



FISCAL YEAR  
2015-16 ANNUAL REPORT



pennsylvania  
LIQUOR CONTROL BOARD

## OUR MISSION

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The Pennsylvania Liquor Control Board serves as the commonwealth's responsible seller of wines and spirits, regulates Pennsylvania's beverage alcohol industry, and promotes social responsibility and alcohol education, while maximizing financial returns for the benefit of all Pennsylvanians.

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Dear Pennsylvania Residents:

Welcome to the Pennsylvania Liquor Control Board's Fiscal Year 2015-16 Annual Report. This publication, now in its fourth year, details the PLCB's operations from July 1, 2015, to June 30, 2016 – including marketing and merchandising activities, store operations, supply chain functions, licensing activity, human resources support, and customer relations engagement.

Act 39 of 2016, signed into law just before the end of the fiscal year, set Pennsylvania up for a transformation of its beverage alcohol industry for years to come, in the interest of improved customer service and convenience. But long before these legislative liquor reforms were enacted, the PLCB had been taking steps to improve the customer experience, modernize the way we interact with licensees, expand alcohol education and social responsibility efforts, and maximize our financial returns to the people of Pennsylvania.

Below are highlights of these accomplishments in the last fiscal year.

- PLCB+ – an online platform through which licensing and permitting business is conducted securely, quickly, and simply over the Internet – replaced multiple archaic legacy systems and transformed nearly 70 paper processes into electronic submissions. The system, detailed on page 33, is already reducing processing times and provides enhanced customer service through 24/7 access to the system and real-time status updates for licensees.
- The Licensee Online Order Portal (LOOP), a 24/7 Internet-based system that allows licensees to order wine and spirits at any time from home or office, was introduced to growing numbers of licensees. Licensees' reception of LOOP has been extremely positive because of the improved visibility and functionality the system provides. See page 29 to review all the benefits LOOP provides to help licensees manage their business and achieve cost savings.
- The Licensee Delivery Program (LDP), discussed on page 29, was also introduced last year to offer additional convenience to higher-volume licensees through direct delivery of wine and spirits.
- The PLCB continued to rebrand and expand our network of more than 600 Fine Wine & Good Spirits stores. In the last fiscal year, we completed a record 33 rebranding projects and opened two new brand new stores – many of them co-located with grocery stores or in popular shopping plazas. Moving forward, we will maintain an aggressive schedule of expansion and rebranding, recognizing the return on investment discussed on page 18.
- In an effort to more equitably distribute highly sought-after, limited-quantity wines and spirits, the PLCB implemented a Limited-Release Lottery system in October 2015. The PLCB held four Limited-Release Lotteries in 2015, awarding 2,253 bottles of Buffalo Trace, Four Roses, and Pappy Van Winkle whiskies. These four lotteries, detailed further on page 23, drew more than 95,000 entries, and whiskey forums and blogs recognized the lotteries for their fairness and for awarding the products to Pennsylvanians, rather than out-of-state residents.



- As part of our mission to discourage underage and dangerous drinking, the PLCB developed a training program for resident assistants on college campuses that won an industry award in December 2015. The RA training program earned the first-ever award for Best Responsible Consumption Program from *StateWays* magazine.
- Additionally on the alcohol education front, last holiday season the PLCB led a partnership with the Pennsylvania State Police and the Pennsylvania Department of Transportation to promote the SaferRide app, a great option to facilitate a safe ride home after drinking. For more information on the campaign, which drew the most activity to the Alcohol Education Facebook page it has ever experienced, see page 41.

While we did not know Act 39 would be coming at the end of the fiscal year, many of these initiatives set the stage for success in implementing liquor reform changes beginning Aug. 8, 2016. PLCB+, LOOP, and LDP each significantly improves the PLCB's responsiveness and ability to meet the demands of a transforming licensee community.

These advancements also helped contribute to record sales and impressive contributions to Pennsylvania's General Fund – which finances Pennsylvania's schools, health and human services programs, law enforcement and public safety initiatives, among other important public services – as well as other state agencies and local municipalities across Pennsylvania.

The PLCB finished fiscal year 2015-16 with record retail sales of \$2.43 billion (including liquor and sales taxes), a \$94.8 million or 4.1 percent increase over the prior year and previous retail sales record. PLCB contributions to the General Fund and state and local government beneficiaries totaled \$626.3 million for the fiscal year, an increase of \$41.4 million, or 7.1 percent, over the prior year and previous record. Net income for the year totaled \$103.9 million, a \$20.3 million or 24.2 percent increase over the prior year. Comparing income before operating transfers (\$129.9 million) against sales net of taxes (\$1.9 billion), the PLCB achieved an adjusted net income to sales return of 6.7 percent for fiscal year 2015-16, as compared to 5.9 percent for the prior year. Additional details regarding our financials can be found beginning on page 14.

As always, we appreciate the opportunity to share the information in this report with you, our stakeholders. These are very exciting times for the agency as we move into a transformative year implementing Act 39's liquor reform measures, and we are up to the challenge. Our multi-faceted commitment to Pennsylvanians remains the same: to offer a broad selection of fairly priced quality wines and spirits to Pennsylvania consumers; to continually improve customer service and convenience; to serve our licensees professionally and proficiently; to effectively and efficiently run our business to maximize financial returns to the state; and to advance social responsibility through alcohol education and responsible sales efforts.

Sincerely,



Tim Holden  
Chairman



Mike Negra  
Member



Michael Newsome  
Member

The Pennsylvania Liquor Control Board was created by state law on Nov. 29, 1933. The agency is governed by a board whose three members are appointed by the Governor and confirmed by two-thirds of the state Senate.

TIM HOLDEN – CHAIRMAN



Tim Holden was first nominated to the Pennsylvania Liquor Control Board by Governor Tom Corbett on June 14, 2013, and was unanimously confirmed by the state Senate on Nov. 13, 2013.

Tim was named chairman of the PLCB by Governor Tom Wolf on Feb. 17, 2015. He was nominated to a second term by Governor Wolf on May 18, 2016, and was unanimously confirmed by the state Senate on June 29, 2016.

He is a native of St. Clair, Schuylkill County. After attending St. Mary's Elementary School and St. Clair Area High School, Tim received an athletic scholarship to Fork Union Military Academy, completing one year of college prep. He earned a football scholarship to the University of Richmond, but an illness cut short his football career. Tim completed his education at Bloomsburg University, receiving a Bachelor of Arts degree in sociology.

In 1980, Tim earned his license as an insurance broker and real estate agent. He went on to work as a probation officer, was sergeant-at-arms for the Pennsylvania House of Representatives, and served as sheriff of Schuylkill County from 1985 to 1992.

Tim was a member of Congress for 10 terms, representing the Sixth District from 1993 to 2002 and the 17th District from 2003 to 2012. The Sixth District was comprised of Schuylkill and Berks counties, as well as part of Northumberland and Montgomery counties. The 17th District was comprised of Schuylkill, Dauphin, and Lebanon counties, as well as part of Perry and Berks counties.

Tim was a member of the House Agriculture Committee since 1993, and served as vice chairman of that committee in the 110th and 111th Congresses. He was named chairman of the committee's Subcommittee on Conservation, Credit, Energy and Research during the 110th and 111th Congresses, and he served on the Livestock, Dairy and Poultry subcommittee. In the 105th Congress, Tim was appointed to the Transportation and Infrastructure committee.

He and his wife, Gwen, live in St. Clair.

MIKE NEGRA – BOARD MEMBER



Mike Negra, a resident of Potter Township, Centre County, was nominated to the Pennsylvania Liquor Control Board by Governor Tom Corbett on Sept. 10, 2014, and was unanimously confirmed to a four-year term by the state Senate on Oct. 16, 2014.

Mike is a partner in Negra-Graham Theatrical Advisors, which was formed in 2010 to help emerging theaters handle historic renovation projects. Previously, he served as the board president, construction manager and executive director of the non-profit, community performing arts center State Theatre in State College. In 1984, he founded Mike's Video, a video rental/music software/TV and appliance sales and service chain. Negra also has extensive experience in the entertainment industry, acting as road manager or production manager for various artists.

He is a partner in MWA Land Management, a real estate holding company. In addition, he helps manage South View Farm, a working farm in Centre Hall.

A radio, TV, and film graduate of the University of Maryland, Negra served on the executive board of the Centre County Chamber of Business and Industry and has been active in numerous charity organizations in that county. For more than 20 years, he has collected, cellared, and sampled wines, studied the wine industry, and has visited numerous wineries in the United States and abroad. In addition, he has consulted with a number of local restaurants on their wine lists.

Mike served as regional vice president of an appliance and electronics volume buyers group and has negotiated product placement and pricing with national and international vendors. Negra was the chief retail spokesman for the Recording Industry Association of America (RIAA) during its fight against copyright infringement and testified before the U.S. Senate on the issue.

He lives in Centre Hall with his wife, Wanda White.

### MICHAEL NEWSOME – BOARD MEMBER

Michael Newsome was nominated to the Pennsylvania Liquor Control Board by Governor Tom Wolf on Dec. 11, 2015. He was unanimously confirmed by the state Senate on April 13, 2016, to serve a four-year term.

Having spent nearly four decades in business – including accounting, finance, and management – Michael served in a variety of roles across the private sector in Pennsylvania.

Before coming to the PLCB, Michael was a senior executive in the retail and wholesale distribution industry, serving as Executive Vice President and Chief Financial Officer of the Wolf Organization. In that position he was named a 2013 finalist for CFO of The Year by *Central Penn Business Journal* and played a key role in transitioning the company from a traditional two-step distributor to a national sourcing company of kitchen and bath cabinets, decking, and other building products.

After earning a bachelor's degree in mathematics from Lafayette College in Easton, Newsome managed information and administrative systems for Armstrong World Industries, Inc., in Lancaster for more than 15 years. Following that, from 1992 until 2004, he served as Controller at the *York Daily Record*, where he oversaw union contract negotiations and participated in the sale and transfer of newspaper ownership.

Newsome has served in past and present roles on the boards of the York County Community Foundation, Memorial Health Systems Foundation, Crispus Attucks Charter School, York County Industrial Development Authority, and York County Heritage Trust, among other organizations. He and his wife live in West Manchester Township, York County.



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### JOHN E. METZGER – EXECUTIVE DIRECTOR

As executive director, John Metzger is responsible for directing the administrative and business operations of the PLCB and the management of the executive team. He provides leadership and strategic planning recommendations for agency initiatives and is a conduit to the three-member board. He was named executive director in January 2014.

John started his career at the PLCB as the director of the Office of Supply Chain in 2010. John was previously employed at Great Atlantic & Pacific Tea Co. (A&P), most notably working as executive vice president of administration, where he managed IT, Supply and Logistics, Strategic Sourcing, and Real Estate/Development. John left A&P in 2007 and developed his own consulting practice, Supply Chain & Technology Transformation. John also served as a visiting professor at Penn State University, Smeal College of Business, supporting the Center for Supply Chain Research. His 36 years of industry experience provides unique perspectives to supply chain and information technology groups regarding business transformation, technology integration, strategies, and process/business improvements.

A 1976 graduate of Penn State University, John holds a bachelor's degree in business logistics. He also holds a master's degree in business administration from the Crummer Graduate School of Business, Rollins College, Winter Park, Fla., graduating with Beta Gamma Sigma honors and first in his class.

John is active outside of work, having served on the Alumni Board of Directors of the Crummer Graduate School of Business, Advisory Board of Ohio State University's Business Logistics program, and the Executive Committee of the Efficient Foodservice Response industry initiative. He is active in numerous industry organizations, including CSCMP, WERC, GMA, FMI, and WFLO. In 2004, John was awarded the Robert Pashek Award from Penn State University's Smeal Business School in recognition of "Outstanding Supply Chain Contributions to Industry."

He lives with his wife, Peggy, and daughter, Stephanie Hannah, in Doylestown.





FISCAL YEAR 2015-16  
EXECUTIVE TEAM

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DIRECTOR OF FINANCE  
Oren Bachman

CHIEF INFORMATION OFFICER  
Nicholas Melnick, Jr.

DIRECTOR OF SUPPLY CHAIN  
Glenn Zearfoss

CHIEF COUNSEL  
Rodrigo Diaz

DIRECTOR OF MARKETING AND MERCHANDISING  
Dale Horst

DIRECTOR OF LEGISLATIVE AFFAIRS  
Christopher L. Herrington

DIRECTOR OF RETAIL OPERATIONS  
Charlie Mooney

DIRECTOR OF COMMUNICATIONS  
Elizabeth Brassell

DIRECTOR OF ADMINISTRATION  
Jason P. Lutcavage

SECRETARY OF THE BOARD  
John Stark

DIRECTOR OF REGULATORY AFFAIRS  
Jerry W. Waters, Sr.

