

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



www.michigan.gov/dleg

Michigan Liquor Control Commission

Annual Financial Report 2006



For Fiscal Year Ended September 30, 2006



JENNIFER M. GRANHOLM
GOVERNOR



NIDA R. SAMONA
CHAIRPERSON

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



To the Citizens of Michigan and Other Readers:

This year, 2006, has again been a good one for liquor sales in Michigan, one indicator of health for Michigan's hospitality industry. The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits sold in Michigan. All profits and taxes collected from this wholesaling activity are returned to the people of Michigan through transfer to various state funds for appropriation by the Legislature. This Annual Financial Report is our accounting to you of the liquor wholesaling operation in Michigan, and related activity.

This year the Commission implemented the new Direct Shipper license. This license allows out of state wine wineries and wine wholesalers to ship limited quantities of wine directly to consumers. As of this writing, we have licensed 338 direct shippers. This translates to an even wider selection of wine to consumers residing in Michigan.

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

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

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

Sincerely,

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

Nida R. Samona, Chairperson

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

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Executive Summary

REVENUE/EXPENSE ITEM	FY 2005-06 (In millions)	FY 2004-05 (In millions)	% INCREASE (DECREASE)
Gross Sales ¹	\$865.1	\$830.6	4.2
Licensee Discounts	147.1	141.7	3.8
Cost of Goods Sold	524.6	503.4	4.2
Gross Revenue - Liquor	193.4	185.5	4.3
Operating Expenses ²	64.2	59.8	7.4
Miscellaneous Revenue	4.7	2.6	80.8
Net Income (Not including taxes and grant) ³	133.9	128.3	4.4
Specific Liquor Taxes	116.2	111.6	4.1
Other Revenue Collected	66.5	66.7	(0.3)
Total Net Revenue	316.6	306.6	3.3

NOTES:

(1) For the current fiscal year, off premise licensees (SDDs) accounted for 79.0% or \$683.5 million of total liquor sales. On premise licensees, such as bars, restaurants, hotels and clubs accounted for 20.9% or \$180.5 million of total liquor sales. Sales to other licensees accounted for .1% of total liquor sales.

(2) Operating Expenses do not include Liquor Purchase Revolving Fund transfers for grants. The transfers for grants of \$3,710,500 for 2006 and \$3,710,500 for 2005 are for Grants to Cities for Fire Protection. Licensing and Enforcement expenses attributable to General Fund are included in Operating Expenses.

(3) Net Income is computed after deducting all operating expenses including the General Fund portion of Licensing and Enforcement expenses. Net Income in the Liquor Purchase Revolving Fund is \$148.5 million.

OTHER MERCHANDISING STATISTICS	FY 2005-06	FY 2004-05	% INCREASE (DECREASE)
Number of Cases Sold	6,293,797	6,110,122	3.0
Average Price Per Case	\$137.45	\$135.94	1.1
Items Available (brands and sizes)	4,958	4,956	0.0
Number of Bottles Sold	107,196,288	105,859,372	1.3
Average Price Per Bottle	\$8.07	\$7.85	2.8

APPARENT CONSUMPTION STATISTICS	FY 2005-06		FY 2004-05	
	Gallons	Per Capita ⁴	Gallons	Per Capita ⁴
Distilled Spirits	14,979,997	1.48	14,579,476	1.44
Mixed Spirit Drinks	230,326	0.02	281,375	0.03
Wine (21% alcohol or less)	18,000,200	1.78	17,440,842	1.72
Beer	206,070,578	20.41	208,365,505	20.59

Note:

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

The MLCC

Michigan is one of 18 “control states” as related to the alcohol beverage industry. “Control State” means that state government is responsible for the sale and distribution of certain alcohol beverages as opposed to a license state where wholesale and retail sales of distilled spirits are mandated by private sellers.

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



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

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

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

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

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

The MLCC

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

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

The Liquor Control Code

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

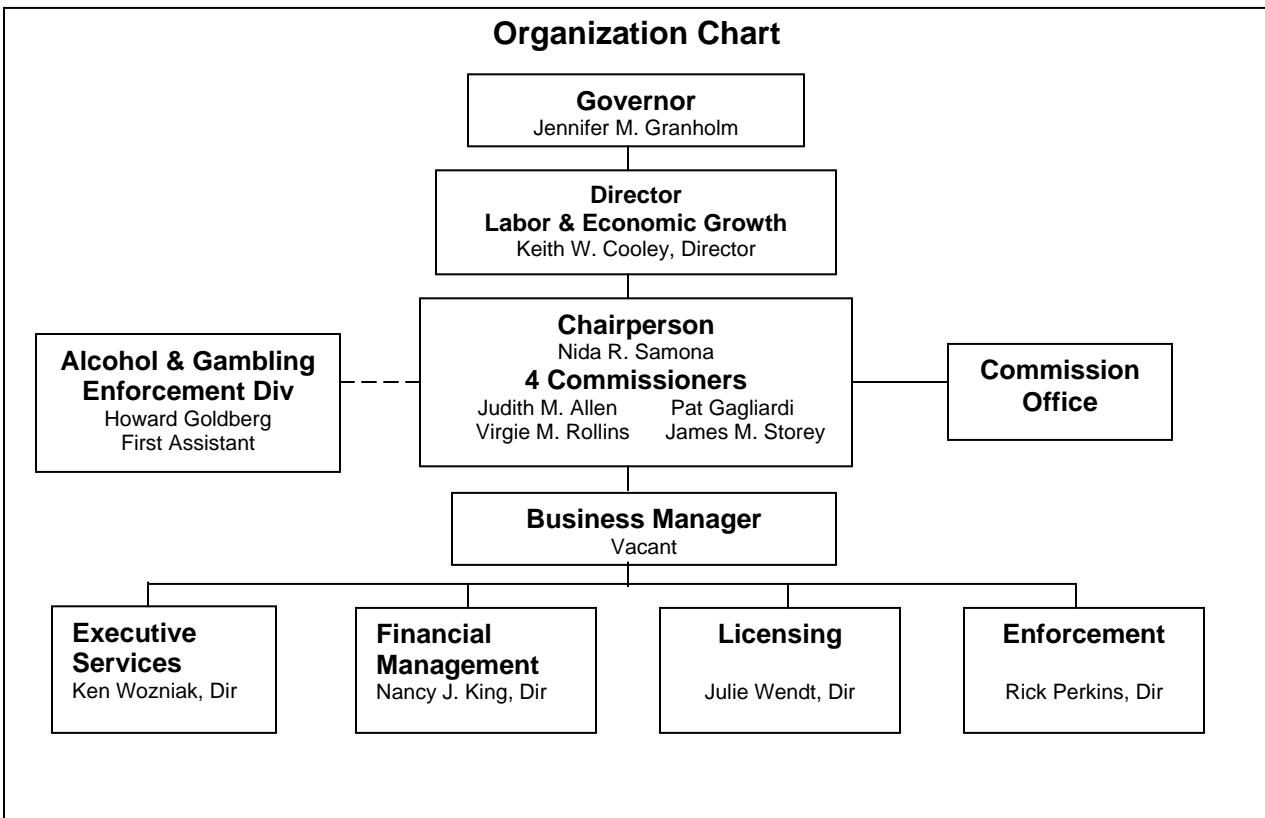
In addition to the Liquor Control Code, the Commission is guided by its administrative rules, which are designed to carry out the laws and assure equal treatment. When filed with the Secretary of State, the rules have the effect of law and are binding on licensees of the MLCC.

