

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



Michigan Liquor Control Commission

Annual Financial Report 2015

(For Fiscal Year October 1, 2014 – September 30, 2015)





RICK SNYDER
GOVERNOR

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

SHELLY EDGERTON
DIRECTOR

To the Citizens of Michigan and Other Readers:

Thank you for your interest in the Michigan Liquor Control Commission and the 2015 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. And there is more in the works. 2016 will see a continuation of our review of our promulgated rules to make sure they are up to date and reflective of today's marketplace, removing outdated regulations, while still protecting public safety and health. We are also updating technology, thanks to appropriations by the state Legislature, to bring our software systems up to current capabilities. These upgrades show tremendous promise, are long overdue, and will continue to be put together and implemented throughout the rest of 2016.

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

The Commission holds public hearings twice each year "for the purpose of hearing complaints and receiving the views of the public with respect to the administration of this act." These hearings are required by law, and usually take place in June and December. You are cordially invited to attend our public hearings to speak to the Commissioners or to make comments to the Commission by other means. You may call our offices in Lansing at 517.284.6357 for the time and location of our next public hearing or email us at mlccinfo2@michigan.gov.

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

Thank you, again, for your interest, and in reviewing the 2015 Annual Financial Report.

Sincerely,

Andrew J. Deloney, Chairman

TABLE OF CONTENTS

EXECUTIVE DIGEST

Summary.....	1
The MLCC.....	2
Trends.....	5
Distilled Spirits.....	7
Beer - Wine - Mixed Spirits.....	8
Control	9
National Trends and Statistics.....	12

FINANCIAL STATEMENTS FOR THE LIQUOR PURCHASE REVOLVING FUND

Independent Auditor’s Report on the Financial Statements and other Reporting Required by Government Auditing Standards.....	13
Comparative Statement of Net Position.....	15
Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position	16
Statement of Cash Flows.....	17
Notes to Financial Statements.....	18
Schedules of Required Supplementary Information – Pension Liability.....	32
Notes to Required Supplemental Pension Information.....	33
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.....	34

SUPPLEMENTAL FINANCIAL SCHEDULES (UNAUDITED)

Comparative Comprehensive Schedule of Operations.....	36
Comparative Comprehensive Schedule of Revenue Collected.....	37
Comprehensive Schedule of Expenses by Type and Account.....	38



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

Executive Digest

Summary

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

REVENUE/EXPENSE ITEM	FY 2014-15 (In millions)	FY 2013-14 (In millions)	% INCREASE (DECREASE)
Gross Sales	\$1,231.2	\$1,153.0	6.8
Licensee Discounts	209.3	195.9	6.8
Cost of Goods Sold	746.5	698.8	6.8
Gross Revenue - Liquor	275.4	258.3	6.6
Operating Expenses ¹	85.6	86.8	(1.4)
Miscellaneous Revenue	.1	0	100.0
Income from Operations ²	189.9	171.5	10.7
Specific Liquor Taxes	147.5	138.1	6.8
Other Revenue Collected	66.1	70.0	(5.6)
Total Net Revenue	403.5	379.6	6.3

NOTES:

(1) Operating Expenses do not include Liquor Purchase Revolving Fund transfers for grants. The transfers for grants of \$773,900 for 2015 and \$773,900 for 2014 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 \$194.7 million.

OTHER MERCHANDISING STATISTICS	FY 2014-15	FY 2013-14	% INCREASE (DECREASE)
Number of Cases Sold	8,043,595	7,709,480	4.3
Average Price Per Case	\$153.06	\$149.56	2.3
Items Available (brands and sizes)	7,501	7,328	2.4
Number of Bottles Sold	134,573,186	126,402,967	6.5
Average Price Per Bottle	\$9.15	\$9.12	0.3

APPARENT CONSUMPTION STATISTICS	FY 2014-15		FY 2013-14	
	Gallons	Per Capita ³	Gallons	Per Capita ³
Distilled Spirits	17,836,711	1.80	17,265,000	1.74
Mixed Spirit Drinks	301,817	0.03	283,810	0.03
Wine (21% alcohol or less)	24,475,610	2.47	24,314,986	2.45
Beer	195,366,970	19.69	192,864,432	19.46

Note:

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

The MLCC

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

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



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

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

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

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

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

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

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

The Liquor Control Code

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

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

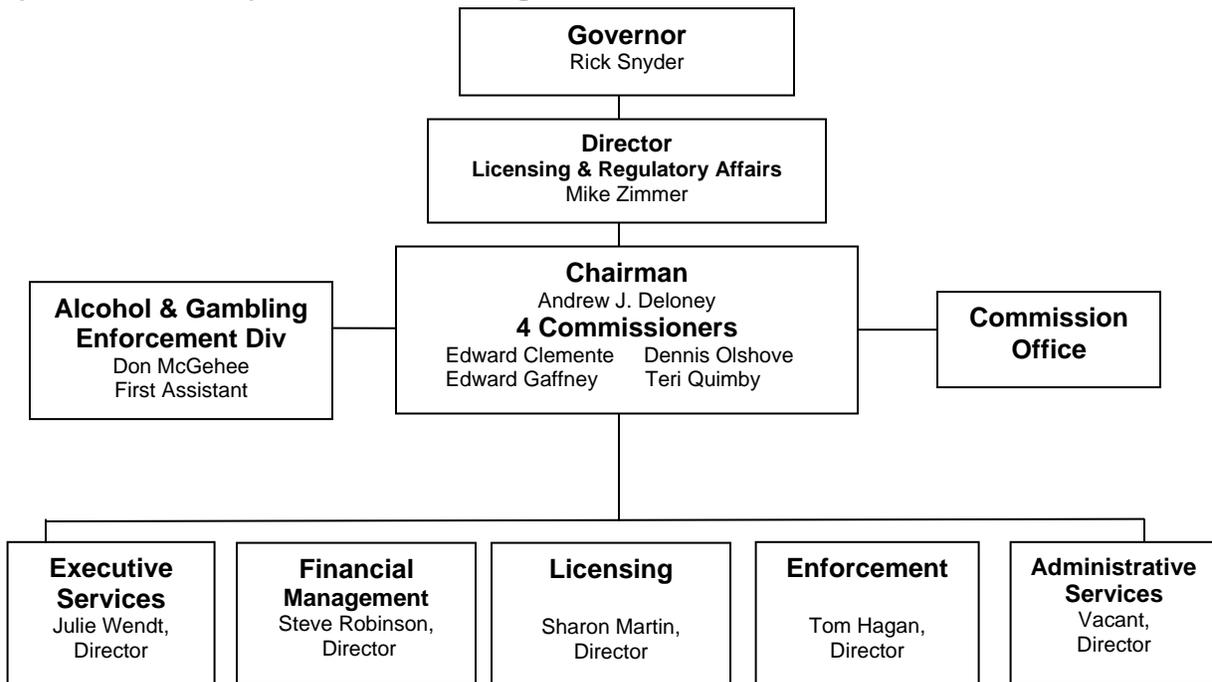
The MLCC

MLCC Personnel (as of 9/30/2015)