## ORGANIZATIONAL STRUCTURE







On June 8, 2016, Governor Tom Wolf signed House Bill No. 1690 into law. Now known as Act 39 of 2016, it changes more than 35 sections of the Liquor Code and adds a number of new sections – the most sweeping changes to liquor laws in Pennsylvania since the end of Prohibition in 1933. The law, which took effect on Aug. 8, 2016, will significantly impact PLCB operations in the next fiscal year and beyond.

Photo courtesy of Commonwealth Media Services



During fiscal year 2015-16, two laws were enacted that affect liquor licensees and the regulated community:

On Feb. 23, 2016, Governor Wolf signed House Bill 941 into law as Act 7 of 2016. This measure amends the Administrative Code by reducing the annual license fee for a distillery of historical significance from \$5,400 to \$1,200, making it less costly for qualifying establishments to obtain such licenses. The Act became effective on April 23, 2016.

On June 8, 2016, Governor Wolf signed House Bill 1690 into law as Act 39 of 2016. Effective Aug. 8, 2016, the Act transformatively changes many of the PLCB's responsibilities, including regulatory, licensing, product procurement, and marketing activities, among others. Among the most significant changes brought about by Act 39 are the following:

- Hotel and restaurant license holders (including those with approved interior connections to grocery stores or convenience stores) may apply for permits to sell limited quantities of wine to go.
- Pennsylvania residents may receive up to 36 cases per year of wine (for personal use) shipped by a wine producer licensed by the PLCB as a direct wine shipper. The 36-case annual limit is per direct wine shipper, and wine may be shipped to home or business addresses.
- The PLCB markup on special liquor orders is reduced to 10 percent.
- Restrictions to Sunday hours and the number of Fine Wine & Good Spirits stores allowed to be open on Sundays were eliminated.
- The PLCB is granted common retail marketing abilities including pricing flexibility, a customer loyalty program, and couponing opportunities.
- The PLCB is authorized to sell Pennsylvania Lottery tickets at Fine Wine & Good Spirits stores.
- A new casino license allows for 24/7 alcohol sales and free drinks at invitation-only events.
- The PLCB is authorized to auction restaurant liquor licenses that have expired since 2000.

Act 39 also establishes a commission to study the wholesale and retail wine and spirits marketplace in Pennsylvania, and creates two boards for the purpose of effectively marketing and increasing the production of Pennsylvania-made wines and malt and brewed beverages through the issuance of grants.

A detailed summary of the changes effected through Act 39 can be found on the [PLCB website](#).

## THE FOLLOWING REGULATIONS WERE AMENDED DURING FISCAL YEAR 2015-16:

### CONVERSION OF SUSPENSION INTO FINE

EFFECTIVE  
AUG. 15, 2015  
40 PA. CODE § 7.10

Section 7.10 of the PLCB's regulations was amended to increase the minimum amount of fines acceptable to the PLCB when the PLCB converts an unserved suspension to a fine. This change will impact only those retail and other licensees with unserved suspensions that want to transfer the license after receiving a suspension. In 2014, the PLCB received 14 requests to convert a suspension to a fine.

THE FOLLOWING REGULATIONS WERE AMENDED DURING FISCAL YEAR 2015-16:

#### CONVERSION OF SUSPENSION INTO FINE (CONT'D)

EFFECTIVE  
AUG. 15, 2015  
40 PA. CODE § 7.10

The amended regulation provides that if the suspension was issued for a citation where the minimum fine, if a fine had been imposed, is \$50, then the suspension may be converted to a fine of \$1,000 per day of suspension. If the suspension was issued for a citation where the minimum fine, if a fine had been imposed, is \$1,000, then the suspension may be converted to a fine of \$3,000 per day of suspension.

If the PLCB accepts a request for the conversion of a suspension into a fine, it will notify the transferee of the amount of the fine, and the transferee may either accept or reject the proposed fine. If accepted, the fine must be paid as a condition to approval of the transfer; if rejected, the conversion is rendered a nullity, and the unserved suspension remains in effect.

#### ECONOMIC DEVELOPMENT LICENSES

EFFECTIVE  
SEPT. 19, 2015  
40 PA. CODE § 3.105

The Liquor Code imposes a quota, or limitation, on the number of restaurant liquor and eating place retail dispenser licenses the PLCB may issue in a county. There are several exceptions to the quota, one of which allows the PLCB to issue an economic development restaurant liquor license (EDR) or an economic development eating place retail dispenser license (EDE), even if the quota for the county is full.

However, the applicant must satisfy certain conditions in order to receive an EDR or EDE license, including proof that the applicant has “exhausted reasonable means for obtaining a suitable license within the county.” This information must be presented at an administrative hearing.

The regulation was amended to identify specific criteria for an applicant to show that it has met that condition and provide clarity as to what is expected of the applicant before it applies for an EDR or an EDE.

#### RESPONSIBLE ALCOHOL MANAGEMENT PROGRAM

EFFECTIVE  
NOV. 14, 2015  
40 PA. CODE §§ 5.211,  
5.232, 5.233

The regulatory change allows third parties to create their own Responsible Alcohol Management Program (RAMP) curriculums and submit them to the PLCB's Bureau of Alcohol Education for approval. As a result, more opportunities for server/seller training may be available to meet growing demand for such training.

THE FOLLOWING REGULATIONS WERE AMENDED DURING FISCAL YEAR 2015-16:

#### RIGHT TO OCCUPY

This regulatory amendment reflects the fact that the right to occupy a proposed licensed premises may be obtained through means other than a lease or deed.

A license applicant must establish its right to occupy the proposed licensed premises, and while this is typically done through a lease or deed, some entities have acquired the right to occupy a premises through a contract with the owner of the premises.

The principal beneficiaries will be entities involved in ownership and operation of hotels. Management companies typically operate a chain of hotels under a common name on behalf of different real estate holders; however, they usually occupy the premises under a management agreement with the real estate owner, rather than with a deed or lease.

#### DISCOUNT PRICING PRACTICES

This regulation was amended to align PLCB regulations with the Liquor Code. Specifically, the regulation was amended to update the number of hours prices may be discounted by licensees, and to clarify that the discount may be used for non-consecutive time periods. The regulation also requires a licensee to post a notice of its discounting periods at least seven days prior to their occurrence.

#### POSTING REQUIREMENTS FOR EXTENSION

This regulation was amended to align PLCB regulations with the Liquor Code. PLCB regulations had required that applicants for an extension of the licensed premises post notice that such application had been filed for a period of 15 days. Subsequently, Section 403(g) of the Liquor Code was amended to increase the posting timeframe from 15 days to 30 days. To be consistent with the statute, the regulation was amended to increase the posting time from 15 days to 30 days.

EFFECTIVE  
NOV. 14, 2015  
40 PA. CODE §§ 7.2  
AND 7.4

EFFECTIVE  
JAN. 16, 2016  
40 PA. CODE § 13.102

EFFECTIVE  
MAY 21, 2016  
40 PA. CODE § 7.22



## WHERE THE MONEY GOES

Fine Wine & Good Spirits stores generated more than \$2.43 billion in sales and taxes.

Together, **more than \$626.3 million** was returned to the General Fund and state and local government beneficiaries in fiscal year 2015-16.

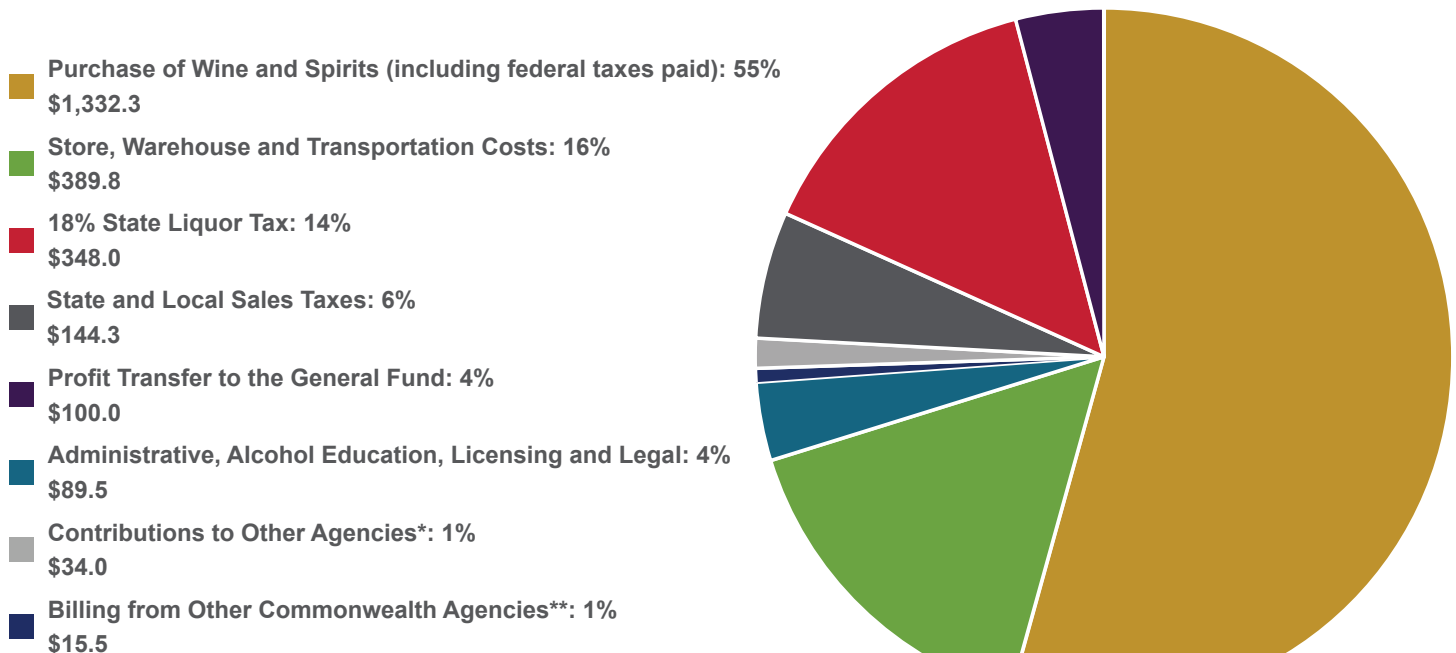
- The PLCB returned \$583.6 million to the General Fund:
  - \$348.0 million in liquor tax
  - \$135.6 million in state sales tax
  - \$100.0 million transferred to the General Fund
- The Pennsylvania State Police received \$26.1 million for the enforcement of liquor laws.

- Department of Drug and Alcohol Programs received \$3.3 million to educate and prevent problem alcohol use.
- Philadelphia and Allegheny counties received \$8.7 million in local sales taxes.
- Local communities received \$4.6 million in returned licensing fees.

In the last five years, the PLCB has provided:

- \$2.66 billion to the Pennsylvania General Fund
- \$122.5 million to the Pennsylvania State Police
- \$12.1 million to the Department of Drug and Alcohol Programs
- \$22.5 million to local communities

## DISTRIBUTION OF PROCEEDS (IN MILLIONS)



**\*\*Billing from Other Commonwealth Agencies**

Comptroller and Payroll	\$6.2
Auditor General	\$2.7
Office of Administration (Including IES Services)	\$2.3
Consolidated Data Services	\$2.0
Civil Service Commission	\$1.1
Department of General Services	\$1.0
Treasury Department	\$0.2

**\*Contributions to Other Agencies**

State Police Liquor Control Enforcement	\$26.1
License Fees Returned to Local Municipalities	\$4.6
Dept. of Drug and Alcohol Programs	\$3.3

PLCB SUMMARY FINANCIAL INFORMATION  
(IN THOUSANDS EXCEPT AS INDICATED)

	2015-2016*	2014-2015	2013-2014	2012-2013	2011-2012	CAGR**
Sales Net of Taxes	\$1,937,885	\$1,862,270	\$1,786,502	\$1,731,463	\$1,657,205	4.0%
Gross Profit	\$605,599	\$581,130	\$555,835	\$539,416	\$511,738	4.3%
Gross Margin	31.3%	31.2%	31.1%	31.2%	30.9%	
Operating Expenses	\$473,828	\$469,610	\$407,876	\$387,538	\$387,057	5.2%
Operating Income	\$131,771	\$111,520	\$147,959	\$151,878	\$124,991	1.3%
Transfers to State Police	\$26,091	\$25,726	\$24,959	\$23,984	\$21,738	4.7%
Drug & Alcohol Transfers	\$3,328	\$1,672	\$2,474	\$2,567	\$2,070	12.6%
Net Income	\$103,857	\$83,598	\$123,683	\$128,366	\$103,494	0.1%
Liquor Tax	\$ 348,056	\$334,414	\$320,912	\$311,248	\$298,144	3.9%
State Sales Tax	\$135,581	\$130,193	\$124,880	\$121,093	\$116,033	4.0%
Local Sales Tax***	\$8,688	\$8,493	\$8,270	\$8,143	\$7,835	2.6%
License Fees Returned <sup>▲</sup>	\$4,594	\$4,466	\$4,522	\$4,436	\$4,469	0.7%
Number of Stores (not in 000)	601	603	606	605	608	
Average Sales per Store	\$3,224	\$3,088	\$2,948	\$2,862	\$2,726	
Operating Exp./Net Sales	24.5%	25.2%	22.8%	22.4%	23.4%	
Contributions/Net Sales	32.3%	31.4%	31.7%	31.9%	32.0%	
Return on Assets	22.4%	20.5%	30.5%	35.8%	28.1%	

\* Financial results for FY 2015-16 are unaudited.