The MLCC

MLCC Personnel (as of 9/30/2006)

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
Commissioners	5	0
Attorney General Support	4	0
Executive Services	18	1
Financial Management	19	0
Licensing	39	0
Enforcement	<u>64</u>	<u>1</u>
TOTAL	<u>149</u>	<u>2</u>

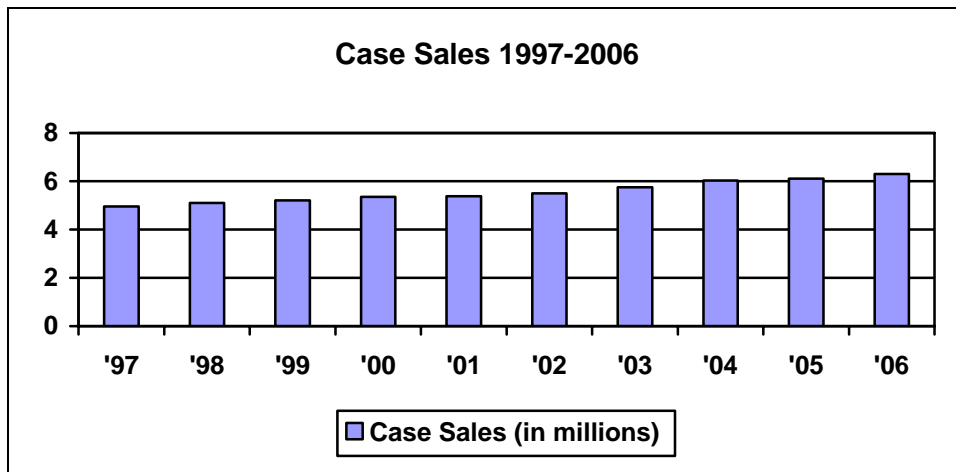
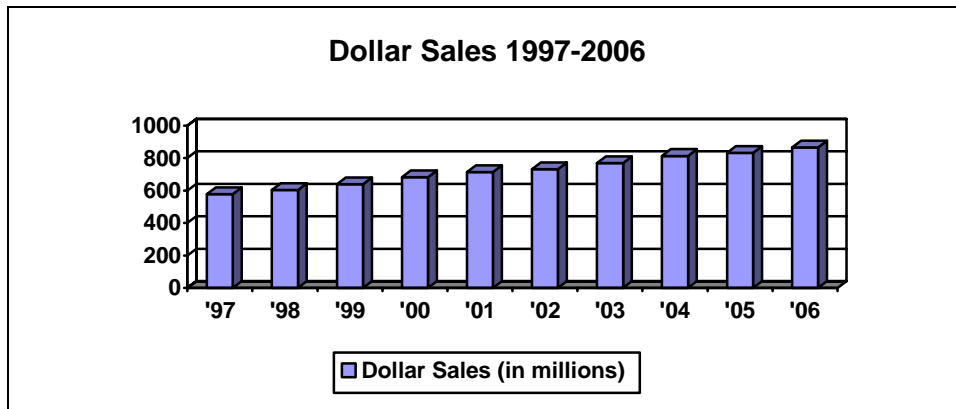
Organization Chart