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
Commissioners	5	0
Business Manager	1	0
Attorney General Support	2	0
Executive Services	15	0
Financial Management	14	0
Licensing	40	0
Enforcement	62	1
Administrative Services	<u>2</u>	<u>0</u>
TOTAL	<u>141</u>	<u>1</u>

(as of 9/30/2015)

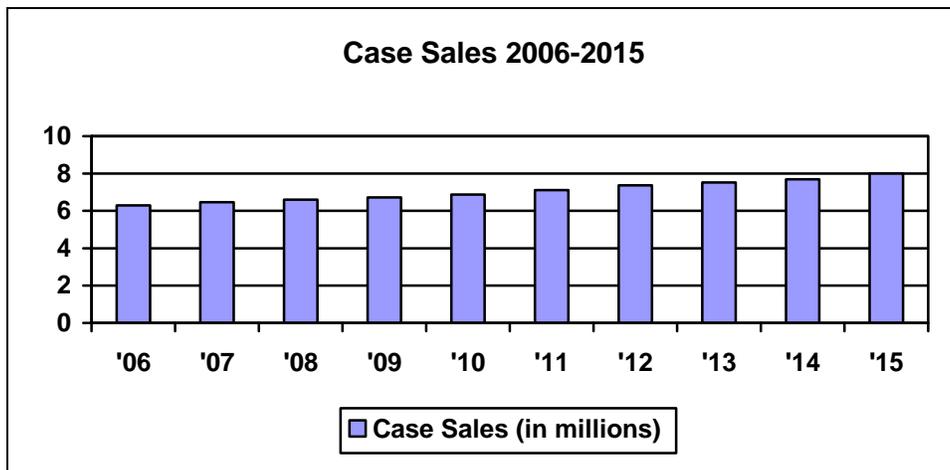
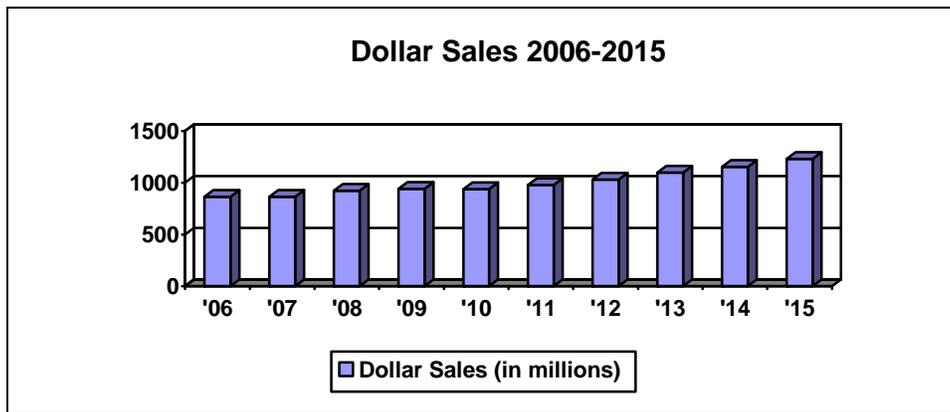
Organization Chart



Trends

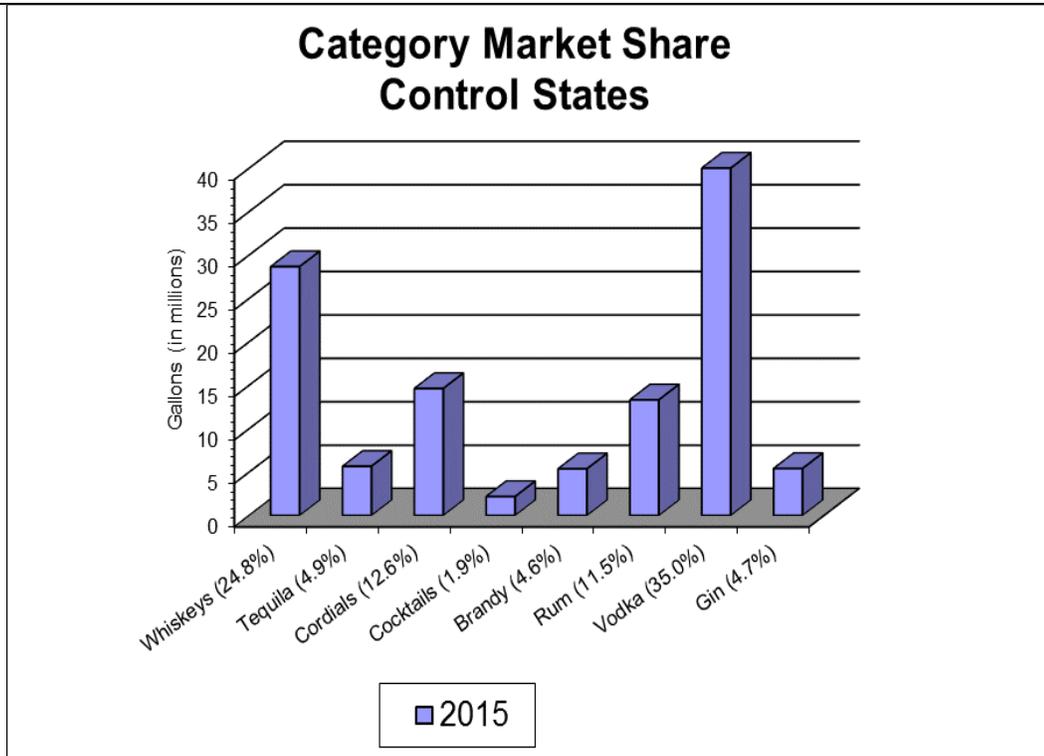
Dollar Sales

Since the 2006 fiscal year, there has been a 42.3% increase in dollar sales from \$865.1m in FY 2006 to \$1,231.2m in FY 2015. 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.