\*\* CAGR — Compound Annual Growth Rate

\*\*\* These funds were collected for Philadelphia and Allegheny counties, which levy a 2% and 1% local sales tax, respectively.

<sup>▲</sup> As provided by statute, a portion of license fees are returned to municipalities.

## RETAIL OPERATIONS

The Office of Retail Operations staffs and manages the day-to-day operations at more than 600 Fine Wine & Good Spirits stores throughout the commonwealth.



AS OF JUNE 30, 2016, THE AGENCY OPERATED 601 RETAIL FACILITIES:

490	83	10	18
Standard Stores	Premium Collection Stores	Licensee Service Centers	Stores Inside Grocery Stores

184 OF THESE STORES WERE OPEN ON SUNDAYS AS OF JUNE 30.

In fiscal year 2015-16, Retail Operations completed 35 branding projects, including 2 new stores and 33 remodels.

By the end of the fiscal year, 248 Fine Wine & Good Spirits Stores were conveniently colocated with grocery stores.



#### PLCB RETAIL OPERATIONS FIVE-YEAR SUMMARY

	FY 15-16	FY 14-15	FY 13-14	FY 12-13	FY 11-12
Total Units Sold*	159.8 million	154.4 million	151.4 million	147.9 million	145.3 million
Average Retail Price per Item	\$14.30	\$14.23	\$13.92	\$13.81	\$13.46
Wage % of Gross Sales**	6.8%	7.1%	7.3%	7.3%	7.6%

\* Total Units Sold includes wine and spirits products, accessories, and gift cards.

\*\* Wage % of Gross Sales includes salary, wages, and overtime paid to regional, district, and store staff.

RETURN ON INVESTMENT

By the end of fiscal year 2015-16, Fine Wine & Good Spirits had rebranded 125 of its 601 stores, a multi-year effort intended to improve the in-store shopping experience and deliver short- and long-term returns on the investment. In fiscal year 2015-16 alone, 35 rebranding projects were completed.

The decision to rebrand, relocate, or open a new store is a complex one, and the Office of Retail Operations looks at multiple factors – including current market trends, future population estimates, real estate values, and the availability of property, among others – before investing time and money into the process.

Understanding that a new, rebranded Fine Wine & Good Spirits store could draw business away from other stores in the area, the PLCB evaluates the sales impact on the market surrounding a new or rebranded store. In fiscal year 2015-16, a total of 22 marketing areas comprised of 62 stores (up to four stores surrounding each rebranding project and new location) were monitored.

Sales figures show rebranding and expanding has paid off: sales for all 22 marketing areas monitored this year increased by 5.46 percent, with some markets performing dramatically well.

For example, the PLCB closed its old store and opened a new Fine Wine & Good Spirits Premium Collection store in Homestead, Allegheny County, in August 2015. By carefully selecting the location of the new store – in this case, The Waterfront, one of the largest and busiest commercial properties in the Pittsburgh region – sales at the new premium store were up almost 221 percent over those at the old standard store during the same time period (August 2015 to March 2016 versus August 2014 to March 2015). While two stores near the Waterfront store did experience sales decreases after the new store opened, another nearby store saw sales increase. Combine that with the sales growth in Homestead and the whole market saw a net sales increase of 34.3 percent.

Growth in markets following rebrands varies, particularly over time, and some rebrands don't produce dramatic market lift. But, overall, the trend is a positive one.

### NUMBER OF STORES PER COUNTY



REGION II  
CENTRAL REGION  
215 STORES

REGION I  
EASTERN REGION  
168 STORES

Total Square Feet	1,008,521
Average Store Size	6,003
Annual Rent Paid	\$21,033,633
Average Price per Sq. Ft.	\$20.86

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## MARKETING & MERCHANDISING

The Office of Marketing and Merchandising aims to select and present the best wines and spirits at competitive prices, while striving to build relationships with consumers through in-store communications, advertising, and social media.



FINE WINE & GOOD SPIRITS



Hundreds of enthusiastic fans showed up at the grand opening of the new Fine Wine & Good Spirits Premium Collection store in Glen Mills, Delaware County, on March 4 to see legendary actor Robert De Niro, who participated in the ribbon cutting. Fifteen lucky customers got to meet Mr. De Niro, pose for a photo, and purchase a bottle of VDKA 6100 featuring his signature.

Bottle signings and events, 2015-16



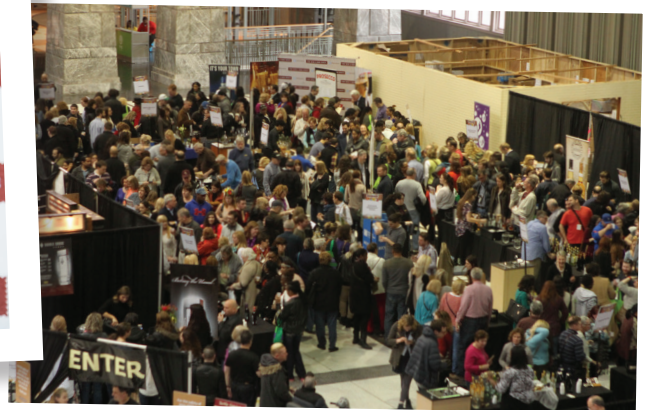
Vendors from around the world shared their wines with guests of the Pittsburgh Wine Festival at Heinz Field.



Original Skinnygirl and real housewife Bethenny Frankel drew a crowd to the Fine Wine & Good Spirits Premium Collection store in Ardmore, Montgomery County, in September 2015. She signed bottles and posed for photos.



Famed former bootlegger and reality TV star Tim Smith made several stops in Pennsylvania, including Indiana and York, to greet fans and sign bottles of his Original Climax Moonshine in Fall 2015.



From March 5 through 13, the Fine Wine & Good Spirits store inside the 2016 Pennsylvania Horticultural Society Philadelphia Flower Show was a popular destination that featured signed bottles and special tastings.

SOCIAL MEDIA

JULY 1, 2015 — JUNE 30, 2016



FACEBOOK

New likes: **47,806**  
Avg. daily engagement: **1,359**  
Avg. daily impressions: **86,338**  
Total engagements  
(likes, comments, share):  
**274,891**



TWITTER

New followers: **804**  
Tweets sent: **896**  
Retweets: **584**  
Impressions (est.): **8.3 million**  
Total mentions: **1,910\***  
(\*232 mentions via Foursquare)



PINTEREST

Total pins: **1,636**  
Pins reach: **400,069**  
Avg. monthly impressions:  
**68,526 people**  
Pin impressions: **822,320**



YOUTUBE

Viewers: **126,336**  
Subscribers: **334**  
New FWGS videos: **24**

FINEWINEANDGOODSPIRITS.COM

Visits

Average monthly clicks

July 2015 — June 2016: **6,848,570**

July 2015 — June 2016: **570,714**

FW&GS MOBILE APP

Total mobile app downloads: **39,239**

Android: **14,539** | iPhone: **24,700**

PUBLICATIONS

With a selection of tens of thousands of wines and spirits, educating consumers about current and new products is a top priority for Fine Wine & Good Spirits. The Pennsylvania Liquor Control Board has three separate publications, each with a different focus, that work together to help keep our patrons informed and up-to-date with all the latest trends. *Taste* magazine is a free, quarterly publication. In addition to a complete pricing guide for all wines and spirits available in Fine Wine & Good Spirits stores, it also features a mixology segment, store happenings, entertaining tips and articles on select wines and spirits. *Explore*, published twice a year, focuses exclusively on new products. And the agency's newest publication, *Premium Collection* magazine, features luxury items sold specifically in Premium Collection stores. Each new issue includes information on a particular wine region, seasonal food and wine pairings, a featured winemaker, and niche and ultra-premium spirits.



*Taste* – **245,000**  
(holiday distribution  
increases to 385,000)



*Explore* – **245,000**



*Premium Collection* –  
**100,000**

ADVERTISING

**Sangria SUMMER!**  
Make sensational sangrias with Barefoot wines, on sale now!  
FINE WINE & GOOD SPIRITS  
Visit us online at FineWineAndGoodSpirits.com.

**WELCOME TO CASA SAUZA**  
Enjoy a taste of Mexico with these fine tequilas!  
FINE WINE & GOOD SPIRITS  
Visit us online at FineWineAndGoodSpirits.com.

The PLCB advertised through a variety of media in six media markets, including Philadelphia, Pittsburgh, Harrisburg/Lancaster/Lebanon/York, Wilkes-Barre/Scranton, Erie, and Allentown/Bethlehem/Easton.

In fiscal year 2015-16, the PLCB spent about \$6.7 million in total advertising.



## LIMITED-RELEASE LOTTERY

In an effort to more equitably distribute highly sought-after, limited-quantity wines and spirits to interested individual consumers and licensees in Pennsylvania, the PLCB debuted its first Limited-Release Lottery in October 2015.

In recent years, certain products have become very popular among aficionados, enthusiasts, and collectors. When sold through our traditional online store in the past, the extraordinary demand for these products, which are often sold at prices far below what consumers find in other states, often led to products selling out within only a few minutes. In order to ensure that all Pennsylvanians interested in a particular high-demand product have a fair chance to purchase the product, the lottery system was developed.

Because licensees constitute about one-quarter of the PLCB's annual sales, 25 percent of the each offering was reserved for licensees, while 75 percent was made available to individual consumers with verifiable Pennsylvania addresses.

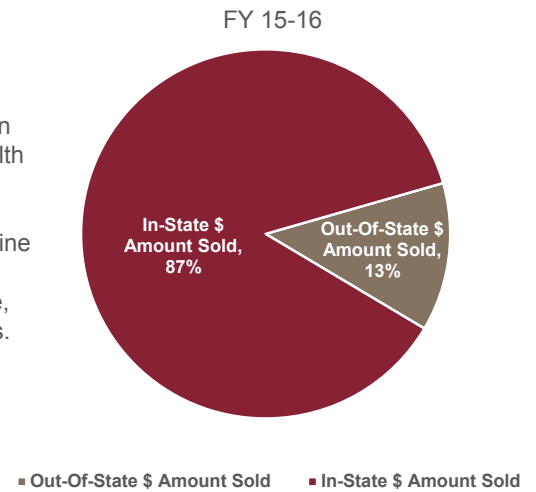
The PLCB held four Limited-Release Lotteries in 2015, awarding 2,253 bottles of Buffalo Trace, Four Roses and Pappy Van Winkle whiskies. These four lotteries drew more than 95,000 entries, and whiskey forums and blogs recognized the lotteries for their fairness and for awarding the products to Pennsylvanians, rather than out-of-state residents. An additional Lottery received more than 10,000 entries in March 2016, and 56 bottles of bourbon and rye were awarded to Pennsylvania residents and licensees. Additional lotteries are planned for the future.



FINEWINEANDGOODSPIRITS.COM DOLLAR SALES,  
IN-STATE VS. OUT-OF-STATE

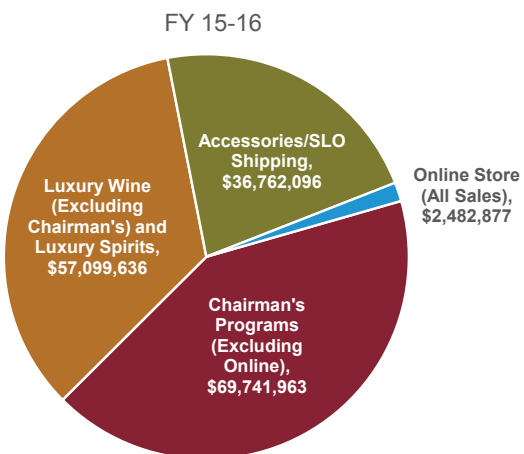
The Fine Wine & Good Spirits e-commerce site continues to generate considerable sales, including sales to consumers who live outside of Pennsylvania. Out-of-state customers can order products on the site, then have them shipped to family or friends in the commonwealth or a nearby brick-and-mortar Fine Wine & Good Spirits store.

Since detailed tracking of this statistic started in February 2014, a significant portion of online sales have been made to out-of-state customers and shipped to in-state addresses. While those consumers accounted for less than 9 percent of bottles sold on the e-commerce site, they accounted for more than 11 percent of total orders and 13 percent of total dollar sales.