Trends

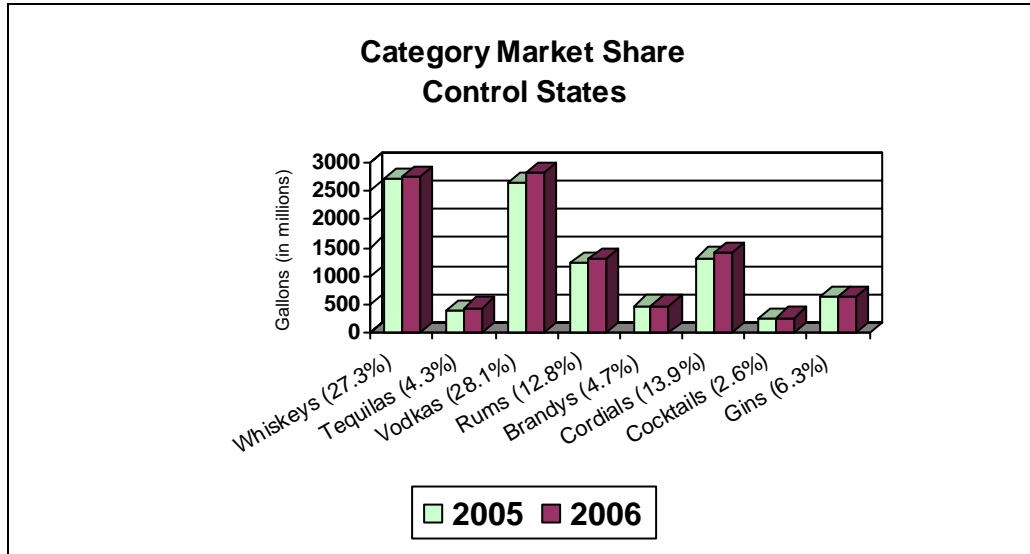
Dollar Sales

Since the 1997 fiscal year, there has been a 49.6% increase in dollar sales from \$578.1m in FY 1997 to \$865.1m in FY 2006. News groups are reporting that consumers are enamored with a wide variety of flavors. They are drinking fruit flavored products, products mixed with juices and colorful cocktails. The industry has responded with a broad spectrum of choices. One of the leading industry research groups reports that consumers are enjoying super premium and ultra super premium brands, and are willing to pay more for these. Classic cocktail drinks have also made a comeback in the United States. New products have been introduced into the market at a fast pace in the last year.

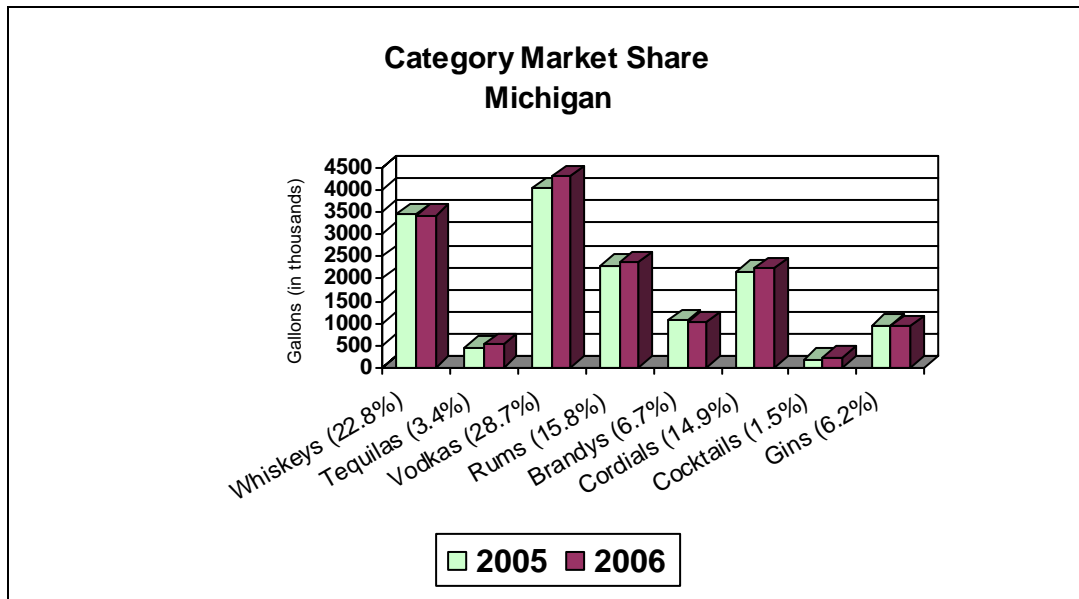


Case Sales

The 10-year case sales history graph shows an increase in case sales every year since FY 1997. This trend continued in 2005-2006 with sales of 6,293,797 cases. This is an increase of 26.9% above the FY 1997 cases sales figure of 4,958,305. However, these increases do not parallel the increase in dollar sales over the last 10 years. They are much smaller. This could be due, in part, to people consuming more higher-priced premium and super premium brand items.



Other Control States and Michigan consumer preferences are very similar. Whiskeys and vodkas are the two most popular categories, comprising 55.4 percent of the Control States market share and 51.5 percent of the Michigan market share. Vodka has been the most popular category in Michigan for the last five 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 almost 5,000 products available for sale by the Commission. The Commission's Liquor Price List is available in xls and pdf formats on the MLCC internet homepage at: <http://www.michigan.gov/lcc>. Click on "Publications" on the left side of the screen, then "Spirit Ordering" and select a format. Also on the MLCC homepage, it is possible to search for specific product information. Click on "Searchable Pricebook" under Online Tools in the lower right side of the screen on the MLCC homepage.

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

The ADAs assemble and deliver orders to the licensees on behalf of the Liquor Control Commission. Licensees receive free delivery once a week provided they meet the one case minimum order requirement and adhere to order day assignments.

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

The Michigan Liquor Control Commission
PRICE ANALYSIS OF SAMPLE 750 ml SPIRITS
 Retail Price to Consumer with 65% Markup by MLCC = \$10.01

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



<u>Cost of Distribution</u>	<u>Amount</u>	<u>% of Total</u>
Federal Government	2.14	21.4
Distillery	3.19	31.8
State Government:		
MLCC	1.97	19.7
Specific Taxes	1.21	12.1
<u>Liquor License Minimum Profit (Discount)</u>	<u>1.50</u>	<u>15.0</u>
TOTAL	\$10.01	100.0
*Liquor Purchase Revolving Fund		
Note: As of 11-29-04, P.A. 407 allows licensees to sell liquor at any price at or above the established minimum selling price.		