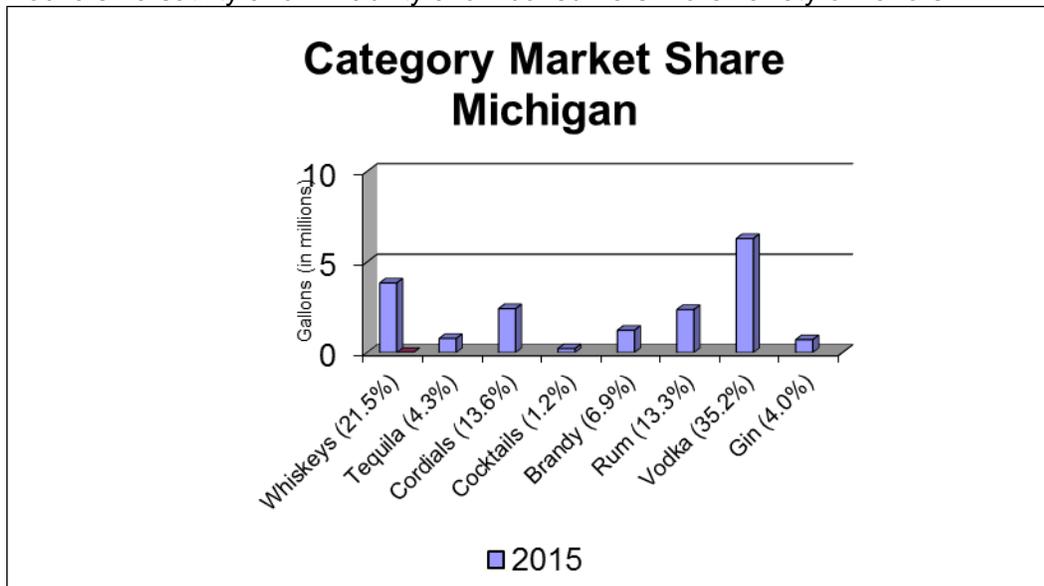


Case Sales

The 10-year case sales history graph shows an increase in case sales every year since FY 2006. This trend continued in 2014-2015 with sales of 8,043,595 cases. This is an increase of 27.8% above the FY 2006 case sales figure of 6,293,797. 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 59.8 percent of the Control States market share and 56.7 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 over 7,500 products available for sale by the Commission. The Commission's Liquor Price Lists are available in xls format on the MLCC internet homepage at the following address: <http://www.michigan.gov/lcc>. Click on "E-Quote & Spirits Purchasers/Suppliers" on the left side of the screen. Then, click on "Price Book Listings (PDF & Excel Files)" and select an option.

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

Liquor Tax **\$1.08**
Distribution
4% Specific Tax (Convention Facilities) .36
4% Specific Tax (School Aid) .36
4% Specific Tax (General Fund) .36

Licensee Profit **\$1.52**
(through discount)

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

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

Distillery or Importer **\$3.26**

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



<u>Cost of Distribution</u>	<u>Amount</u>	<u>% of Total</u>
Federal Government	2.14	21.4
Distillery	3.26	32.6
State Government:		
MLCC	2.00	20.0
Specific Taxes	1.08	10.8
<u>Liquor Licensee Minimum Profit (Discount)</u>	<u>1.52</u>	<u>15.2</u>
TOTAL	\$10.00	100.0

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

Beer - Wine - Mixed Spirits

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

Tax Rate by Type of Alcohol Beverage

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

2006-2015 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons

Year	Population (Estimated)	Beer	Spirits	Wine	Mixed Spirit Drinks
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
2014	9,910,000	19.46	1.74	2.45	0.03
2015	9,923,000	19.69	1.80	2.47	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>2014-15</u>	<u>2013-14</u>	<u>Increase/ (Decrease)</u>	<u>2014-15</u>	<u>2013-14</u>	<u>Increase/ (Decrease)</u>
Beer	\$35,863,814	\$38,994,566	\$(3,130,752)	Barrels of Beer 6,302,160	6,221,433	80,727
Wine	10,822,594	12,254,604	(1,432,010)	Liters of Wine 92,652,421	92,044,380	608,041
MSD*	507,151	461,987	45,164	Liters of MSD* 1,142,527	1,074,364	68,163
TOTAL	\$47,193,559	\$51,711,157	\$(4,517,598)			

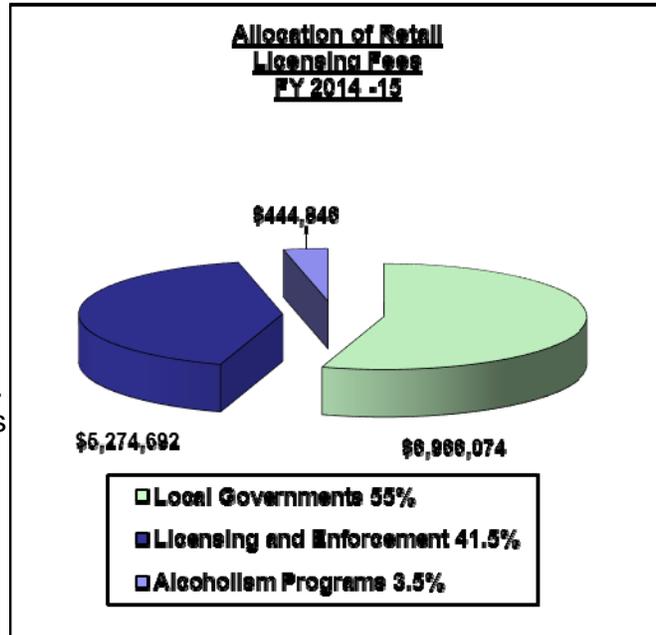
* Mixed Spirit Drinks

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 under 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 just over 11,600 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 979 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 \$15.4 million in retail license and transfer fees in fiscal year 2014-15. This amount included \$12,685,612 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 \$730,945.

Active Retail Liquor Licensed Businesses (by type)

On-Premise Licensed Businesses: Total 8,403

Class C: 5,990 Class C Resort: 935 B-Hotel: 188 B-Hotel Resort: 121

(Bars/Restaurants/Hotels) Consumption on the premises: Liquor, beer, wine and mixed spirit drink

A-Hotel: 1 A-Hotel Resort: 0 Tavern: 165 Tavern Resort: 9

Consumption on the premises: Beer and Wine only

Clubs: 930

(Membership required) Consumption on the premises: Liquor, beer, wine and mixed spirit drink

Other : 64 *(Aircraft, Watercraft, Train) Consumption on the premises: Liquor, beer, wine and mixed spirit drink*