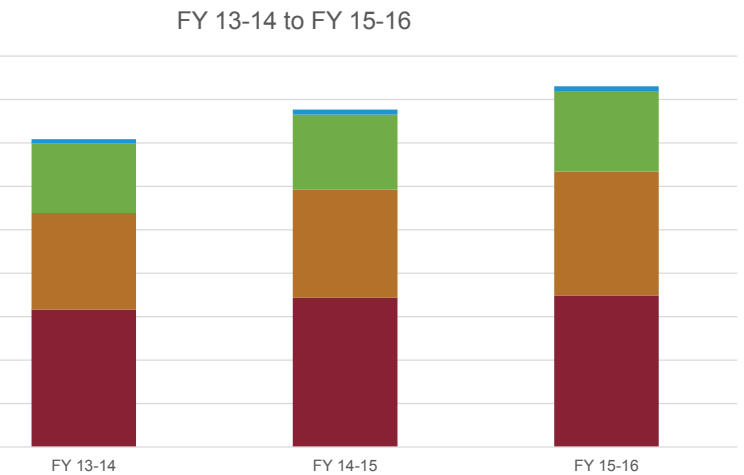


SALES BY CATEGORY / CHANNEL

	FY 2015-16 Retail Sales Amount*	FY 2014-15 Retail Sales Amount*	FY 2013-14 Retail Sales Amount*
CHAIRMAN'S PROGRAMS (EXCLUDING ONLINE)	\$69,741,963	\$68,742,164	\$63,216,109
LUXURY WINE (EXCLUDING CHAIRMAN'S) AND LUXURY SPIRITS	\$57,099,636	\$49,704,693	\$44,519,668
ACCESSORIES / SLO SHIPPING	\$36,762,096	\$34,540,663	\$31,975,090
ONLINE STORE (ALL SALES)	\$2,482,877	\$2,378,360	\$1,993,151
<b>TOTAL</b>	<b>\$166,086,572</b>	<b>\$155,365,880</b>	<b>\$141,704,018</b>



■ Chairman's Programs (Excluding Online)  
■ Accessories/SLO Shipping

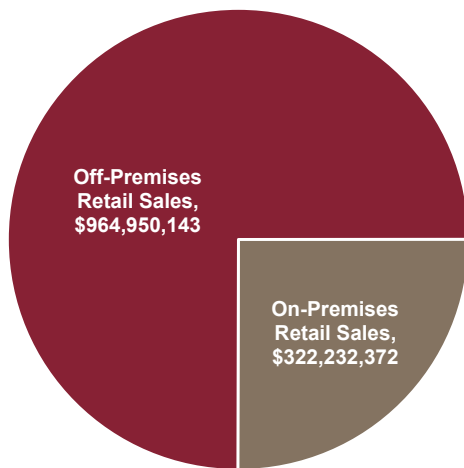


■ Luxury Wine (Excluding Chairman's) and Luxury Spirits  
■ Online Store (All Sales)

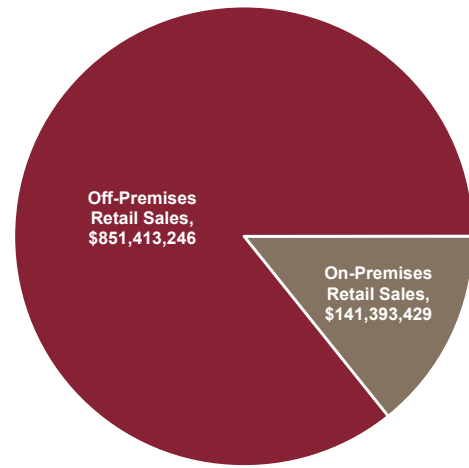
\*Retail sales amounts include liquor tax but not sales tax.



ON-PREMISES AND OFF-PREMISES\*  
RETAIL SALES  
SPIRITS CATEGORY, FY 15-16



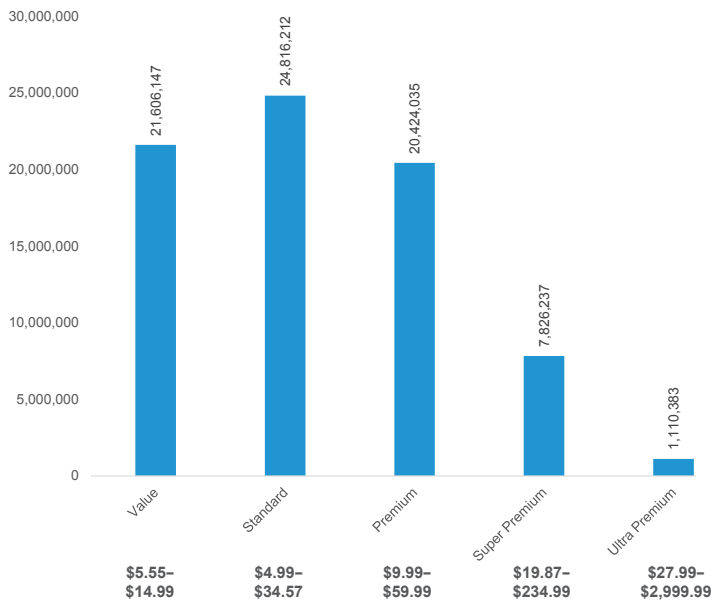
ON-PREMISES AND OFF-PREMISES\*  
RETAIL SALES  
WINE CATEGORY, FY 15-16



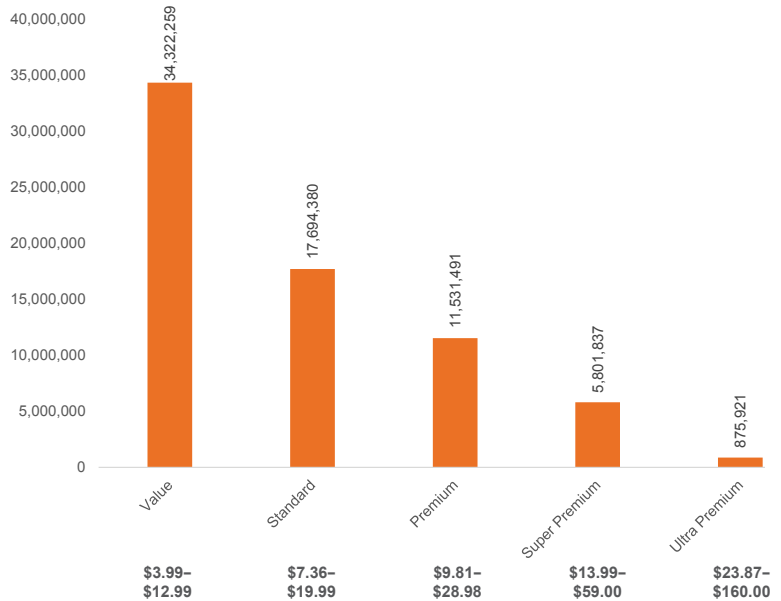
■ On-Premises Retail Sales ■ Off-Premises Retail Sales

\* On-premises sales are sales to licensees. The name is derived from the fact that beverage alcohol is consumed at the same place it is purchased. Off-premises sales are retail purchases made by non-licensee Fine Wine & Good Spirits customers for consumption at locations other than licensed establishments.

SPIRITS UNITS SOLD BY  
PRICE SEGMENT\*, FY 15-16



WINES UNITS SOLD BY  
PRICE SEGMENT\*, FY 15-16



\* Price segments vary by product category, so the ranges provided are averages across categories. Segments are not mutually exclusive because of the mixture of categories in each segment.



Founded in 1989 and located near Harrisburg, the PLCB Wood Shop has been making specialty display shelving units and cases, counters for Fine Wine & Good Spirits stores, category signage, central office work stations and tables, wine cabinets, and more.

TOP 10 PRODUCT CATEGORIES

PRODUCT CATEGORY	FY 15-16 Retail Sales Amount	FY 14-15 Retail Sales Amount	FY 13-14 Retail Sales Amount	FY 12-13 Retail Sales Amount
VODKA	\$271,076,483	\$261,867,114	\$257,481,070	\$255,091,598
BOURBON	\$136,443,051	\$126,026,588	\$114,701,756	\$106,480,243
VODKA - FLAVORED	\$100,099,381	\$104,631,188	\$108,211,112	\$111,166,285
US CHARDONNAY	\$75,065,881	\$67,936,279	\$65,154,068	\$63,271,509
US CABERNET	\$71,659,420	\$62,265,441	\$57,950,983	\$54,015,954
CANADIAN WHISKY	\$67,620,956	\$61,750,253	\$56,895,407	\$57,728,234
RUM - SPICED	\$66,668,006	\$68,289,218	\$68,164,809	\$68,447,823
5L BOX WINE	\$60,941,819	\$60,001,207	\$57,492,913	\$55,429,614
FLAVORED WHISKEY	\$60,703,256	\$56,545,848	\$43,908,169	\$25,237,418
SHOOTERS - SCHNAPPS/LIQUEURS	\$56,253,076	\$59,876,233	\$64,153,787	\$67,507,808

TOP 10 PRODUCTS

PRODUCT	FY 15-16 Avg. Retail Price	FY 15-16 Retail Sales Amount	FY 14-15 Retail Sales Amount	% Chg Retail Sales Amount
JACK DANIEL'S OLD NO. 7 BLACK LABEL TENNESSEE WHISKEY - 750 ML	\$22.47	\$20,248,567	\$20,246,859	0.01%
FIREBALL CINNAMON WHISKY - 750 ML	\$16.92	\$16,745,927	\$17,116,248	-2.16%
CAPTAIN MORGAN ORIGINAL SPICED RUM - 1.75 L	\$28.31	\$16,500,335	\$16,628,108	-0.77%
JACK DANIEL'S OLD NO. 7 BLACK LABEL TENNESSEE WHISKEY - 1.75 L	\$43.40	\$14,132,291	\$13,820,860	2.25%
CAPTAIN MORGAN ORIGINAL SPICED RUM - 750 ML	\$15.99	\$13,886,788	\$12,366,260	12.30%
JAMESON IRISH WHISKEY - 750 ML	\$26.29	\$13,270,405	\$11,850,508	11.98%
GREY GOOSE VODKA - 750 ML	\$29.50	\$13,222,731	\$13,740,515	-3.77%
TITO'S VODKA - 1.75 L	\$33.06	\$12,807,137	\$8,522,185	50.28%
HENNESSY COGNAC VS - 750 ML	\$32.62	\$12,723,687	\$9,585,222	32.74%
TITO'S VODKA - 750 ML	\$18.53	\$11,152,810	\$6,650,129	67.71%

## S U P P L Y   C H A I N

The Office of Supply Chain ensures the right product gets to the right store at the right time. Planning and Procurement buys approximately 3,500 regular wine and spirits products from domestic and foreign suppliers. In addition to buying responsibilities, Supply Chain handles product importation, processing of all excise taxes and customs duties, warehousing, and transportation of wines and spirits.



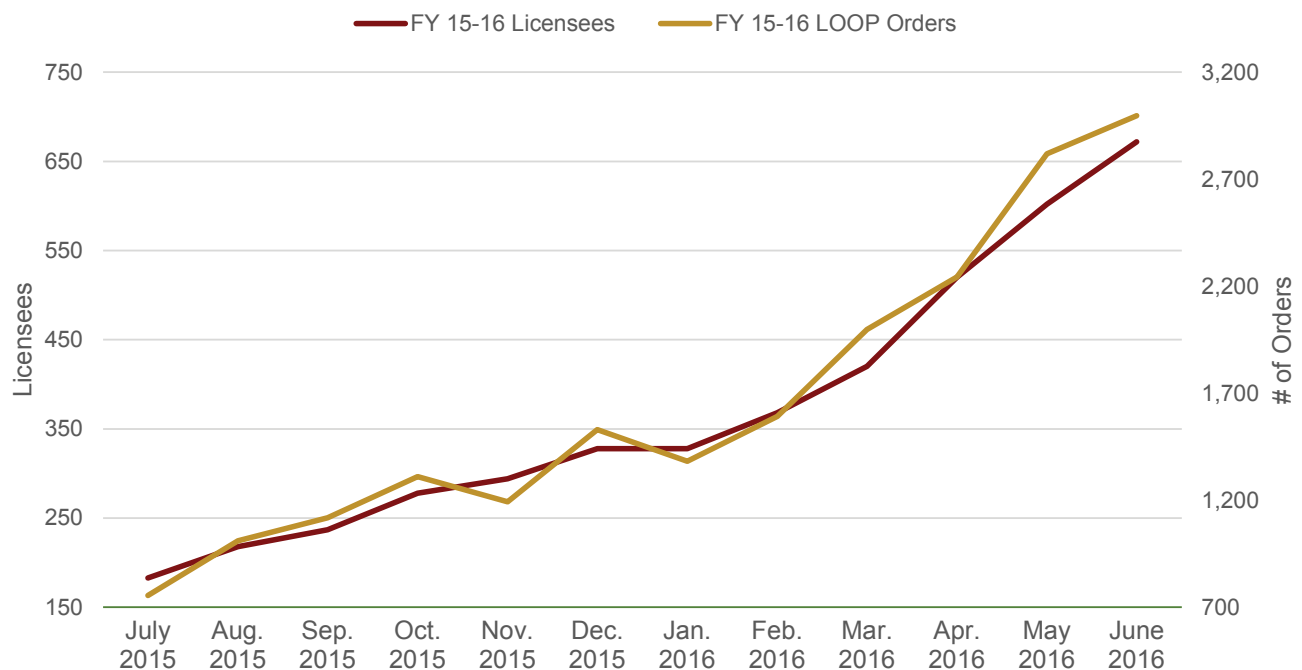
The Office of Supply Chain spent much of the year developing and refining its new Licensee Online Order Portal (LOOP), an Internet-based system that allows about 15,000 retail licensees to order wine and spirits at any time from home or office.