Beer - Wine - Mixed Spirits

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

Tax Rate by Type of Alcohol Beverage

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

1997-2006 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons

Year	Population (Estimated)	Beer	Spirits	Wine	Mixed Spirit Drinks
1997	9,779,984	20.84	1.26	1.35	0.03
1998	9,817,242	21.02	1.28	1.41	0.03
1999	9,864,000	21.04	1.30	1.41	0.04
2000	9,938,000	21.15	1.33	1.50	0.05
2001	10,006,000	21.11	1.32	1.47	0.05
2002	10,050,000	20.76	1.33	1.42	0.04
2003	10,080,000	20.92	1.37	1.61	0.03
2004	10,113,000	20.87	1.42	1.71	0.03
2005	10,121,000	20.59	1.44	1.72	0.03
2006	10,096,000	20.41	1.48	1.78	0.02

Per Capita Consumption

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

For the last several years, Michigan parallels the national trend to consume more wine and distilled spirits and less beer. In the U.S., based on revenue, spirits market share was 32.8%, up from 32.1% in 2005. The U.S. wine market share remained at 16.6% for 2006 from a

year earlier and the U.S. beer market share declined to 50.7% in 2006 from 51.3% in 2005. 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>2005-06</u>	<u>2004-05</u>	<u>Increase/ (Decrease)</u>	<u>2005-06</u>	<u>2004-05</u>	<u>Increase/ (Decrease)</u>
Beer	\$41,870,726	\$41,949,026	\$ (78,300)	Barrels of Beer	6,647,438	6,721,468 (74,030)
Wine	9,345,865	9,010,110	335,755	Liters of Wine	68,139,758	66,022,306 2,117,452
MSD*	410,946	526,558	(115,612)	Liters of MSD*	871,900	1,065,146 (193,246)
TOTAL	\$51,627,537	\$51,485,694	\$ 141,843			

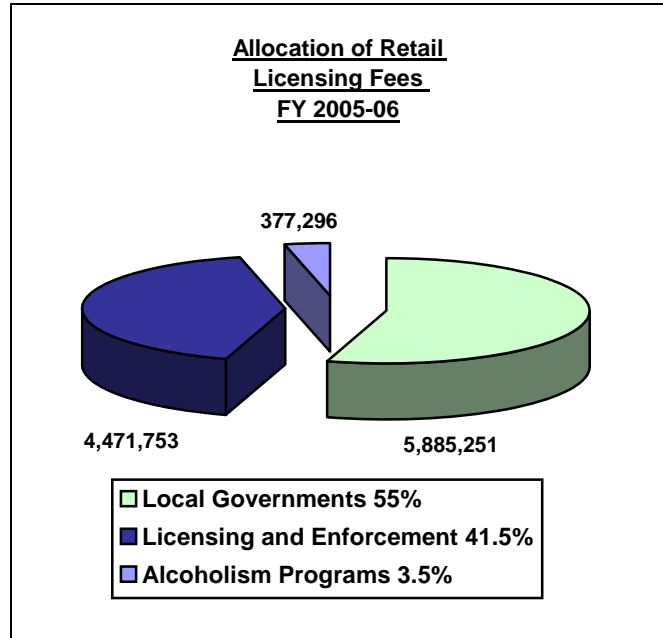
* Mixed Spirit Drinks

Control

Licensing

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

Just over 16,000 retail businesses, including bars, grocery stores, restaurants, hotels, convenience stores and pharmacies have one or more active licenses to sell alcohol beverages. In addition to retail licenses, the MLCC had over 7,500 issued licenses to manufacturers and other agents. Furthermore, the MLCC began issuing direct shipping licenses in May 2006. These licenses allow residents to order wine products from licensed and permitted U. S. wineries for delivery to their home. Roughly 300 wineries currently hold permits.



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 \$13.0 million in retail license and transfer fees in fiscal year 2005-06. This amount included \$10,734,300 in returnable retail license fees.

The Michigan Grape and Wine Industry Council receives the non-retail license fees collected by the MLCC amounting to \$491,234 this fiscal year.

Active Retail Liquor Licenses (by type)

On-Premise Licenses: Total 8509

Class C: 5926 Class C Resort: 997 B-Hotel: 181 B-Hotel Resort: 144

(Bars/Restaurants/Hotels) Liquor by the glass, beer, wine, Mixed Spirit Drink

A-Hotel: 1 A-Hotel Resort: 0 Tavern: 147 Tavern Resort: 9

Beer and Wine only

Clubs: 1036

(Membership required) Liquor by the glass, beer, wine, Mixed Spirit Drink

Other : 68 *(aircraft, watercraft, train) Liquor by the glass, beer, wine, Mixed Spirit Drink*

Off-Premise Licenses: Total 7501

SDD: 3762 SDD-Resort: 204

Package Liquor Take-out

SDM: 3535

Beer and Wine Take out

Total Number of Retail Licenses: 16,010

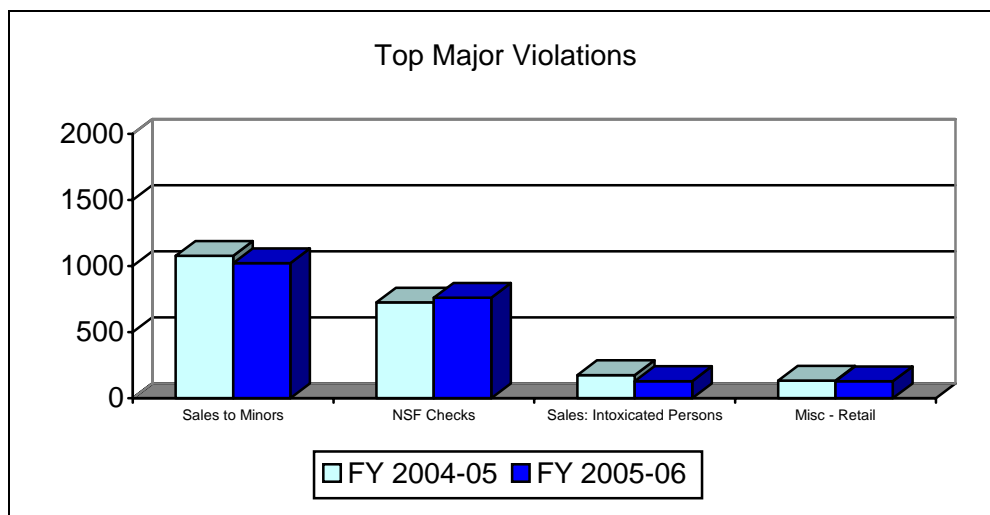
Control

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 1,013 liquor law violation reports in Fiscal Year 2005-2006. MLCC enforcement investigators submitted 1,395 violation reports in Fiscal Year 2005-2006.