Off-Premise Licensed Businesses: Total 7,537

SDD: 3,918 SDD-Resort: 270 SDM: 3,349

Package Liquor Take-out

Beer and Wine Take out

Total Number of Retail Licensed businesses: 15,940

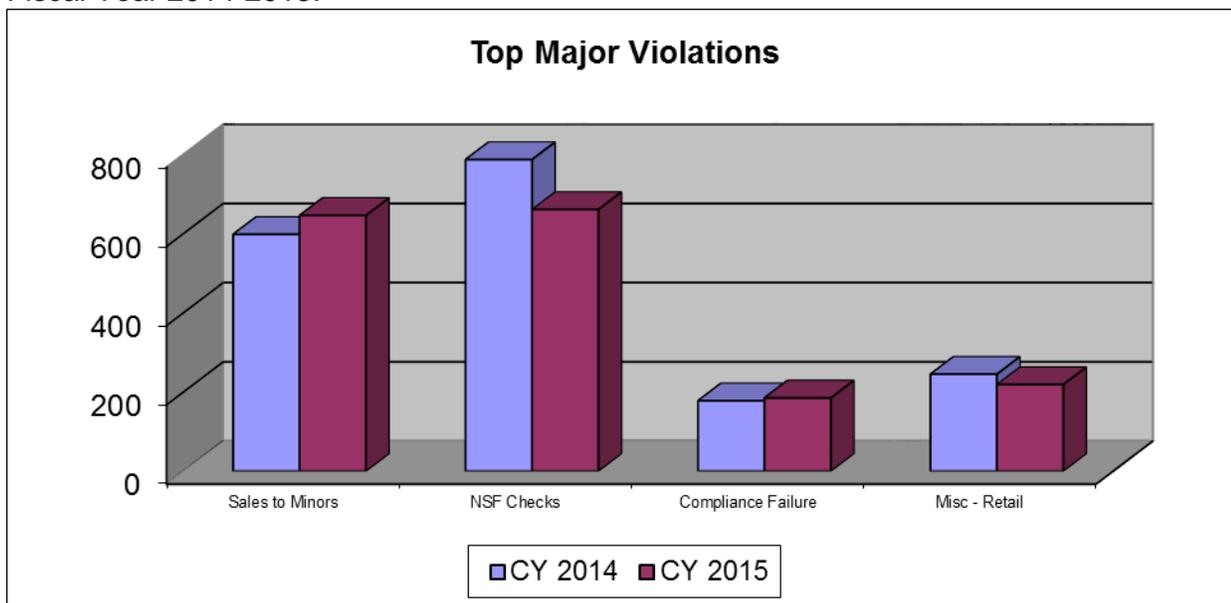
Control

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 494 liquor law violation reports in Fiscal Year 2014-2015. MLCC enforcement investigators submitted 1,537 violation reports in Fiscal Year 2014-2015.



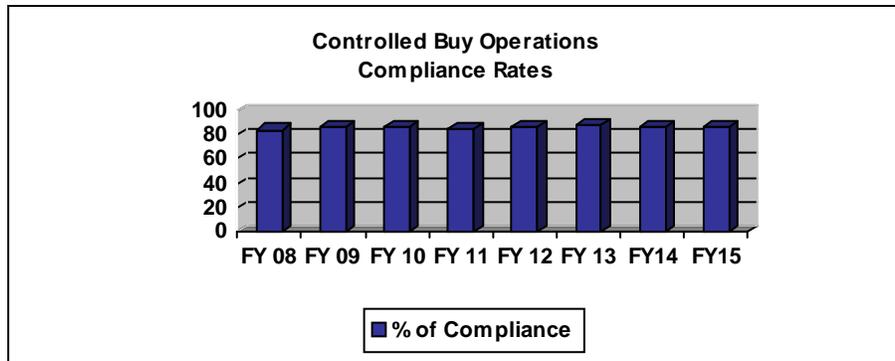
The violations that the Enforcement Division administers are varied. In addition to the top violations listed in the chart above, some of the other violations that Enforcement handles are as follows: sales to intoxicated persons, illegally obtain or transfer license, licensee or employee convicted of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

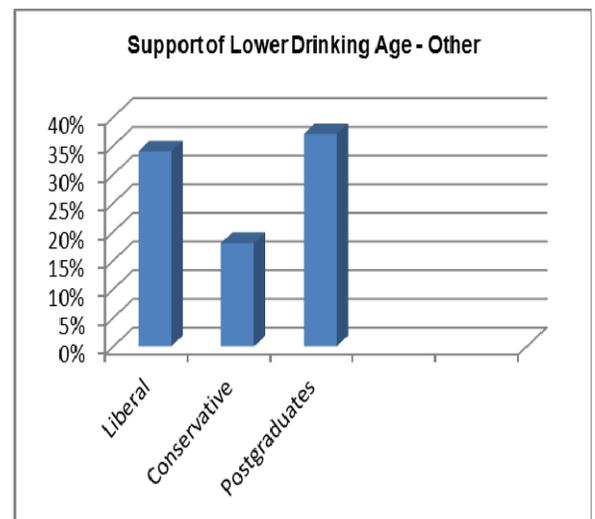
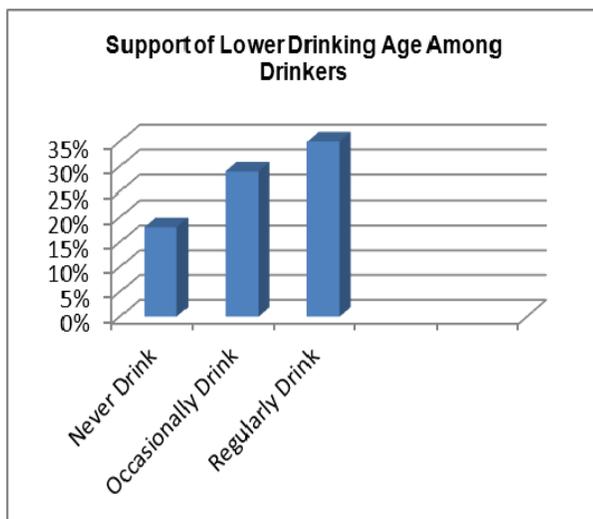
In an effort to minimize underage drinking, the Enforcement Division conducts controlled buy operations, also called decoy sting operations. During a controlled buy operation, a minor will attempt to purchase alcohol from a retailer while the transaction is observed by an undercover enforcement officer. 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 2014-15, MLCC enforcement officers conducted 2,451 controlled buy operations and wrote 317 violations for selling to minors, meaning 13% of stops resulted in a violation. This percentage is higher than last fiscal year.



It's been 30 years since federal legislation established 21 as a uniform minimum age to drink alcohol in all states. Americans are still widely opposed to lowering the legal drinking age to 18. According to a July 7-10, 2014 Gallup poll, 74% say they would oppose the legislation and 25% say they would favor the legislation.



