,933	\$159,891,265	\$2,790,668
MANAGEMENT EXPENSES			
Commission and DLEG Administration	\$400,600	\$442,070	(\$41,470)
Management Support (2)	2,861,110	2,649,421	211,689
Licensing and Enforcement (2)	11,850,435	11,020,170	830,265
DLEG Services (Excluding MLCC Rent)	5,342,391	7,065,168	(1,722,777)
DIT Information Technology Services	1,844,656	2,084,048	(239,392)
Attorney General	1,032,875	899,040	133,835
Auditor General	11,300	11,300	0
Civil Service - Personnel	68,762	69,402	(640)
Compensated Absences	54,116	45,217	8,899
Less: Transfers Not Related to MLCC Operations (3)	2,410,500	3,710,500	(1,300,000)
TOTAL MANAGEMENT EXPENSES	\$21,055,745	\$20,575,336	\$480,409
INCOME FROM OPERATIONS (Excluding Taxes and Grants)	\$141,626,188	\$139,315,929	\$2,310,259
Specific Tax, Liquor 1.85% (Off Premise)	13,662,505	13,133,121	529,384
Revenue Collected for Other Funds	178,119,506	174,287,632	3,831,874
TOTAL CURRENT EARNINGS AND REVENUE	\$333,408,199	\$326,736,682	\$6,671,517
Number of Cases Sold	6,611,415	6,464,739	146,676
Number of Sales Days	262	260	2
Notes:			
(1) This figure is comprised of:			
Off Premise	\$737,176,018	\$708,941,673	\$28,234,345
On Premise	187,451,709	185,006,073	2,445,636
Other	849,393	1,045,395	(196,002)

(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>2008</u>	<u>2007</u>	<u>INCREASE (DECREASE)</u>
GENERAL FUND - GENERAL PURPOSE			
Excise Tax, Beer	\$41,189,860	\$41,711,031	(\$521,171)
Specific Tax, Liquor 4%	36,915,088	35,688,791	1,226,297
Excise Tax, Wine	9,751,514	9,767,318	(15,804)
Excise Tax, Mixed Spirit Drink	338,747	487,255	(148,508)
Fines & Costs	1,052,579	1,082,482	(29,903)
Miscellaneous Revenue	60,668	55,860	4,808
TOTAL GENERAL FUND - GENERAL PURPOSE	<u>\$89,308,456</u>	<u>\$88,792,737</u>	<u>\$515,719</u>
GENERAL FUND - RESTRICTED			
RETAIL LICENSE FEES:			
55% To Local Governments	\$6,285,160	\$5,915,500	\$369,660
41.5% To Licensing & Enforcement	4,818,809	4,551,342	267,467
3.5% To Alcoholism Prevention Programs	406,405	384,538	21,867
Additional Resort License Fees	113,842	170,331	(56,489)
Direct Shipper License Fees	67,537	48,032	19,505
License Transfer Fees	611,045	643,867	(32,822)
Sunday Sales Fees	1,501,489	1,440,152	61,337
Non-Retail License Fees-Wine Industry Council	720,150	517,233	202,917
Liquor Control Act Sales	4,065	3,975	90
Inspection Fees	313,970	299,399	14,571
Specific Tax, Liquor 4%-Tourism & Conv. Facility	36,993,349	35,765,849	1,227,500
Miscellaneous Revenue	60,141	65,886	(5,745)
TOTAL GENERAL FUND - RESTRICTED	<u>\$51,895,962</u>	<u>\$49,806,104</u>	<u>\$2,089,858</u>
SCHOOL AID FUND			
Specific Tax, 4%	\$36,915,088	\$35,688,791	\$1,226,297
TOTAL SCHOOL AID FUND	<u>\$36,915,088</u>	<u>\$35,688,791</u>	<u>\$1,226,297</u>
OTHER FUNDS REVENUE	<u>\$178,119,506</u>	<u>\$174,287,632</u>	<u>\$3,831,874</u>
LIQUOR PURCHASE REVOLVING FUND			
Specific Tax, Liquor 1.85% (Off Premise)	\$13,662,505	\$13,133,121	\$529,384
Income From Operations (Excluding Taxes & Grants) (1)	141,626,188	139,315,929	2,310,259
LIQUOR PURCHASE REVOLVING FUND REVENUE	<u>\$155,288,693</u>	<u>\$152,449,050</u>	<u>\$2,839,643</u>
TOTAL REVENUE COLLECTED	<u>\$333,408,199</u>	<u>\$326,736,682</u>	<u>\$6,671,517</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 2008	TOTAL 2007
MLCC APPROPRIATED EXPENSES					
Salaries & Wages	\$400,600	\$1,361,290	\$6,401,347	\$8,163,237	\$7,926,495
Longevity & Insurance		428,599	1,639,897	2,068,496	1,958,549
Retirement & FICA		568,282	2,140,424	2,708,706	2,175,108
SUBTOTAL	<u>\$400,600</u>	<u>\$2,358,171</u>	<u>\$10,181,668</u>	<u>\$12,940,439</u>	<u>\$12,060,152</u>
Communications	\$0	\$30,953	\$95,101	\$126,054	\$120,571
Travel	0	39,235	271,632	310,867	269,163
Utilities	0	13,748	3,215	16,963	17,701
Contractual Services	0	79,530	330,997	410,527	457,032
Supplies & Materials	0	102,650	191,403	294,053	274,348
Equipment Replacement, Additions & Rentals	0	23,211	77,604	100,815	61,066
Misc - Unemployment Insurance Claims	0	9,157	3,436	12,593	17,187
SUBTOTAL	<u>\$0</u>	<u>\$298,484</u>	<u>\$973,388</u>	<u>\$1,271,872</u>	<u>\$1,217,068</u>
TOTAL MLCC APPROPRIATED EXPENSES	<u>\$400,600</u>	<u>\$2,656,655</u>	<u>\$11,155,056</u>	<u>\$14,212,311</u>	<u>\$13,277,220</u>
OPERATING TRANSFERS OUT & OTHER EXPENSES					
Rent and Building Occupancy (2)	\$0	\$204,455	\$695,379	\$899,834	\$834,441
Other Operating Transfers Out (3)	0	0	0	8,354,100	10,174,175
TOTAL OPERATING TRANSFERS OUT & OTHER EXPENSES	<u>\$0</u>	<u>\$204,455</u>	<u>\$695,379</u>	<u>\$9,253,934</u>	<u>\$11,008,616</u>
GRAND TOTAL	<u>\$400,600</u>	<u>\$2,861,110</u>	<u>\$11,850,435</u>	<u>\$23,466,245</u>	<u>\$24,285,836</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.