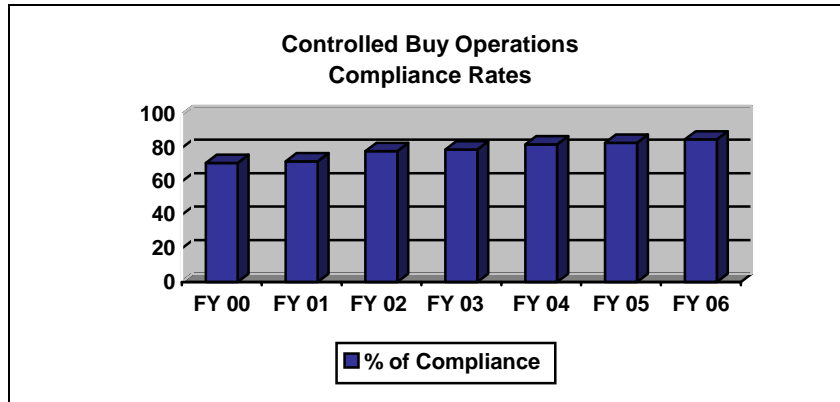
The violations that the Enforcement Division administers are varied. In addition to the top four violations listed in the chart above, some of the other violations that Enforcement handles are as follows: illegally obtain or transfer license, licensee or employee convicted of illegal act, nudity, operating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

Enforcement & Underage Drinking

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

Control

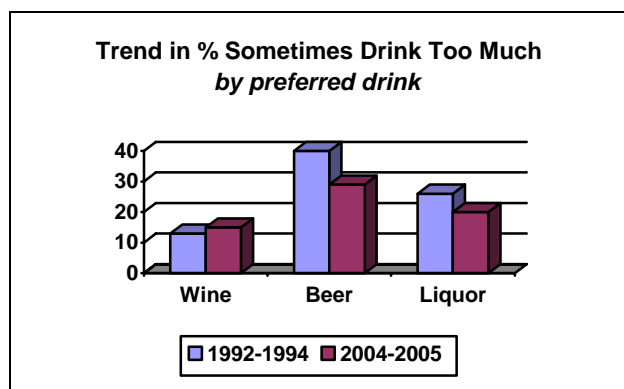
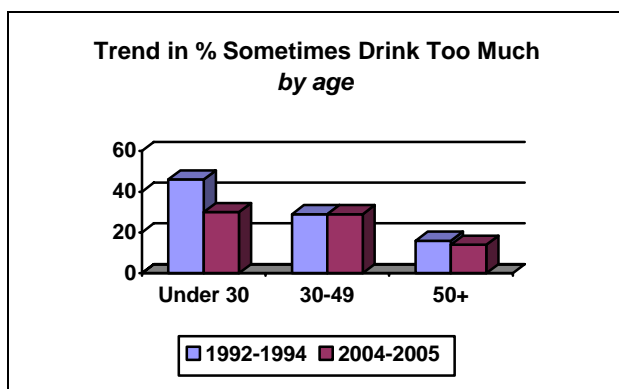
During Fiscal Year 2005-06, MLCC enforcement officers conducted 2,076 controlled buy operations and wrote 314 violations for selling to minors, meaning 15% of stops resulted in a violation. This is down slightly compared to last fiscal year, when 17% of controlled buys resulted in a violation.



Enforcement & Excessive Drinking

Enforcement is also working diligently to reduce excessive drinking among all drinkers. According to the latest Gallup poll, the percentage of Americans who admit they sometimes drink too much is 21% or 13% of all adult Americans. This is down from an average of 30% between 1985 and 1994. However, since 1994, alcohol-related highway deaths have not varied much, correlating with the average 23% overdrinking average over the last decade.

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

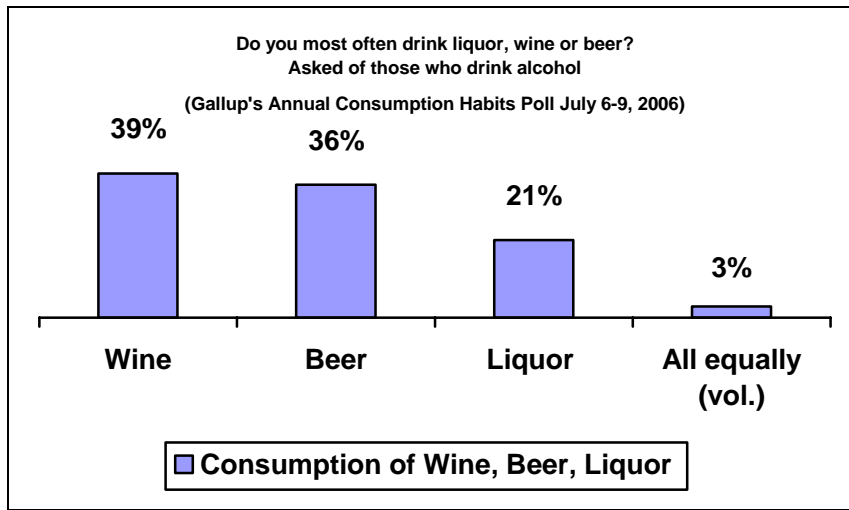


National Trends and Statistics

Liquor Popularity

According to the Distilled Spirits Council of the United States, gross revenue for U.S. spirits reached \$17 billion in 2006, up from \$16.3 billion in 2005. Most of the increase came from premium-priced product revenue, especially super premium vodka. According to the research firm Impact, the increase is also a result of the popularity of cocktails among twenty-somethings and young women.