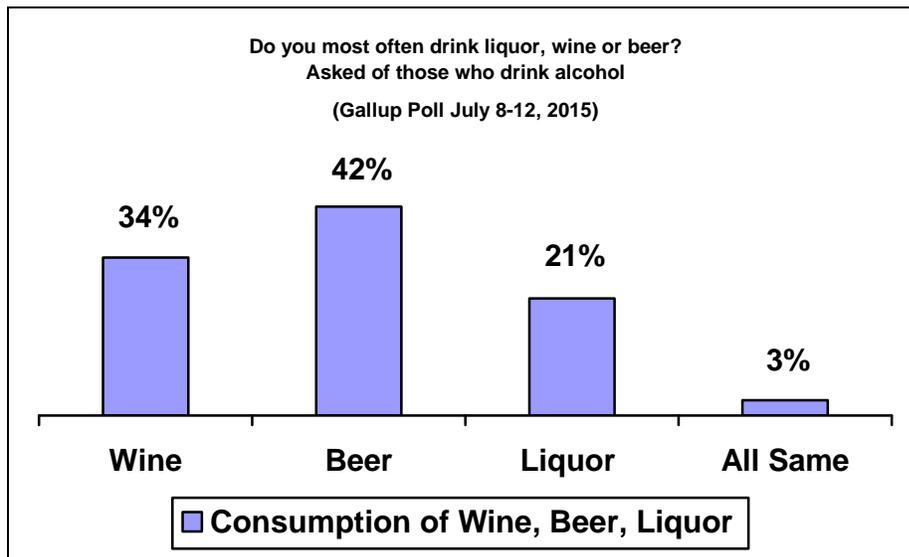
Enforcement & Excessive Drinking

Enforcement is also working diligently to reduce excessive drinking among all drinkers. According to a July 8-12, 2015 Gallup poll, the percentage of Americans who admit they sometimes drink too much is 24%. This percentage has been fairly consistent over time, ranging between 17% and 24% over the last decade.

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

National Trends and Statistics

American Drinking Trends



Although the percentage of Americans who identify themselves as drinkers has remained virtually unchanged (64% in a July 2015 Gallup poll vs. the 63.4% historical average since 1939), there has been a small revival in regular drinking in recent years. In the 2015 Gallup poll, the average number of drinks consumed per drinker in the past week was 4.5.

According to Gallup, there are large differences in alcohol consumption among education and sub-groups. A July 8-12, 2015 Gallup poll indicates that the percentage of Americans with an annual household income of \$75,000 or more who drink alcoholic beverages is 78%. The percentage of Americans whose household earns between \$30,000 – \$74,999 who drink alcoholic beverages is 67%. Finally, the percentage of Americans with a household salary of less than \$30,000 who drink alcoholic beverages is 45%. Americans of higher socio-economic status have greater economic resources and can likely afford to buy alcohol.

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, 2015
and September 30, 2014



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • www.audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

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

Mr. Andrew J. Deloney, Chairman
Michigan Liquor Control Commission
Constitution Hall
Lansing, Michigan
and
Ms. Shelly Edgerton, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Deloney and Ms. Edgerton:

Report on the Financial Statements

We have audited the accompanying financial statements of the Liquor Purchase Revolving Fund, Michigan Liquor Control Commission, Department of Licensing and Regulatory Affairs, as of and for the fiscal years ended September 30, 2015 and September 30, 2014 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, 2015 and September 30, 2014 and the changes in financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.



OAG

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

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

Emphasis of Matters

As discussed in Note 1, 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, 2015 and September 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 8, the Liquor Purchase Revolving Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, for the fiscal year ended September 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2016 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,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General
August 3, 2016

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

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash	\$400	\$400
Equity in Common Cash (NOTE 2)	77,362,413	71,524,952
Liquor Inventory (NOTE 3)	4,816,214	7,938,850
Prepaid Distribution Costs of Inventory	334,005	601,598
Accounts Receivable	8,561,148	5,838,640
TOTAL ASSETS	\$91,074,180	\$85,904,440
DEFERRED OUTFLOWS OF RESOURCES (NOTE1)	\$2,756,348	\$0
LIABILITIES		
CURRENT LIABILITIES		
Warrants Outstanding	\$3,230,980	\$4,560,928
Accounts Payable and Other Liabilities	85,627,744	79,121,304
Amounts Due to Other Funds	244,833	287,634
Current Compensated Absences	672,660	661,478
TOTAL CURRENT LIABILITIES	\$89,776,217	\$84,631,344
LONG-TERM LIABILITIES		
Amounts Due to Other Funds	\$0	\$24,738
Non Current Portion - Net Pension Liability (NOTE 4)	15,999,403	0
Long Term Compensated Absences	422,224	372,619
TOTAL LONG TERM LIABILITIES	\$16,421,627	\$397,357
TOTAL LIABILITIES	\$106,197,844	\$85,028,701
DEFERRED INFLOWS OF RESOURCES (NOTE1)	\$1,876,585	\$0
NET POSITION		
Unrestricted (NOTE 10)	(\$14,243,901)	\$875,739
TOTAL NET POSITION	(\$14,243,901)	\$875,739

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

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

	2015	2014
OPERATING REVENUES		
Gross Sales	\$1,231,165,982	\$1,152,973,257
Less: Discounts Allowed	209,289,195	195,936,076
PROCEEDS - SALE OF LIQUOR	\$1,021,876,787	\$957,037,181
Miscellaneous Revenue	13,217	16,395
TOTAL OPERATING REVENUES	\$1,021,890,004	\$957,053,576
OPERATING EXPENSES		
Cost of Goods Sold	\$746,509,736	\$698,828,208
Distribution Costs Paid to Suppliers (NOTE 6)	60,330,645	57,840,800
Commission	435,615	407,732
Management Support	3,893,921	4,501,668
Licensing and Enforcement	7,154,476	7,050,105
Compensated Absences	60,786	299,537
DLARA Operating Expenses	2,654,677	3,388,014
Administrative Hearings & Rules	72,004	110,819
DTMB Information Technology Services	2,498,255	2,493,475
Attorney General Services	1,291,641	1,302,699
Auditor General	27,500	69,441
TOTAL OPERATING EXPENSES	\$824,929,256	\$776,292,498
OPERATING INCOME (LOSS)	\$196,960,748	\$180,761,078
NON-OPERATING REVENUES (EXPENSES)		
Interest Revenue	\$109,700	\$66,820
Non-Operating Revenue	1,119	3,213
Non-Operating Expense - Bureau of Fire Services	(866,916)	(2,983,550)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(\$756,097)	(\$2,913,517)
INCOME (LOSS) BEFORE TRANSFERS	\$196,204,651	\$177,847,561
TRANSFERS		
Income Transferred to General Fund (NOTE 1)	(\$194,696,735)	(\$176,840,786)
Other Transfers (NOTE 7)	(1,023,037)	(1,006,775)
TOTAL TRANSFERS IN (OUT)	(\$195,719,772)	(\$177,847,561)
Change in Net Position	\$484,879	\$0
Total Net Position - Beginning of Fiscal Year - Restated (NOTE 8)	(14,728,780)	875,739
TOTAL NET POSITION - END OF FISCAL YEAR (NOTE 10)	(\$14,243,901)	\$875,739