LOOP brings a new level of functionality and convenience to bars, hotels, restaurants, clubs, and other retail liquor licensees. Not only did LOOP replace an archaic ordering system with a web-based portal offering 24/7 access, it also affords licensees new visibility into product availability, sales, and promotions, which can be used to plan purchases around sales and achieve cost savings. Additionally, LOOP offers customizable tools and reports that can help licensees manage their business.

Previously, a licensee could only place orders for wine and spirits by contacting a local Fine Wine & Good Spirits store via phone or fax during normal business hours. Through LOOP, orders can be placed online at any time of day and on any day of the year, and emails to users confirm receipt of orders, order availability for pick up, and final order invoices. Licensees can use LOOP to create and customize order templates for regular usage or to facilitate special orders for holidays, sports weekends, or other events.

LOOP offers additional value and convenience to higher-volume licensees through its Licensee Delivery Program (LDP), which offers direct delivery of wine and spirits to higher-volume licensees.

LOOP has received positive reviews from large and small licensees across Pennsylvania who appreciate the convenience, functionality, and savings the new system provides.





## INFORMATION TECHNOLOGY SERVICES

The Information Technology Services Office (ITSO) supports and enhances multiple complex computer systems, including a large-scale Oracle Enterprise Resource Planning (ERP) system with a point-of-sale system in more than 600 stores; data related to financials, inventory, forecasting, replenishment, pricing, and product management; and data warehousing and analytics. Additionally, the ITSO supports and enhances other IT systems: a legal tracking system; human resources and time-tracking systems; the Fine Wine & Good Spirits e-commerce site and mobile apps; and other general web applications.

The Information Technology Services Office has been working toward meeting payment card industry (PCI) requirements, and this fiscal year we installed a new point-of-sale system and began accepting chip-and-signature enabled cards. This meant significant upgrades to equipment and software at each Fine Wine & Good Spirits store.

The solution, developed in partnership with ACI Worldwide and SkillNet, provides a combination of convenience and reliability, while reducing fraud risk to Fine Wine & Good Spirits consumers and the PLCB.

The PCI standards put a significant burden on specialized vendors that provide merchant services transaction software, which delayed implementation across the retail industry. In addition, new requirements placed additional burden on the retail industry related to payment for fraudulent transactions. Fortunately, the PLCB worked to mitigate risk and fraud in a variety of ways until a secure solution was completed.

In late June 2016, PLCB piloted its solution in multiple stores. After the system was stabilized and refined throughout June, chip-and-signature functionality was rolled out to all 600+ Fine Wine & Good Spirits stores by Aug. 1, 2016.

Following this significant achievement, the PLCB began exploring contactless payments and PIN-enabled gift cards, which it hopes to offer in the future.



## REGULATORY AFFAIRS

The Office of Regulatory Affairs is responsible for the licensure of the beverage alcohol community, educating the public on the responsible use of alcohol, and handling complaints, concerns, and recommendations from licensees and the public.

This fiscal year, the Office of Regulatory Affairs modernized licensing operations with PLCB+, an online platform through which licensing and permitting business is now conducted securely, quickly, and simply over the Internet. PLCB+ replaced multiple, archaic legacy systems and converted nearly 70 paper processes into electronic submissions and streamlined administrative and investigative processes. The system aims to reduce processing time and provide enhanced customer service through its 24/7 access and real-time status updates.

The first phase of PLCB+ implementation was transitioning the agency's brand registration process onto the electronic platform through which more than 400 suppliers registered more than 9,000 malt and brewed beverage brands. The brand registration implementation, which occurred in October 2015, was tremendously successful, and that process is now completely paperless.

In May 2016, PLCB+ was introduced to licensees as a single gateway for businesses and individuals to apply for and manage beverage alcohol licenses and permits. Through PLCB+, licensees can renew and validate an existing license, apply for a new license, apply to transfer a license, update license account information, and pay application and license fees online. Payments for fines issued by the Office of Administrative Law Judge can also be remitted through PLCB+. Additionally, PLCB+ provides an easy online process for submitting tavern gaming license applications, applications to extend the size of a licensed establishment, change of officer applications, and special permit applications for wine auctions and non-profit special occasions.



Between May 9, the day PLCB+ was introduced to licensees, and June 30, more than 4,000 users registered for PLCB+, and more than 3,500 online filings came through the new system.

The public can also use PLCB+ to review the status of licenses and license applications, as well as to submit protests and petitions to intervene related to license applicants.

PLCB+ set the stage for quickly and effectively implementing new license and permit types authorized by Act 39 liquor reforms signed into law in June 2016, and the system will continue to evolve over the coming year to incorporate Bureau of Alcohol Education programs and materials.





Each year, approximately 50 young artists who create top designs in the annual Alcohol Education Poster Contest receive cash prizes, and their artwork is reproduced into posters, coloring pages, bookmarks, and other printed material. Winners are also recognized at a ceremony in Harrisburg during Alcohol Awareness Month each April.



TOTAL LICENSE APPLICATIONS AND PERMITS RECEIVED AND PROCESSED JULY 1, 2015, THROUGH JUNE 30, 2016

Renewals/Validations <b>19,315</b>	Transfers <b>1,088</b>	New Licenses <b>686</b>	Special Occasion Permits <b>2,985</b>
Special Wine Permits <b>3,015</b>	Criminal Record Checks <b>8,378</b>	Other Applications <b>7,744</b>	AP-SS-EHF Permits* <b>21,073</b>
Catering Permits <b>2,142</b>	Tavern Gaming Licenses <b>10</b>	Brand Registration <b>4,595</b>	<b>Total Applications 71,031</b>

\* Amusement Permit-Sunday Sales-Extended Hours Food

#### INVESTIGATIONS PROCESSED

Type of Investigation	2015	2014	2013	2012
New License	297	247	229	240
Renewal	44	65	58	67
Transfer – Place	76	68	62	66
Transfer – Person	665	559	523	566
Double Transfer Person-Place	358	343	306	308
Correction	39	46	32	30
Extension	897	766	752	713
Manager Change	1,188	1,263	1,056	860
Reinvestigation	2,060	1,723	1,767	1,699
Officer Change	636	664	616	606
Reissue Safekeeping	464	407	389	374
Special Occasion Permit	61	50	42	45
Limited Winery	85	57	56	45
Non-Compliance	17	54	19	54
Miscellaneous	442	415	401	442
Nuisance Bars	214	192	298	215
<b>Total</b>	<b>7,543</b>	<b>6,919</b>	<b>6,606</b>	<b>6,330</b>

#### NUISANCE BARS

Under the provisions of the Liquor Code, the Pennsylvania Liquor Control Board established a Nuisance Bar Program to review the operational history of any licensed establishment that, by its actions, may have abused license privileges. The Bureau of Licensing seeks information from the community, law enforcement agencies, and government entities on any adverse activity associated with the licensed establishment. If substantial evidence is received to support non-renewal, a notice of objection is issued.

#### NUMBER OF OBJECTIONS

2015	2014	2013	2012
<b>87</b>	<b>171</b>	<b>112</b>	<b>137</b>

RETAIL LICENSES IN EFFECT AS OF DECEMBER 31, 2015

COUNTY	2010 POP	AREA SQ MI	RETAIL LIQUOR LICENSE TYPE										RETAIL MALT BEVERAGE LICENSE TYPE										NUMBER OF LICENSES	
			RESTAU- RANT	HOTEL	CLUB	OWR	AIR- PORT REST.	GOLF COURSE			CONT. CARE RETIRE- MENT	ECO- NOMIC DEVELOP	PER- FORM ARTS	PUBLIC VENUE	EATING PLACE	ECON DEV	HOTEL	CLUB	GOLF COURSE		TOTAL RETAIL LICENSES			
								MUNIC.	PRIVATE	R. C.														
																			PER 3,000 POP.	PER SQ. MILE				
STATE TOTAL	12,702,379	44,740	10,024	1,200	2,888	13	45	32	222	35	35	19	52	95	484	1	0	25	5	6	15,181	3.59	0.34	
ADAMS	101,407	519	54	17	16	0	0	0	6	0	0	0	0	2	6	0	0	1	0	0	102	3.02	0.20	
ALLEGHENY	1,223,348	730	1,504	92	293	1	9	2	10	1	5	0	10	19	24	0	0	2	1	0	1,973	4.84	2.70	
ARMSTRONG	68,941	653	69	6	26	0	0	0	5	0	0	0	0	0	1	0	0	0	0	1	108	4.70	0.17	
BEAVER	170,539	435	149	13	66	0	0	0	5	1	0	0	1	0	0	0	0	0	0	0	235	4.13	0.54	
BEDFORD	49,762	1,012	21	10	15	0	0	0	2	0	0	0	0	0	2	0	0	0	0	0	50	3.01	0.05	
BERKS	411,442	857	272	43	116	1	1	2	6	1	3	0	1	4	7	0	0	2	0	0	459	3.35	0.54	
BLAIR	127,089	526	85	14	30	0	0	0	3	1	0	0	1	3	15	0	0	1	0	0	153	3.61	0.29	
BRADFORD	62,622	1,147	33	15	21	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	71	3.40	0.06	
BUCKS	625,249	604	333	58	47	0	0	2	5	1	3	1	1	0	11	0	0	0	0	1	463	2.22	0.77	
BUTLER	183,862	789	106	16	25	0	1	1	5	0	1	0	0	1	2	0	0	0	0	1	159	2.59	0.20	
CAMBRIA	143,679	688	153	23	107	0	0	0	2	0	0	0	0	3	3	0	0	0	0	0	291	6.08	0.42	
CAMERON	5,085	396	9	0	5	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	15	8.85	0.04	
CARBON	65,249	381	76	13	31	0	0	0	5	0	0	0	1	0	2	0	0	0	0	0	128	5.89	0.34	
CENTRE	153,990	1,110	70	21	27	0	1	0	1	0	1	0	1	2	2	0	0	2	0	0	128	2.49	0.12	
CHESTER	498,886	751	193	36	48	0	1	1	12	7	1	6	1	1	9	0	0	0	1	0	317	1.91	0.42	
CLARION	39,988	601	36	8	12	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	58	4.35	0.10	
CLEARFIELD	81,642	1,145	73	8	37	0	0	0	3	0	0	0	0	0	2	0	0	1	0	0	124	4.56	0.11	
CLINTON	39,238	888	29	12	14	0	0	1	1	0	0	0	0	1	5	0	0	0	0	0	63	4.82	0.07	
COLUMBIA	67,295	483	46	11	24	0	0	0	3	0	0	0	1	0	0	0	0	0	0	0	85	3.79	0.18	
CRAWFORD	88,765	1,012	81	7	31	0	0	0	5	0	0	1	0	0	0	0	0	0	0	0	125	4.22	0.12	
CUMBERLAND	235,406	545	77	23	30	0	0	1	5	0	1	2	1	0	8	0	0	0	0	0	148	1.89	0.27	
DAUPHIN	268,100	525	213	31	66	0	1	2	6	0	0	0	1	9	11	0	0	0	1	341	3.82	0.65		
DELAWARE	558,979	184	312	22	55	1	2	2	0	2	4	0	2	1	23	0	0	0	0	0	426	2.29	2.32	
ELK	31,946	827	28	11	25	0	1	1	1	0	0	0	0	0	5	0	0	2	0	0	74	6.95	0.09	
ERIE	280,566	799	248	17	72	0	1	2	7	0	1	0	2	5	10	0	0	1	0	0	366	3.91	0.46	
FAYETTE	136,606	790	172	13	66	0	0	0	3	1	0	0	0	0	4	0	0	0	0	0	259	5.69	0.33	
FOREST	7,716	427	9	2	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	13	5.05	0.03	
FRANKLIN	149,618	772	45	8	24	0	0	0	1	1	0	0	1	0	4	0	0	0	0	0	84	1.68	0.11	
FULTON	14,845	438	2	3	3	0	0	0	0	0	0	0	0	0	2	0	0	0	0	1	11	2.22	0.03	
GREENE	38,686	576	26	6	18	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	50	3.88	0.09	