American Drinking Trends



According to University Health Services, about 65% of all adult Americans and 82% of college students consumed at least one drink during the past year. Fifty percent of those adults and 70% of the college students are current drinkers, having consumed at least one drink during the past month. Almost 23% of all adults and 45% of college students may be considered binge drinkers, consuming at least five drinks on one occasion at least once during the past month. Fewer than 10% of all adults and college students are considered heavy drinkers, having five or more drinks on five or more occasions in the past month.

According to Datamonitor, American women between the legal drinking age and 24 drank 33% more alcoholic drinks by volume in 2004 than they did five years earlier. Why? Women, in the U.S. start families later and have more disposable income than ever before. Companies have reacted to this trend by introducing new vodka and liqueur-based mixed drinks. Flavored vodka, vodka drinks, and liqueur-based mixed drinks appeal to this market segment. And, they have a huge variety from which to choose.

Michigan Department of Labor and Economic Growth

LIQUOR CONTROL COMMISSION

FINANCIAL REPORTS FOR THE LIQUOR

PURCHASE REVOLVING FUND

(Unaudited)

For the Fiscal Year Ended September 30, 2006

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

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Imprest Cash	\$700	\$700
Equity in Common Cash	65,926,067	57,476,615
Liquor Inventory	2,827,292	3,213,966
Prepaid Distribution Costs of Inventory	230,166	248,805
Other Assets	<u>6,705,554</u>	<u>7,037,844</u>
TOTAL ASSETS	<u>\$75,689,779</u>	<u>\$67,977,930</u>
LIABILITIES & FUND EQUITY		
CURRENT LIABILITIES		
Warrants Outstanding	\$5,504,679	\$652,660
Accounts Payable and Other Liabilities	64,120,570	61,337,306
Amount Due to Other Funds	131,531	112,575
Current Compensated Absences	<u>127,580</u>	<u>172,120</u>
TOTAL CURRENT LIABILITIES	\$69,884,360	\$62,274,661
LONG-TERM LIABILITIES		
Long Term Compensated Absences	<u>929,680</u>	<u>827,530</u>
TOTAL LIABILITIES	<u>\$70,814,040</u>	<u>\$63,102,191</u>
NET ASSETS		
Unrestricted	<u>\$4,875,739</u>	<u>\$4,875,739</u>
TOTAL NET ASSETS	<u><u>\$4,875,739</u></u>	<u><u>\$4,875,739</u></u>

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

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

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Gross Sales	\$865,059,097	\$830,610,782
Less: Discounts Allowed	<u>147,121,489</u>	<u>141,682,647</u>
PROCEEDS - SALE OF LIQUOR	\$717,937,608	\$688,928,135
Miscellaneous Revenue	147,434	34,850
Revenue for Other Funds	<u>0</u>	<u>(35,609)</u>
TOTAL OPERATING REVENUES	<u>\$718,085,042</u>	<u>\$688,927,376</u>
OPERATING EXPENSES		
Cost of Goods Sold	\$524,559,016	\$503,364,426
Distribution Costs Paid to Suppliers	43,707,474	40,950,541
Commission and DLEG Administration	442,048	372,145
Management Support	2,929,112	2,499,637
Licensing and Enforcement (1)	5,254,694	4,054,660
Compensated Absences	57,610	215,968
DLEG Operating Expenses	3,664,668	3,942,459
DIT Information Technology Services	1,412,926	1,301,155
Attorney General Services (2)	943,400	675,580
Auditor General (3)	<u>11,300</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$582,982,248</u>	<u>\$557,376,571</u>
OPERATING INCOME (LOSS)	<u>\$135,102,794</u>	<u>\$131,550,805</u>
NON-OPERATING REVENUES (EXPENSES)		
Specific Tax, Liquor 1.85%	\$12,653,512	\$12,194,174
Interest Revenue	4,603,298	2,519,912
Non-Operating Revenue	<u>0</u>	<u>50,546</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>\$17,256,810</u>	<u>\$14,764,632</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>\$152,359,604</u>	<u>\$146,315,437</u>
TRANSFERS		
Income Transferred to General Fund	(\$148,542,537)	(\$142,196,395)
Other Transfers	<u>(3,817,067)</u>	<u>(4,119,042)</u>
TOTAL TRANSFERS IN (OUT)	<u>(\$152,359,604)</u>	<u>(\$146,315,437)</u>
Change in Net Assets	\$0	\$0
Net Assets - Beginning of Fiscal Year	<u>4,875,739</u>	<u>4,875,739</u>
TOTAL NET ASSETS - END OF FISCAL YEAR	<u>\$4,875,739</u>	<u>\$4,875,739</u>

Notes:

- (1) Includes the Revolving Fund portion only.
(2) Reported as Other Transfers in the 1st Quarter of Fiscal Year 2005.
(3) Reported as Other Transfers in 2005.