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**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$1,021,890,004	\$957,053,576
Payments to Employees and for Administrative Expenses	(17,579,723)	(21,050,478)
Payments to Suppliers	(800,273,154)	(764,767,572)
Other Receipts	601,301	(250,792)
Other Payments	(1,860,947)	(1,556,561)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$202,777,481	\$169,428,173
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(\$195,719,772)	(\$177,847,562)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(\$195,719,772)	(\$177,847,562)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	\$109,700	\$66,820
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$109,700	\$66,820
Net Cash Provided (Used) - All Activities	\$7,167,409	(\$8,352,569)
Cash and Cash Equivalents at Beginning of Year	66,964,424	75,316,993
CASH AND CASH EQUIVALENTS AT END OF YEAF	\$74,131,833	\$66,964,424
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per Statement of Net Position Classifications:		
Cash	\$400	\$400
Equity in Common Cash	77,362,413	71,524,952
Warrants Outstanding	(3,230,980)	(4,560,928)
CASH AND CASH EQUIVALENTS AT END OF YEAF	\$74,131,833	\$66,964,424
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$196,960,748	\$177,777,528
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Pension Expense	1,808,115	0
Deferred Outflows - Contributions Subsequent to Measurement Date	(2,292,994)	0
Other Nonoperating Revenues	1,119	3,213
Other Nonoperating Expenses	(866,916)	
Net Changes in Assets and Liabilities:		
Inventories	3,122,636	(724,692)
Other Assets (Net)	(2,454,915)	356,165
Accounts Payable and Other Liabilities	6,499,688	(7,984,041)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$202,777,481	\$169,428,173

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity

The accompanying financial statements report the financial position, changes in financial position, and cash flows of the Liquor Purchase Revolving Fund, a proprietary fund of the State of Michigan, as of and for the fiscal years ended September 30, 2015 and September 30, 2014. They are not intended to present the financial position, changes in financial position, and cash flows of the State of Michigan or its enterprise funds in conformity with accounting principles generally accepted in the United States of America. The Liquor Purchase Revolving Fund is reported as an enterprise fund in the *State of Michigan Comprehensive Annual Financial Report (SoMCAFR)*.

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

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

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

Measurement Focus, Basis of Accounting, and Presentation

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

Fund Cash Account

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an

NOTES TO FINANCIAL STATEMENTS

outflow of resources (expense/expenditure) until then. The Commission has deferred outflows of resources related to pensions that qualify for reporting in this category.

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

Pensions

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

NOTE 2 Equity in the State Treasurer's Common Cash

The investment authority for the MLCC is found in Public Act 58 of 1998, as amended authorizing the MLCC to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the state treasurer. Equity in the State of Michigan Treasurer's (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 \$77.4 million and \$71.5 million at September 30, 2015 and September 30, 2014 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

NOTES TO FINANCIAL STATEMENTS

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, 2015 and at September 30, 2014.

Common Cash Investments

Types of Investments

State Treasurer's Common Cash pool investments include prime commercial paper, demand deposits, 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, and the interest rate risk, are discussed in the following paragraphs.

Custodial Credit Risk

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

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

The counterparty, or

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

The State Treasurer's Common Cash pool does not have an investment policy for managing custodial credit risk. At September 30, 2015 and at September 30, 2014, 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.

NOTES TO FINANCIAL STATEMENTS

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 in emergency municipal loans is evidenced by unrated notes held by the State in the State's name. In addition, at September 30, 2015 and at September 30, 2014, prime commercial paper investments were rated at A-1 or P-1.

Interest Rate Risk

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

The 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. 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 General Information on Employee Pension Plans

A. Plan Description

The Michigan State Employees Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members – four appointed by the Governor which consist of two employee members and two retiree members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting

NOTES TO FINANCIAL STATEMENTS

www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111.

B. Benefits Provided

Introduction

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

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

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

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

Pension Reform of 2012

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

- Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% contribution began on April 1, 2012.
- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4% contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.
- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

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

NOTES TO FINANCIAL STATEMENTS

2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

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

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

Regular Retirement

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

Deferred Retirement

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

Non-Duty Disability Benefit

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

Duty Disability Benefit

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

Survivor Benefit

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

Pension Payment Options

When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100%, 75% or 50% of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

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

100% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the

NOTES TO FINANCIAL STATEMENTS

beneficiary. If the beneficiary predeceases the retiree, the pension “pops-up” to the regular pension amount; another beneficiary cannot be named.

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

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

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

Post Retirement Adjustments

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

C. Contributions

Member Contributions - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member’s contribution and interest on deposit may be refunded. If the member dies before being vested, the member’s contribution and interest are refunded to the designated beneficiaries.

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System’s actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2015, the Liquor Purchase Revolving Fund’s contribution rate was 27.46% of the defined benefit employee wages and 24.19% of the defined contribution employee wages. The Liquor Purchase Revolving Fund’s contributions to SERS for the fiscal

NOTES TO FINANCIAL STATEMENTS

years ending September 30, 2015 and September 30, 2014 were \$2,292,994 and \$2,188,041, respectively.

D. Actuarial Assumptions

The Liquor Purchase Revolving Fund's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS

Asset Allocation		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	4.8 %
International Equity Pools	16.0	6.1
Alternative Investment Pools	18.0	8.5
Real Estate and Infrastructure Pools	10.0	5.3
Fixed Income Pools	10.5	1.5
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	<u>2.0</u>	(0.2)
TOTAL	<u><u>100.0 %</u></u>	

* Rate of return does not include 2.5% inflation

E. Discount Rate

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

F. Net Pension Liability

At September 30, 2015, the Liquor Purchase Revolving Fund reported a liability of \$15,999,403 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The Liquor Purchase Revolving Fund's proportion of the net pension liability was based on the Liquor Purchase Revolving Fund's required pension contributions received by SERS during the measurement period October 1, 2013, through September 30, 2014, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2014, the Liquor Purchase Revolving Fund's proportion was 0.31 percent.

Assumption changes, based on the adoption of the findings of the experience study covering the period October 1, 2007 through September 30, 2012, increased the computed liabilities.