RETAIL LICENSES IN EFFECT AS OF DECEMBER 31, 2015

COUNTY	2010 POP	AREA SQ MI	RETAIL LIQUOR LICENSE TYPE													RETAIL MALT BEVERAGE LICENSE TYPE							NUMBER OF LICENSES	
			RESTAURANT	HOTEL	CLUB	OWR	AIR-PORT REST.	GOLF COURSE			CONT. CARE RETIREMENT	ECO-NOMIC DEVELOP	PER-FORM ARTS	PUBLIC VENUE	EATING PLACE	ECON DEV	HOTEL	CLUB	GOLF COURSE		TOTAL RETAIL LICENSES			
								MUNIC.	PRIVATE	R. C.									PER 3,000 POP.	SQ. MILE				
HUNTINGDON	45,913	875	15	6	12	0	0	0	0	1	0	0	0	0	5	0	0	1	0	0	40	2.61	0.05	
INDIANA	88,880	827	68	9	22	0	0	0	0	2	0	0	0	1	1	0	0	0	0	0	103	3.48	0.12	
JEFFERSON	45,200	652	32	4	19	0	1	0	2	0	0	0	0	0	6	0	0	0	0	0	64	4.25	0.10	
JUNIATA	24,636	391	7	1	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	1.34	0.03	
LACKAWANNA	214,437	459	351	24	55	1	0	0	4	1	0	0	2	3	21	0	0	0	0	0	462	6.46	1.01	
LANCASTER	519,445	944	221	42	63	1	1	2	5	1	3	0	1	2	10	0	0	0	0	0	352	2.03	0.37	
LAWRENCE	91,108	358	60	3	23	1	0	0	2	1	0	0	0	0	6	0	0	0	0	0	96	3.16	0.27	
LEBANON	133,568	362	61	8	36	0	0	0	4	0	0	0	0	0	4	0	0	1	0	0	114	2.56	0.31	
LEHIGH	349,497	345	181	45	69	1	1	1	4	2	0	3	2	4	24	0	0	1	0	0	338	2.90	0.98	
LUZERNE	320,918	890	537	20	96	0	2	1	4	0	0	0	1	2	19	0	0	0	0	0	682	6.38	0.77	
LYCOMING	116,111	1,229	101	18	31	0	1	1	0	0	0	1	1	1	6	0	0	0	0	0	161	4.16	0.13	
MCKEAN	43,450	979	42	12	17	0	1	0	3	0	0	0	0	0	3	0	0	0	0	0	78	5.39	0.08	
MERCER	116,638	673	92	10	37	0	0	0	7	1	0	0	0	0	0	0	0	0	0	0	147	3.78	0.22	
MIFFLIN	46,682	411	25	3	12	0	0	0	0	0	0	0	0	0	3	0	0	1	0	0	44	2.83	0.11	
MONROE	169,842	608	121	53	18	1	0	2	4	2	0	0	1	0	12	0	0	0	0	0	214	3.78	0.35	
MONTGOMERY	799,874	483	409	75	106	1	0	3	24	3	7	1	2	2	21	0	0	0	0	0	654	2.45	1.35	
MONTOUR	18,267	130	12	1	9	0	0	0	1	0	0	0	0	0	0	0	2	0	0	25	4.11	0.19		
NORTHAMPTON	297,735	370	193	43	90	0	0	1	6	0	1	0	2	2	7	0	0	1	0	0	346	3.49	0.94	
NORTHUMBERLAND	94,528	458	91	5	65	0	0	0	0	0	0	0	0	0	4	0	0	3	0	0	168	5.33	0.37	
PERRY	45,969	551	23	2	11	0	0	0	0	0	0	0	0	0	0	0	0	0	0	36	2.35	0.07		
PHILADELPHIA	1,526,006	134	1,526	50	152	3	17	2	1	0	2	0	10	22	130	0	0	0	3	0	1918	3.77	14.31	
PIKE	57,369	545	48	15	8	0	0	0	1	0	0	0	0	0	4	0	0	0	0	0	76	3.97	0.14	
POTTER	17,457	1,081	17	6	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	30	5.16	0.03		
SCHUYLKILL	148,289	779	210	13	88	0	0	0	2	0	0	0	0	0	2	0	0	1	0	0	316	6.39	0.41	
SNYDER	39,702	329	17	3	10	0	0	0	0	0	0	1	0	0	1	0	0	0	0	32	2.42	0.10		
SOMERSET	77,742	1,074	65	19	35	0	0	0	3	0	0	0	0	0	1	0	0	0	1	124	4.79	0.12		
SULLIVAN	6,428	450	7	7	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	18	8.40	0.04		
SUSQUEHANNA	43,356	823	40	9	7	0	0	0	1	1	0	0	0	0	0	0	0	0	0	58	4.01	0.07		
TIOGA	41,981	1,134	28	10	14	0	0	1	1	1	0	0	0	0	0	0	0	0	0	55	3.93	0.05		
UNION	44,947	316	14	5	7	0	0	0	0	0	0	1	0	0	0	0	0	0	0	27	1.80	0.09		
VENANGO	54,984	674	32	2	12	0	1	0	2	0	0	0	1	0	2	0	0	0	0	52	2.84	0.08		
WARREN	41,815	884	37	7	13	0	0	0	0	0	0	1	0	0	2	0	0	1	0	61	4.38	0.07		
WASHINGTON	207,820	857	217	23	118	0	0	0	0	6	2	0	1	2	0	0	0	0	0	369	5.33	0.43		
WAYNE	52,822	726	57	20	6	0	0	0	0	2	1	0	1	0	4	0	0	0	0	91	5.17	0.13		
WESTMORELAND	365,169	1,028	354	33	206	0	2	1	14	1	1	0	1	0	12	0	0	0	0	625	5.13	0.61		
WYOMING	28,276	397	24	6	3	0	0	0	1	0	0	0	0	0	2	0	0	0	0	36	3.82	0.09		
YORK	434,972	904	165	29	53	1	0	0	11	1	1	0	2	3	11	1	0	1	0	279	1.92	0.31		

WHOLESALE LICENSES IN EFFECT AS OF DECEMBER 31, 2015

COUNTY	2010 POP	AREA IN SQ MI	LICENSE TYPE		TOTAL WHOLESALE LICENSES	NUMBER OF LICENSES	
			DISTRIBUTOR	IMPORTING DISTRIBUTOR		PER 30,000 POPULATION	PER SQUARE MILE
STATE TOTAL	12,702,379	44,740	1,093	161	1,254	2.96	0.03
Adams	101,407	519	6	0	6	1.78	0.01
Allegheny	1,223,348	730	126	16	142	3.48	0.19
Armstrong	68,941	653	8	1	9	3.92	0.01
Beaver	170,539	435	18	1	19	3.34	0.04
Bedford	49,762	1,012	4	1	5	3.01	0.00
Berks	411,442	857	38	5	43	3.14	0.05
Blair	127,089	526	12	3	15	3.54	0.03
Bradford	62,622	1,147	5	1	6	2.87	0.01
Bucks	625,249	604	27	2	29	1.39	0.05
Butler	183,862	789	21	2	23	3.75	0.03
Cambria	143,679	688	22	7	29	6.06	0.04
Cameron	5,085	396	1	0	1	5.90	0.00
Carbon	65,249	381	10	2	12	5.52	0.03
Centre	153,990	1,110	2	5	7	1.36	0.01
Chester	498,886	751	21	1	22	1.32	0.03
Clarion	39,988	601	4	1	5	3.75	0.01
Clearfield	81,642	1,145	9	4	13	4.78	0.01
Clinton	39,238	888	4	1	5	3.82	0.01
Columbia	67,295	483	7	2	9	4.01	0.02
Crawford	88,765	1,012	12	2	14	4.73	0.01
Cumberland	235,406	545	10	3	13	1.66	0.02
Dauphin	268,100	525	15	7	22	2.46	0.04
Delaware	558,979	184	52	2	54	2.90	0.29
Elk	31,946	827	5	2	7	6.57	0.01
Erie	280,566	799	36	4	40	4.28	0.05
Fayette	136,606	790	19	2	21	4.61	0.03
Forest	7,716	427	3	1	4	15.55	0.01
Franklin	149,618	772	7	1	8	1.60	0.01
Fulton	14,845	438	3	0	3	6.06	0.01
Greene	38,686	576	5	0	5	3.88	0.01



## WHOLESALE LICENSES IN EFFECT AS OF DECEMBER 31, 2015

COUNTY	2010 POP	AREA SQ MI	LICENSE TYPE		TOTAL WHOLESALE LICENSES	NUMBER OF LICENSES	
			DISTRIBUTOR	IMPORTING DISTRIBUTOR		PER 30,000 POPULATION	PER SQUARE MILE
Huntingdon	45,913	875	5	2	7	4.57	0.01
Indiana	88,880	827	5	4	9	3.04	0.01
Jefferson	45,200	652	6	2	8	5.31	0.01
Juniata	24,636	391	5	0	5	6.09	0.01
Lackawanna	214,437	459	23	6	29	4.06	0.06
Lancaster	519,445	944	28	6	34	1.96	0.04
Lawrence	91,108	358	10	1	11	3.62	0.03
Lebanon	133,568	362	12	0	12	2.70	0.03
Lehigh	349,497	345	27	7	34	2.92	0.10
Luzerne	320,918	890	35	5	40	3.74	0.04
Lycoming	116,111	1,229	11	1	12	3.10	0.01
Mckean	43,450	979	6	2	8	5.52	0.01
Mercer	116,638	673	13	1	14	3.60	0.02
Mifflin	46,682	411	2	2	4	2.57	0.01
Monroe	169,842	608	5	2	7	1.24	0.01
Montgomery	799,874	483	55	2	57	2.14	0.12
Montour	18,267	130	2	1	3	4.93	0.02
Northampton	297,735	370	25	2	27	2.72	0.07
Northumberland	94,528	458	13	3	16	5.08	0.03
Perry	45,969	551	5	0	5	3.26	0.01
Philadelphia	1,526,006	134	115	10	125	2.46	0.93
Pike	57,369	545	5	0	5	2.61	0.01
Potter	17,457	1,081	5	0	5	8.59	0.00
Schulykill	148,289	779	29	3	32	6.47	0.04
Snyder	39,702	329	5	0	5	3.78	0.02
Somerset	77,742	1,074	6	2	8	3.09	0.01
Sullivan	6,428	450	3	0	3	14.00	0.01
Susquehanna	43,356	823	5	0	5	3.46	0.01
Tioga	41,981	1,134	3	2	5	3.57	0.00
Union	44,947	316	5	0	5	3.34	0.02
Venango	54,984	674	3	2	5	2.73	0.01
Warren	41,815	884	5	0	5	3.59	0.01
Washington	207,820	857	19	2	21	3.03	0.02
Wayne	52,822	726	5	1	6	3.41	0.01
Westmoreland	365,169	1,028	44	7	51	4.19	0.05
Wyoming	28,276	397	5	0	5	5.30	0.01
York	434,972	904	26	4	30	2.07	0.03

## EDUCATION &amp; GRANTS MANAGEMENT DIVISION

In fiscal year 2015-16, the Education & Grants Management Division reached citizens in every Pennsylvania county.

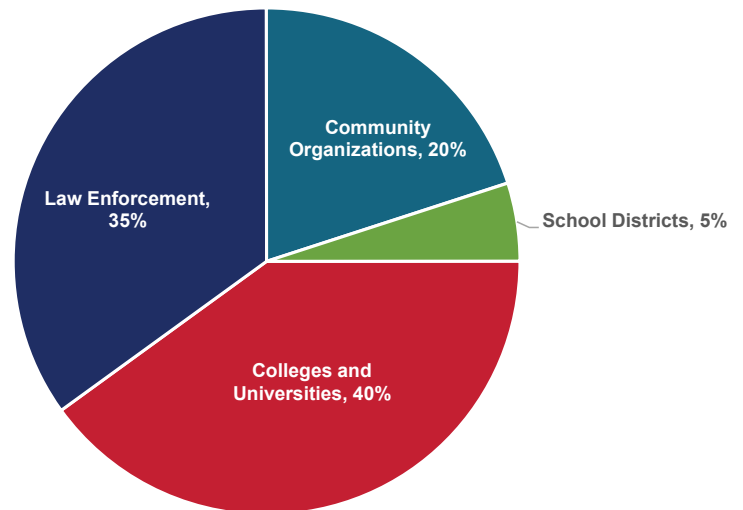
The Bureau of Alcohol Education:

- Attended 152 events throughout the commonwealth.
- Distributed 468,847 educational materials.
- Hosted a conference for 293 prevention professionals from across the state.
- Held the 24th annual Alcohol Education Poster Contest, which received 1,078 entries.  
Fifty winners were recognized in an awards ceremony in the The State Museum of Pennsylvania.
- Conducted 13 resident assistant trainings at colleges and universities to prepare RAs to be role models and to deal with situations involving alcohol that may arise. The RA training program earned the first-ever award for Best Responsible Consumption Program from *StateWays* magazine.
- Participated in National Night Out celebrations in 14 communities.