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

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

	<u>2006</u>	<u>2005</u>	<u>INCREASE (DECREASE)</u>
ASSETS AVAILABLE			
Beginning Assets	\$4,875,739	\$4,875,739	\$0
Total Operating Revenues	718,085,042	688,927,376	29,157,666
Total Non-Operating Revenues	<u>17,256,810</u>	<u>14,764,632</u>	<u>2,492,178</u>
TOTAL ASSETS AVAILABLE	<u>\$740,217,591</u>	<u>\$708,567,747</u>	<u>\$31,649,844</u>
ALLOCATION OF ASSETS			
Income Transferred to General Fund	\$148,542,537	\$142,196,395	\$6,346,142
Other Transfers	3,817,067	4,119,042	(301,975)
Total Operating Expenses	<u>582,982,248</u>	<u>557,376,571</u>	<u>25,605,677</u>
TOTAL ALLOCATION OF ASSETS	<u>\$735,341,852</u>	<u>\$703,692,008</u>	<u>\$31,649,844</u>
ENDING ASSETS	<u><u>\$4,875,739</u></u>	<u><u>\$4,875,739</u></u>	<u><u>\$0</u></u>

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

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
UNAUDITED STATEMENT OF CHANGES IN CASH FLOW
FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	NET CHANGE
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$718,085,042
Payments to Employees and for Administrative Expenses	(13,649,624)
Payments to Suppliers	(565,425,617)
Other Receipts	756,559
Other Payments	(1,066,134)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$138,700,226
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Non-Operating Revenues	\$0
Specific Tax on Spirits	12,653,512
Transfers to Other Funds	(152,359,604)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(\$139,706,093)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends on Investments	\$4,603,298
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$4,603,298
Net Cash Provided (Used) - All Activities	\$3,597,432
Cash and Cash Equivalents at Beginning of Year	56,824,656
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$60,422,088
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Per Statement of Net Assets Classifications:	
Cash	\$700
Equity in Common Cash	65,926,067
Warrants Outstanding	(5,504,679)
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$60,422,088
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$135,102,794
Net Changes in Assets and Liabilities:	
Inventories	386,675
Other Assets (Net)	350,928
Accounts Payable and Other Liabilities	2,859,829
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$138,700,226

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Significant Accounting Policies

A. Reporting Entity

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

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

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

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

Amounts may not match between schedules due to rounding.

B. Basis of Accounting

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

C. Inventory

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2. Retirement Contributions

All classified Liquor Control Commission employees are members of the State Employees Retirement System. During the 2006 fiscal year, \$1,847,509.83 was paid into the Retirement Fund on behalf of the employees. All new employees hired after March 30, 1997 participate in a defined contribution plan. Employees hired before March 30, 1997 are covered by a defined benefits plan unless they chose to convert to the defined contribution plan during 1997.

NOTE 3. Employees' Compensation, Absences and Longevity Benefits

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

NOTE 4. Interest Earnings

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

NOTE 5. Distribution Costs Paid to Suppliers

This is the amount paid directly to the liquor suppliers by the MLCC for the Authorized Distribution Agents' warehousing and delivery of spirits to retail licensees. Through October 29, 2005 the MLCC paid \$6.70 per case for each case purchased. The suppliers were required to add \$1.08 per case to the state's payment and pay at least \$7.78 per case to the Commission's Authorized Distribution Agents. Beginning October 30, 2005 through April 29, 2006, the MLCC paid \$6.86 per case for each case purchased. The suppliers were required to add \$1.24 per case to the state's payment, paying at least \$8.10 per case to the Commission's Authorized Distribution Agents. Effective April 30, 2006 through the remainder of the fiscal year, the MLCC paid \$6.97 per case for each case purchased. The suppliers were required to add \$1.35 per case to the state's payment and pay at least \$8.32 per case to the Commission's Authorized Distribution Agents.

Furthermore, an additional distribution fee payment was made to the vendors of spirits at the rate of \$.22 per case for all cases purchased by the State of Michigan between January 29, 2006 and April 29, 2006. The vendors of spirits passed the lump sum payments to the Authorized Distribution Agents.

Michigan Department of Labor and Economic Growth

LIQUOR CONTROL COMMISSION

Other Financial Schedules – All Funds

(Unaudited)

For the Fiscal Year Ended September 30, 2006

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

	2006	2005	Increase (Decrease)
LIQUOR SALES			
Gross Sales (1)	\$865,059,097	\$830,610,782	\$34,448,315
Less: Discounts Allowed	147,121,489	141,682,647	5,438,842
PROCEEDS - SALE OF LIQUOR	\$717,937,608	\$688,928,135	\$29,009,473
Less: Cost of Goods Sold	524,559,016	503,364,426	21,194,590
GROSS REVENUE FROM SALE OF LIQUOR	\$193,378,592	\$185,563,709	\$7,814,883
OTHER REVENUE			
Miscellaneous Revenue	\$147,434	\$34,850	\$112,584
Non-Operating Revenue	0	50,546	(50,546)
Interest Revenue	4,603,298	2,519,912	2,083,386
Revenue for Other Funds	0	(35,609)	35,609
TOTAL OTHER REVENUE	\$4,750,732	\$2,569,699	\$2,181,033
TOTAL REVENUE	\$198,129,324	\$188,133,408	\$9,995,916
Less: Distribution Costs Paid to Suppliers	43,707,474	40,950,541	2,756,933
INCOME FROM LIQUOR MERCHANDISING	\$154,421,850	\$147,182,867	\$7,238,983
MANAGEMENT EXPENSES			
Commission and DLEG Administration	\$442,048	\$372,145	\$69,903
Management Support (2)	3,056,027	2,608,215	447,812
Licensing and Enforcement (2)	11,506,725	9,900,354	1,606,371
DLEG Services (Excluding MLCC Rent)	6,726,417	7,063,090	(336,673)
DIT Information Technology Services	1,412,926	1,301,155	111,771
Attorney General	943,400	897,900	45,500
Auditor General	11,300	11,300	0
Civil Service - Personnel	71,667	58,739	12,928
Human Resources	0	29,784	(29,784)
Management and Budget	0	86,400	(86,400)
Compensated Absences	57,610	215,968	(158,358)
Less: Transfers Not Related to MLCC Operations (3)	3,710,500	3,710,500	0
TOTAL MANAGEMENT EXPENSES	\$20,517,620	\$18,834,550	\$1,683,070
INCOME FROM OPERATIONS (Excluding Taxes and Grants)	\$133,904,230	\$128,348,317	\$5,555,913
Specific Tax, Liquor 1.85% (Off Premise)	12,653,512	12,194,174	459,338
Revenue Collected for Other Funds	170,043,077	166,108,170	3,934,907
TOTAL CURRENT EARNINGS AND REVENUE	\$316,600,819	\$306,650,661	\$9,950,158
Number of Cases Sold	6,293,797	6,110,122	183,675
Number of Sales Days	260	261	(1)
Notes:			
(1) This figure is comprised of:			
Off Premise	\$683,473,125	\$658,793,041	\$24,680,084
On Premise	180,479,257	170,605,791	9,873,466
Other	1,106,715	1,211,950	(105,235)