G. Pension Liability Sensitivity

The following presents the Liquor Purchase Revolving Fund's proportionate share of the net pension liability calculated using the discount rate of 8% as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

NOTES TO FINANCIAL STATEMENTS

	1% Decrease 7.0%	Current Discount 8.0%	1% Increase 9.0%
Component Unit's proportionate share of the net pension liability	\$20,818,027	\$15,999,403	\$11,853,777

H. Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the Liquor Purchase Revolving Fund recognized pension expense of \$1,808,115. At September 30, 2015, the Liquor Purchase Revolving Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Changes of assumptions	\$463,354	-
Net difference between projected and actual earnings on investments	-	\$1,876,585
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	-
Liquor Purchase Revolving Fund's contributions subsequent to the measurement date	\$2,292,994	-
Total	\$2,756,348	\$1,876,585

Amounts reported as deferred outflows of resources related to pensions resulting from Liquor Purchase Revolving Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2016	(\$5,922)

NOTES TO FINANCIAL STATEMENTS

2017	(\$469,146)
2018	(\$469,146)
2019	(\$469,146)

J. Defined Contribution Plan

The Commission participates in the State of Michigan's defined contribution plan system. The Commission is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Commission are established and may be amended by the State legislature. The State legislature established the extent to which employer and employees are required to make contributions and established the benefit provisions for the plan. The Commission's contributions to the plan were \$309,102, and \$309,186 for the years ended September 30, 2015 and 2014, respectively, and are recorded in salaries and benefits expense.

K. Postemployment Benefits

The Commission participates in the State of Michigan's postemployment benefits. State statutes provide retired employees with other postemployment benefits such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The Commission contributed 22.76% and 24.19% of payroll for the employer cost of other postemployment benefits for the fiscal years ended September 30, 2015 and 2014 respectively. The State pays 80% of the cost of health insurance for retired employees who were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance dependent upon years of service. Employees hired on or after January 1, 2012 will not be eligible for retiree health insurance coverage but receive a personal health care fund where they will contribute up to 2% of their compensation in a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

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

NOTES TO FINANCIAL STATEMENTS

This is the amount paid directly to the liquor suppliers by the MLCC for the Authorized Distribution Agents' warehousing and delivery of spirits to retail licensees. The MLCC paid a \$7.50 per case distribution fee during fiscal years 2014-15 and 2013-14. The liquor suppliers were required to pay an additional \$1.35 per case distribution fee for a total of \$8.85 per case to the MLCC's Authorized Distribution Agents.

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 Change in Accounting

During the current year, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. As a result, the financial statements now include a net pension liability for our unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to Note 4 for further details. As a result of implementing this statement, the net position of the Liquor Purchase Revolving Fund as of October 1, 2014 has been restated by (\$15,604,519) to (\$14,728,780). Of the (\$15,604,519) restatement, (\$17,796,258) was related to the beginning of year net pension liability and \$2,191,739 was related to the beginning of year deferred outflows for employer contributions made subsequent to the measurement date. The restatement of the fiscal year 2014 financial statements was not practical as all necessary information for such a restatement was not available from the pension plan. As such, the fiscal year 2014 financial statements have not been restated.

NOTE 9 Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Commission to recognize on the face of the financial statements its proportionate share of the net OPB liability related to its participation in the Michigan State Employees' Retirement System. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The provisions of this statement are effective for the Commission's financial statements for the year ending September 30, 2018.

NOTE 10 Fund Deficit

The Liquor Purchase Revolving Fund had a fund balance deficit of \$14,243,901. As the result of the implementation of GASB Statement No.68, the Statement of Net Position now includes a portion of net pension liability related to the State Employees' Retirement System that was

NOTES TO FINANCIAL STATEMENTS

allocated to the fund in accordance with GASB standards.

Schedules of Required Supplementary Information – Pension Liability

**Schedule of the Liquor Purchase Revolving Fund's (LPRF's) Proportionate Share of Net Pension Liability
State Employees' Retirement System
Last 10 years
(Amounts in thousands)**

	2015
LPRF's Proportion of the Net Pension Liability	0.31%
LPRF's Proportionate Share of the Net Pension Liability	\$15,999
LPRF's Covered-Employee Payroll	\$7,296
LPRF's proportionate share of the net pension liability as a percentage of its covered-employee payroll	219.30%
Plan fiduciary net position as a percentage of the total pension liability	68.07%

The amounts presented for each fiscal year were determined as of the measurement date of September 30, 2014.

**Schedule of Liquor Purchase Revolving Fund's (LPRF's) Contributions
State Employees' Retirement Plan
Last 10 Fiscal Years
(Amounts in thousands)**

	2015
Statutorily Required Contribution	\$2,293
Contributions in relation to the statutorily required contribution	\$2,293
Contribution deficiency (excess)	-
LPRF's covered-employee payroll	\$7,296
Contributions as a percentage of covered-employee payroll	31.43%

Notes to Required Supplementary Pension Information

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

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

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

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

Valuation:

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

Methods and Assumptions Used to Determine Contribution For Fiscal Year 2014

Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	5-Year Smoothed Market
Inflation	2.5%
Salary Increases	3.5% wage inflation
Investment Rate of Return	8.00% net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (set forward 2 years for men, with 81% of the male rates used at ages 80-103 and 107% of the female rates)



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • www.audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

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

Mr. Andrew J. Deloney, Chairman
Michigan Liquor Control Commission
Constitution Hall
Lansing, Michigan
and
Ms. Shelly Edgerton, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Deloney and Ms. Edgerton:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Liquor Purchase Revolving Fund, Michigan Liquor Control Commission, Department of Licensing and Regulatory Affairs, as of and for the fiscal years ended September 30, 2015 and September 30, 2014 and the related notes to the financial statements and have issued our report thereon dated August 3, 2016.

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.