## GRANTS

Beginning in 2013, the Alcohol Education grants for reducing underage and dangerous drinking went to a two-year cycle. The amount awarded for first year grant funding in the 2015-17 grant cycle was \$1,139,461.

At the completion of first-year funding, grantees made 5,114,990 contacts with the public. Here are some of the ways people were reached:



Police and Campus Patrols	2,061
Public Service Announcements	709
Billboards	56
Newspapers	52
Online Programs	12
Peer Educators	7

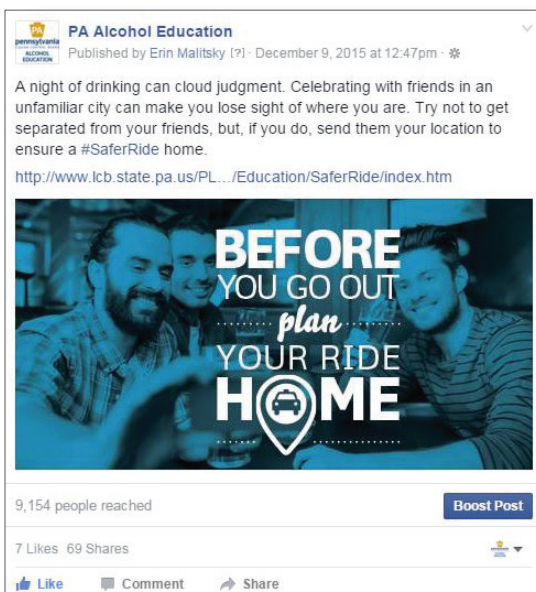
Last holiday season, the PLCB led a partnership with the Pennsylvania State Police and the Pennsylvania Department of Transportation to promote the SaferRide app. The app, developed by the National Highway Traffic Safety Administration, is free to download on Android and Apple devices and is a great option to facilitate a safe ride home after drinking.

The PLCB spread the word about the app on its websites, at Fine Wine & Good Spirits stores, at licensed locations, and through social media. Printed materials were distributed from Fine Wine & Good Spirits stores, and posters were made available to licensed bars, restaurants, hotels, taverns, and other social settings. Posters and Fine Wine & Good Spirits store bag stuffers featured a QR code that customers could scan with their smartphones for direct access to a PLCB website featuring information about the app and direct links to download the app.

The PLCB also made a toolkit of promotional materials available on its website, including social media ads and web banners. Individuals and organizations interested in promoting the SaferRide app were encouraged to download these resources and spread awareness through their own networks of partners, fans, and followers.

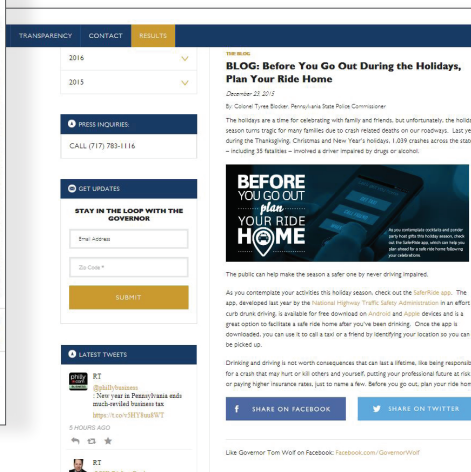
Statistics show a significant upswing in the number of times the SaferRide app was downloaded since our promotional campaign began.

- Android downloads during the campaign totaled 593, which is 45 percent of all Android downloads since the app was introduced and exceeds the number of downloads NHTSA achieved during its original December 2014 launch by 80 percent.
- iPhone downloads from mid-November 2015 through mid-January 2016 totaled 1,290, which accounts for 48 percent of all iPhone downloads since the app was introduced.



In addition to increasing awareness of the SaferRide app and inspiring demonstrable impact through increased downloads, the SaferRide campaign also drew the most activity to the Alcohol Education Facebook page it has ever experienced and allowed

PLCB to make valuable connections through other state agencies.



## Responsible Alcohol Management Program

# RAMP

The purpose of the Responsible Alcohol Management Program (RAMP) is to give licensees the tools they need to serve alcohol responsibly. In 2001, legislation established RAMP as a voluntary program. Five years later, Act 26 mandated it for licensees found guilty of sales to minors or visibly intoxicated persons (VIPs). Act 113 of 2011 required all owners/managers to undergo RAMP training every two years. Additionally, RAMP may be required as part of a conditional licensing agreement.

The following five steps must be completed for certification:

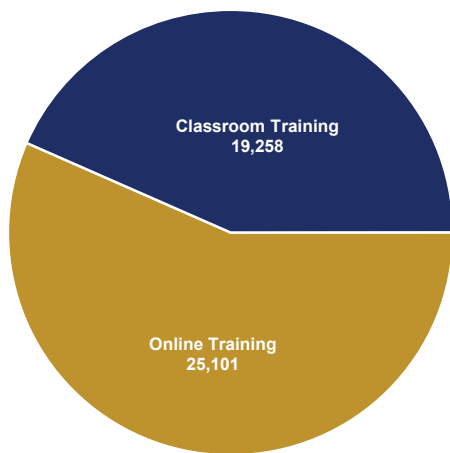
**Owner/Manager Training** – This training is offered free to license owners and Board-approved managers and covers topics such as liability, how to develop and implement house policies, responsibilities of licensees, and information covered in server/seller training.

**Server/Seller Training** – At least 50 percent of the licensee's alcohol service staff must be trained as part of certification. This includes anyone who serves alcohol and/or checks IDs. Training includes tips on carding and spotting fake IDs, how to spot and deal with VIPs, and how to slow down or stop service.

**New Employee Orientation** – The owner or manager is responsible for reviewing the new employee orientation checklist, supplied by the PLCB, with every new employee. The list includes legal information about the penalties for serving minors and VIPs, acceptable forms of ID, carding practices, and preventing criminal activity on the premises.

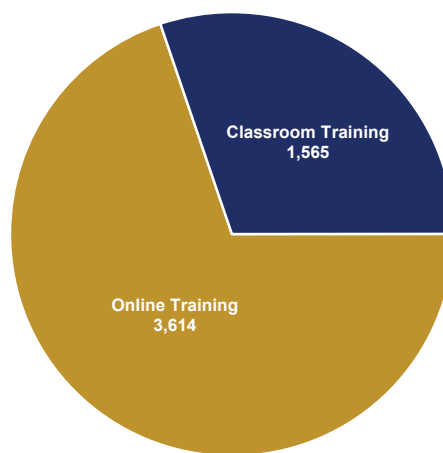
**Signage** – Posters or signs about acceptable forms of ID and the refusal of alcohol service to minors and VIPs must be displayed at the licensed establishment.

**Affidavit Request for RAMP Certification** – Upon completion of the previous requirements, the licensee submits the affidavit to the PLCB. If all requirements are met, the licensee will receive certification valid for two years.



44,359

SERVER/SELLER TRAININGS



5,179

OWNER/MANAGER TRAININGS

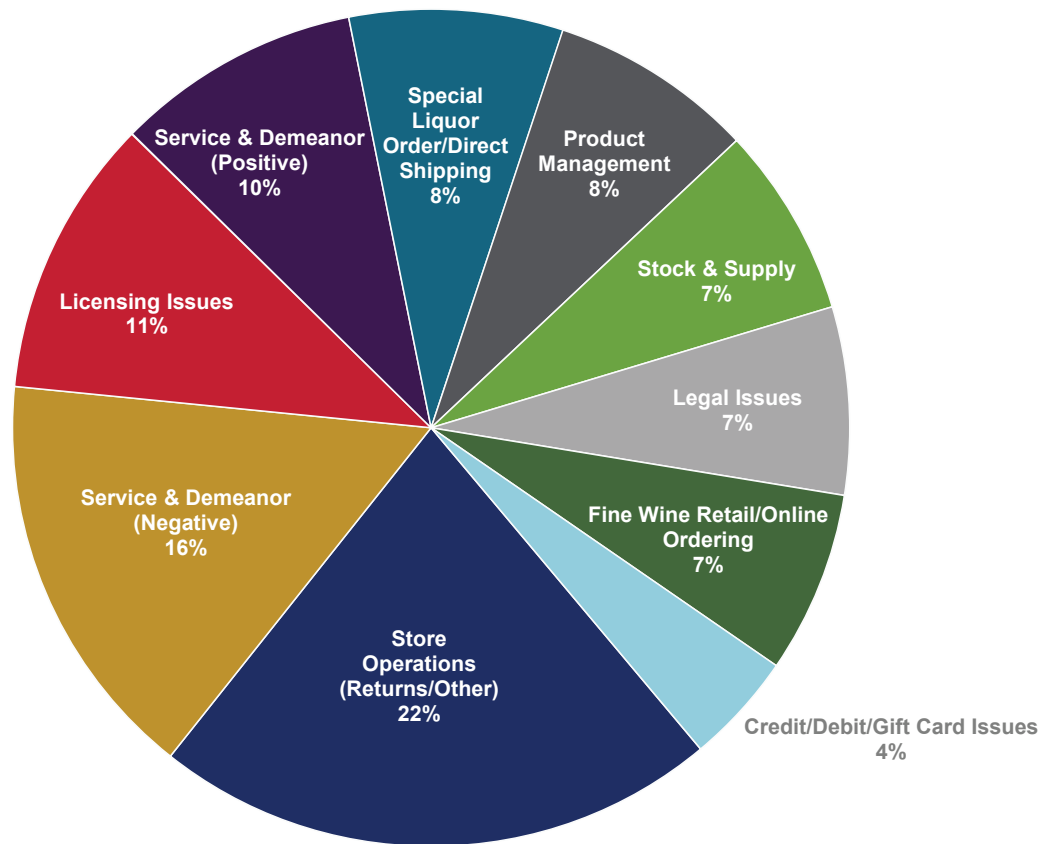
49,538  
TOTAL TRAINED  
IN SERVER/SELLER  
AND OWNER/MANAGER

1,471

LICENSED ESTABLISHMENTS BECAME  
RAMP-CERTIFIED IN FISCAL YEAR 2015-16



As an integral part of the Office of Regulatory Affairs, the Bureau of Consumer Relations provides and maintains an effective communication and resolution program for customer comments, concerns, and complaints. Consumer Relations evaluates and responds to questions, concerns, and inquiries from citizens, civic groups, legislative liaisons, and licensees and their legal representatives. The topics are varied, as indicated below.



## ADMINISTRATION

The Office of Administration provides a broad range of services in support of the PLCB's mission. Responsibilities include the implementation of Board policies, procedures, and regulations pertaining to labor relations, performance management, employee benefits and safety, staff training, telecommunications, fleet vehicle management, and maintenance services.

DEMOGRAPHICS



AVG. AGE FOR STORE EMPLOYEES

43  
years old

AVG. AGE FOR ADMINISTRATORS

47  
years old

AVG. LENGTH OF SERVICE FOR STORE EMPLOYEES

7  
years

AVG. LENGTH OF SERVICE FOR ADMINISTRATORS

13  
years

AGENCY TURNOVER RATES

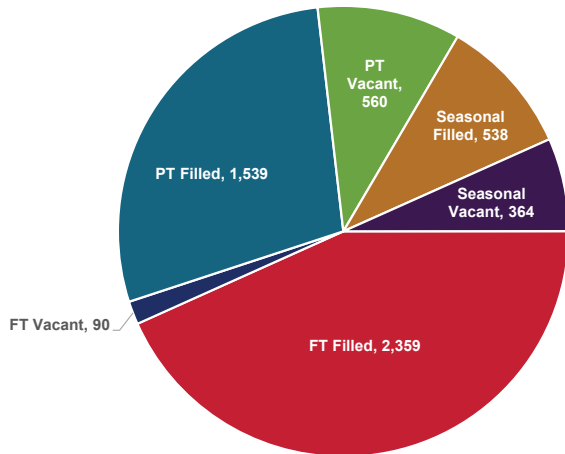
SALARIED EMPLOYEES:

9.00%

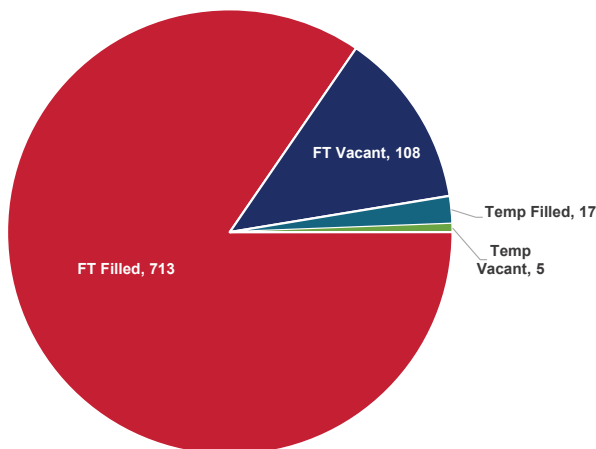
INTERMITTENT CLERKS:

47.10%

TOTAL STORE POSITIONS (ON JUNE 30, 2016)



TOTAL ADMINISTRATION POSITIONS (ON JUNE 30, 2016)



NEW HIRES & REHIRS



NEW HIRES & REHIRS-SEASONAL



HIRES FROM OTHER AGENCIES



INTERNAL PROMOTIONS



INTERNAL LATERAL/ TRANSFERS






Reusable tote bags are available for purchase at all Fine Wine & Good Spirits stores. These bags – which are more environmentally friendly than plastic or paper bags – are offered in three colors – green, blue, or beige. Since July 2011, more than 555,000 reusable tote bags have been sold to store customers. The most popular color? Green.