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

(3) Grants to Cities - Fire Protection

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

	<u>2006</u>	<u>2005</u>	<u>INCREASE (DECREASE)</u>
GENERAL FUND - GENERAL PURPOSE			
Excise Tax, Beer	\$41,870,726	\$41,949,026	(\$78,300)
Specific Tax, Liquor 4%	34,496,655	33,111,943	1,384,712
Excise Tax, Wine	9,345,865	9,010,110	335,755
Excise Tax, Mixed Spirit Drink	410,946	526,558	(115,612)
Fines & Costs	1,036,761	1,171,473	(134,712)
Miscellaneous Revenue	49,417	43,859	5,558
TOTAL GENERAL FUND - GENERAL PURPOSE	<u>\$87,210,370</u>	<u>\$85,812,969</u>	<u>\$1,397,401</u>
GENERAL FUND - RESTRICTED			
RETAIL LICENSE FEES:			
55% To Local Governments	\$5,885,251	\$5,974,444	(\$89,193)
41.5% To Licensing & Enforcement	4,471,753	4,467,044	4,709
3.5% To Alcoholism Prevention Programs	377,296	376,593	703
Additional Resort License Fees	152,106	57,751	94,355
Direct Shipper License Fees	29,827	0	29,827
License Transfer Fees	603,229	694,171	(90,942)
Sunday Sales Fees	1,409,137	1,408,758	379
Non-Retail License Fees-Wine Industry Council	491,234	645,309	(154,075)
Liquor Control Act Sales	4,142	4,790	(648)
Inspection Fees	283,586	306,991	(23,405)
Specific Tax, Liquor 4%-Tourism & Conv. Facility	34,563,406	33,178,405	1,385,001
Miscellaneous Revenue	65,085	69,002	(3,917)
TOTAL GENERAL FUND - RESTRICTED	<u>\$48,336,052</u>	<u>\$47,183,258</u>	<u>\$1,152,794</u>
SCHOOL AID FUND			
Specific Tax, 4%	\$34,496,655	\$33,111,943	\$1,384,712
TOTAL SCHOOL AID FUND	<u>\$34,496,655</u>	<u>\$33,111,943</u>	<u>\$1,384,712</u>
OTHER FUNDS REVENUE	<u>\$170,043,077</u>	<u>\$166,108,170</u>	<u>\$3,934,907</u>
LIQUOR PURCHASE REVOLVING FUND			
Specific Tax, Liquor 1.85% (Off Premise)	\$12,653,512	\$12,194,174	\$459,338
Income From Operations (Excluding Taxes & Grants) (1)	133,904,230	128,348,317	5,555,913
LIQUOR PURCHASE REVOLVING FUND REVENUE	<u>\$146,557,742</u>	<u>\$140,542,491</u>	<u>\$6,015,251</u>
TOTAL REVENUE COLLECTED	<u>\$316,600,819</u>	<u>\$306,650,661</u>	<u>\$9,950,158</u>

Note:

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

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

	COMMISSION AND DLEG ADMINISTRATION(1)	MANAGEMENT SUPPORT	LICENSING & ENFORCEMENT	TOTAL 2006	TOTAL 2005
MLCC APPROPRIATED EXPENSES					
Salaries & Wages	\$442,048	\$1,312,549	\$5,939,978	\$7,694,575	\$7,172,328
Longevity & Insurance	0	371,667	1,443,500	1,815,167	1,504,376
Retirement & FICA	0	557,775	1,975,465	2,533,240	2,300,052
SUBTOTAL	<u>\$442,048</u>	<u>\$2,241,991</u>	<u>\$9,358,943</u>	<u>\$12,042,982</u>	<u>\$10,976,756</u>
Communications	\$0	\$31,013	\$105,224	\$136,237	\$131,337
Travel	0	56,127	277,115	333,242	329,598
Utilities	0	15,450	2,986	18,436	18,522
Contractual Services	0	450,555	981,101	1,431,656	386,093
Supplies & Materials	0	117,611	169,744	287,355	305,807
Equipment Replacement, Additions & Rentals	0	13,359	51,312	64,671	142,733
Misc - Unemployment Insurance Claims	0	3,006	3,564	6,570	0
SUBTOTAL	<u>\$0</u>	<u>\$687,121</u>	<u>\$1,591,046</u>	<u>\$2,278,167</u>	<u>\$1,314,090</u>
TOTAL MLCC APPROPRIATED EXPENSES	<u>\$442,048</u>	<u>\$2,929,112</u>	<u>\$10,949,989</u>	<u>\$14,321,149</u>	<u>\$12,290,846</u>
OPERATING TRANSFERS OUT & OTHER EXPENSES					
Rent and Building Occupancy (2)	\$0	\$126,915	\$556,736	\$683,651	\$589,868
Other Operating Transfers Out (3)	0	0	0	9,223,321	9,498,532
TOTAL OPERATING TRANSFERS OUT & OTHER EXPENSES	<u>\$0</u>	<u>\$126,915</u>	<u>\$556,736</u>	<u>\$9,906,972</u>	<u>\$10,088,400</u>
GRAND TOTAL	<u><u>\$442,048</u></u>	<u><u>\$3,056,027</u></u>	<u><u>\$11,506,725</u></u>	<u><u>\$24,228,121</u></u>	<u><u>\$22,379,246</u></u>

Note:

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