OAG

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

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

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 that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General
August 3, 2016

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

For the Fiscal Years Ended September 30, 2015
and September 30, 2014

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

	2015	2014	Increase (Decrease)
LIQUOR SALES			
Gross Sales (1)	\$1,231,165,982	\$1,152,973,257	\$78,192,725
Less: Discounts Allowed	209,289,195	195,936,076	13,353,119
PROCEEDS - SALE OF LIQUOR	\$1,021,876,787	\$957,037,181	\$64,839,606
Less: Cost of Goods Sold	746,509,736	698,828,208	47,681,528
REVENUE FROM SALE OF LIQUOR	\$275,367,051	\$258,208,973	\$17,158,078
OTHER REVENUE			
Miscellaneous Revenue	\$13,217	\$16,395	(\$3,178)
Non-Operating Revenue	1,119	3,213	(2,094)
Interest Revenue	109,700	66,820	42,880
TOTAL OTHER REVENUE	\$124,036	\$86,428	\$37,608
TOTAL REVENUE	\$275,491,087	\$258,295,401	\$17,195,686
Less: Distribution Costs Paid to Suppliers	60,330,645	57,840,800	2,489,845
INCOME FROM LIQUOR MERCHANDISING	\$215,160,442	\$200,454,601	\$14,705,841
MANAGEMENT EXPENSES			
Commission	\$435,615	\$407,732	\$27,883
Management Support (4)	3,899,907	4,622,876	(722,969)
Licensing and Enforcement (4)	13,728,438	13,631,153	97,285
DLARA Services (Excluding MLCC Rent) (4)	2,921,707	3,567,385	(645,678)
DTMB Information Technology Services	2,498,255	2,493,475	4,780
Attorney General	1,291,641	1,302,699	(11,058)
Auditor General	27,500	69,441	(41,941)
Bureau of Fire Services	866,916	2,983,550	(2,116,634)
Civil Service - Personnel	249,137	232,875	16,262
Administrative Hearings & Rules	72,004	110,819	(38,815)
Compensated Absences	60,786	299,537	(238,751)
Less: Transfers Not Related to MLCC Operations (2)	773,900	773,900	0
TOTAL MANAGEMENT EXPENSES	\$25,278,006	\$28,947,642	(\$3,669,636)
INCOME FROM OPERATIONS (Excluding Taxes and Grants)	\$189,882,436	\$171,506,959	\$18,375,477
Other Revenue Collected (3)	213,604,768	208,091,183	5,513,585
TOTAL CURRENT EARNINGS AND REVENUE	\$403,487,204	\$379,598,142	\$23,889,062
Number of Cases Sold	8,043,595	7,709,480	334,115
Number of Sales Days	261	261	0

Notes:

(1) This figure is comprised of the following:

Off Premise	\$1,028,906,357	\$961,179,233	\$50,733,548
On Premise	201,615,962	191,335,260	10,280,702
Other	643,663	458,765	184,898

(2) Grants to Cities - Fire Protection

(3) Other Revenue Collected (Page 36) including taxes and fees collected for the General Fund and School Aid Fund (i.e. Beer and Wine taxes, Specific taxes, as well as Licensing and Enforcement fees)

(4) Includes Pension Expense

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

	<u>2015</u>	<u>2014</u>	<u>INCREASE (DECREASE)</u>
GENERAL FUND - GENERAL PURPOSE			
Excise Tax, Beer	\$35,863,814	\$38,994,566	(\$3,130,752)
Specific Tax, Liquor 4%	49,084,052	45,952,005	3,132,047
Excise Tax, Wine	10,822,594	12,254,604	(1,432,010)
Excise Tax, Mixed Spirit Drink	507,151	461,987	45,164
Sunday Sales Fees (7am-12pm)	1,463,182	1,376,281	86,901
Fines & Costs	789,306	671,156	118,150
Miscellaneous Revenue	176,884	91,030	85,854
TOTAL GENERAL FUND - GENERAL PURPOSE	<u>\$98,706,983</u>	<u>\$99,801,629</u>	<u>(\$1,094,646)</u>
GENERAL FUND - RESTRICTED			
RETAIL LICENSE FEES:			
55% To Local Governments	\$6,966,074	\$6,713,098	\$252,976
41.5% To Licensing & Enforcement	5,274,692	5,087,625	187,067
3.5% To Alcoholism Prevention Programs	444,846	429,076	15,770
Additional Resort License Fees	141,550	193,300	(51,750)
Direct Shipper License Fees	106,561	100,363	6,198
License Transfer Fees	740,677	635,058	105,619
Sunday Sales Fees	1,662,506	1,610,949	51,557
License Permit Fees	55,640	43,192	12,448
Non-Retail License Fees-Wine Industry Council	730,945	927,898	(196,953)
Liquor Control Act Sales	2,567	3,885	(1,318)
Inspection Fees	328,162	354,381	(26,219)
Specific Tax, Liquor 4%-Tourism & Conv. Facility	49,330,359	46,177,154	3,153,205
Miscellaneous Revenue	29,155	61,570	(32,415)
TOTAL GENERAL FUND - RESTRICTED	<u>\$65,813,734</u>	<u>\$62,337,549</u>	<u>\$3,476,185</u>
SCHOOL AID FUND			
Specific Tax, Liquor 4%	\$49,084,051	\$45,952,005	\$3,132,046
TOTAL SCHOOL AID FUND	<u>\$49,084,051</u>	<u>\$45,952,005</u>	<u>\$3,132,046</u>
OTHER FUNDS REVENUE	\$213,604,768	\$208,091,183	\$5,513,585
Income From Operations (Excluding Taxes & Grants) (1)	<u>189,882,436</u>	<u>171,506,959</u>	<u>18,375,477</u>
TOTAL CURRENT EARNINGS AND REVENUE	<u>\$403,487,204</u>	<u>\$379,598,142</u>	<u>\$23,889,062</u>

(1) Income from Operations (Page 35) after all operating expenses including General Fund portion of Licensing and Enforcement

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

	2015			
	COMMISSION(1)	MANAGEMENT SUPPORT	LICENSING & ENFORCEMENT	TOTAL 2015
				TOTAL 2014
MLCC APPROPRIATED EXPENSES				
Salaries & Wages	\$435,615	\$2,268,460	\$6,281,265	\$8,985,340
Longevity & Insurance		470,017	1,510,894	1,980,911
Retirement & FICA		1,346,744	3,974,325	5,321,069
SUBTOTAL	\$435,615	\$4,085,221	\$11,766,484	\$16,287,320
Communications	\$0	\$25,050	\$164,349	\$189,399
Travel	0	45,182	240,024	285,206
Utilities	0	13,523	365	13,888
Contractual Services	0	(348,248)	502,508	154,260
Supplies & Materials	0	58,117	200,465	258,582
Equipment Replacement, Additions & Rentals	0	15,077	91,407	106,484
Misc - Unemployment Insurance Claims	0	0	7,240	7,240
SUBTOTAL	\$0	(\$191,299)	\$1,206,358	\$1,015,059
TOTAL MLCC APPROPRIATED EXPENSES	\$435,615	\$3,893,922	\$12,972,842	\$17,302,379
TRANSFERS OUT & OTHER EXPENSES				
Rent and Building Occupancy (2)	\$0	\$5,985	\$755,596	\$761,581
Other Transfers Out (3)	0	0	0	7,987,946
TOTAL TRANSFERS OUT & OTHER EXPENSES	\$0	\$5,985	\$755,596	\$8,749,527
GRAND TOTAL	\$435,615	\$3,899,907	\$13,728,438	\$26,051,906

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.