In Fiscal Year 2015-16, the Bureau of Talent Management and Organizational Development (TMOD) provided training to agency staff and management. In an effort to emphasize customer service, TMOD developed and facilitated the unCORK course, an agency-wide initiative focusing on courtesy, open-mindedness, resources, and knowledge. Additional offerings included several new courses in the administrative supervisors and manager's curriculum; basic, intermediate, advanced, and master's wine courses; and store operations training for full- and part-time clerks.

INSTRUCTOR-LED TRAINING

56 courses offered	709 sessions held	6,047 participants
	259 unCORK sessions held	3,846 unCORK participants
	968 total sessions	9,893 total participants

WEB-BASED TRAINING

64 courses	26,880 completions
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TYPES OF TRAINING OFFERED

Human Resources	Supervisory/Leadership
Health & Safety	Microsoft Office
Basic Wine	New Hire
Intermediate Wine	Seasonal New Hire
Advanced Wine	Code of Conduct
Masters Wine	unCORK Customer Service
Retail Wine Specialist	General Manager
Store Staff Development	Professional Development

## AGENCY OVERVIEW

The statutory authority for the Pennsylvania Liquor Control Board (PLCB) is Act 21 of April 12, 1951, P.L. 90; as reenacted by Act 14 of June 29, 1987, P.L. 32. In conformance with the Pennsylvania Liquor Code, the PLCB regulates the manufacture, possession, sale, consumption, importation, use, storage, transportation, and delivery of wine, liquor, alcohol, and malt or brewed beverages in the commonwealth. Through fiscal year 2015–16 all package sales of wines and spirits in Pennsylvania, with the exception of those sold by licensed limited wineries and distilleries, were made through Fine Wine & Good Spirits stores operated by the PLCB. These included both retail sales to individual consumers and wholesale sales to licensed establishments where wines and spirits are sold by the drink. While malt and brewed beverages are not sold through the system, the PLCB does regulate those sales through the licensing of distributors, restaurants, hotels, supermarkets, and clubs that sell those beverages.

Additionally, the PLCB, in conjunction with the state Gaming Control Board, reviews applications and conducts background investigations of PLCB licensees wishing to obtain tavern gaming licenses.

On June 8, 2016, Governor Wolf signed Act 39 into law. Act 39 liquor reforms changed more than 35 sections of the Liquor Code and added a number of new sections – the most sweeping changes to liquor laws in Pennsylvania since the end of Prohibition in 1933. The law, which took effect on Aug. 8, 2016, will impact PLCB operations in the next fiscal year and beyond.

The PLCB, an independent administrative board, is comprised of three members who are appointed to staggered four-year terms by the Governor with the concurrence of two-thirds of the Senate. The Board is responsible for the management of the PLCB in the areas of directing the state-operated Fine Wine & Good Spirits stores and authorizing the licensing of establishments that manufacture or sell alcohol. The PLCB also provides a comprehensive program of alcohol education aimed at promoting responsible consumption and avoidance of abuse among legal consumers, and prevention of purchase and consumption by minors. The PLCB funds the operations of the Pennsylvania State Police Bureau of Liquor Control Enforcement, which is responsible for enforcing the liquor laws and regulations throughout the commonwealth.

The PLCB is primarily responsible for the accounting and reporting of the Liquor License Fund and the State Stores Fund. The Liquor License Fund is an agency fund that serves as a pass-through account for fees for hotel, restaurant, and club liquor and/or beer licenses. These fees are returned semi-annually to the municipalities in which the licenses are located, while interest earned on fund deposits is credited to the General Fund.

The State Stores Fund is an enterprise fund that serves as the general operating fund for the PLCB. This fund receives revenues from the sale of goods, primarily through Fine Wine & Good Spirits stores, and various non-operating revenues including fees not credited to the Liquor License Fund. The State Stores Fund also covers the costs and expenses

associated with the operation and administration of all PLCB functions as outlined and prescribed by the Pennsylvania Liquor Code and pays for services provided by other departments such as the Department of the Auditor General for auditing services and the Office of Comptroller Operations for personnel assigned to supporting the PLCB. In addition, the fund provides monies to the Pennsylvania State Police for enforcement of the Liquor Code and the Department of Drug & Alcohol Programs for alcohol abuse programs, and makes annual profit transfers to the General Fund.

The 18 percent liquor tax and 6 percent state sales tax collected by the PLCB are transferred directly to the General Fund. Local sales taxes are remitted directly to Philadelphia and Allegheny County, as appropriate, and do not pass through the State Stores Fund or the Liquor License Fund.

### DISCUSSION OF BASIC FINANCIAL STATEMENTS

The accounts of the State Stores Fund and the Liquor License Fund are reported using the accrual basis of accounting and on a fiscal year basis, comprised of 12 calendar months.

The basic financial statements included in this annual report are the State Stores Fund Comparative Statement of Net Position and Comparative Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2016, and June 30, 2015; and State Stores Fund Statement of Cash Flows for the fiscal year ended June 30, 2016; and the Liquor License Fund Comparative Statement of Fiduciary Net Position for the fiscal year ended June 30, 2016.

The State Stores Fund Comparative Statement of Net Position provides information about assets and liabilities and reflects the net financial position of the State Stores Fund at the end of each fiscal year. The Comparative Statements of Revenues, Expenses, and Changes in Net Position report the operating revenue activity, expenses related to such activity and operating transfers out for each fiscal year. The Statement of Cash Flows outlines the cash inflows and outflows relating to the operations for the most recent fiscal year. The Liquor License Fund Statement of Fiduciary Net Position provides information about assets and liabilities that reflect the position of the Liquor License Fund for each fiscal year end. The basic financial statements also include Notes to Financial Statements that provide additional information essential to a full understanding of the data provided in the statements. These statements provide current and long-term information about the PLCB's financial position.

Although the liquor tax is incorporated into the retail price of products and is discussed herein as part of the sales analysis and transfers out, neither it nor state and local sales taxes are reflected in the basic financial statements as revenue, expenses, or liabilities.

The basic financial statements present only the financial position and results of the PLCB and do not present the financial position of the Commonwealth of Pennsylvania. Following is a discussion of current-year results of operations.

## EXECUTIVE SUMMARY &amp; HIGHLIGHTS

Fiscal year 2015-16 sales grew 4.1 percent over the prior year as a result of volume increases plus a minor increase in average retail price per unit.

PLCB fiscal year 2015-16 net income of \$103.9 million was \$20.3 million, or 24.2 percent, greater than last year, reflecting higher sales, a slight improvement in gross margin, relatively flat operating expenses, and a decrease in combined non-operating revenues and expenses.

Other financial highlights include:

- Higher operating income of \$131.8 million, representing a year-over-year increase of 18.2 percent.
- Net cash flow from operating activities of \$171.7 million, up \$32.6 million from the prior year, was more than sufficient to cover a \$100 million profit transfer to the General Fund, the costs of the Pennsylvania State Police's liquor control enforcement, transfers to the Department of Drug and Alcohol Programs, and the PLCB's capital expenditures programs.
- Year-end cash and investments increased \$33.4 million to \$295.4 million, due to positive net cash flow from operations.
- Total liabilities increased by \$105.4 million to \$906.5 million, reflecting primarily the continuing increase in the PLCB's share of the commonwealth's net pension liability and other post-employment benefits.
- The PLCB's total net position improved slightly, but was still in a net deficit position of \$238.2 million as of June 30, 2016.

## REVENUES AND COSTS

**Sales**

Sales and tax revenue in fiscal year 2015-16 totaled \$2.43 billion, an increase of \$94.8 million or 4.1 percent over fiscal year 2014-15. Excluding liquor and sales taxes, net sales of \$1.94 billion were up \$75.6 million, also 4.1 percent over the prior year. Unit volume growth accounted for the majority of the sales increase, while price per unit increased by less than 1 percent. By product category, sales growth was relatively balanced, with spirits and wine increasing by 4.2 percent and 3.8 percent, respectively.

Within the PLCB's customer base, retail sales to individual consumers grew 4.2 percent, while sales to licensees increased by 3.2 percent. Retail sales made up nearly 80 percent of total sales. On a volume basis, spirit unit sales grew 3.5 percent, and wine unit sales grew 3.0 percent, while spirit gallon sales increased 2.5 percent and wine gallon sales increased 1.8 percent. Debit/credit card purchases represented approximately 65 percent of sales during fiscal year 2015-16, up from 62 percent last year. The average sale per debit and credit card transaction was \$30.65 and \$53.57, respectively, versus \$30.44 and \$53.81 during the prior year.



### Gross Margin

Gross margin increased to 31.3 percent in fiscal year 2015-16 from 31.2 percent last year. The increase is due in part to increases in vendor promotion allowances, which were up \$11.0 million, or 8.6 percent, and PLCB forward-buying in advance of vendor price increases.

### Operating Income & Expense

Operating income for the year ended June 30, 2016, was \$131.8 million, up \$20.3 million, or 18.2 percent, from the \$111.5 million reported last year. The increase was almost entirely a function of higher sales, as operating expenses were up only \$4.2 million.

Within operating expenses, salary and wages for fiscal year 2015-16 were essentially flat compared to the prior year, while workers' compensation expense decreased \$22.3 million, significantly offsetting the effects of a \$17.0 million increase in total pension expense. Non-payroll related expenses grew by \$3.7 million, or 2.5 percent compared to the prior year, mostly due to increases in store rent, which was up 5.1 percent, and credit and debit card service fees, which increased 5.1 percent and 8.2 percent, respectively.

### Transfers Out

The Bureau of Liquor Control Enforcement within the Pennsylvania State Police received \$26.1 million in funding in fiscal year 2015-16, an increase of \$0.4 million, or 1.4 percent, over the previous year. Contributions to the Department of Drug & Alcohol Programs increased to \$3.3 million, reflecting a legislatively mandated retroactive increase to \$2.5 million for fiscal year 2014-15 and a similar amount for 2015-16.

Also as legislatively mandated, the PLCB transferred \$100.0 million in profits to the General Fund during fiscal year 2015-16, a \$20.0 million increase over the \$80.0 million profit transfer in the prior year.

Other contributions to the General Fund during fiscal year 2015-16 generated by the PLCB's operations, but not reflected as revenues, expenses, or cash flows in the State Stores Funds financial statements included \$135.6 million in state sales tax and \$348.0 million in liquor tax, both up 4.1 percent over the prior year. Additionally, the PLCB remitted \$8.7 million in local sales taxes to Philadelphia and Allegheny County.

Licensing fees returned to local municipalities from the Liquor License Fund totaled \$4.6 million for fiscal year 2015-16, compared to \$4.5 million the prior year.



The PLCB set a new record for one-day sales on New Year's Eve 2015. The record: \$26.3 million, including sales and liquor taxes. In just one hour (from 3 p.m. to 3:59 p.m.), products totaling \$3.2 million were sold.



September 1, 2016

Members of the  
Pennsylvania Liquor Control Board  
Harrisburg, Pennsylvania

We have compiled the accompanying comparative statement of net position for the State Stores Fund as of June 30, 2016 and June 30, 2015, and the balance sheet for the Liquor License Fund as of June 30, 2016 and June 30, 2015, and the related State Stores Fund comparative statements of revenues, expenses, and changes in fund net position for the period ended June 30, 2016 and June 30, 2015, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

As described in Note 4 to the financial statements, the State Stores Fund adopted the provisions of GASB Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions. As discussed in Note 9 to the financial statements, the State Stores Fund restated the fiscal year ending June 30, 2015 beginning net position to account for pension expense in accordance with GASB 68.

We also compiled the adjustments described in Note 1 that were applied to restate the comparative statement of revenues, expenses, and changes in fund net position for the month ending June 30, 2015 financial statement. We have not audited or reviewed the adjustments described in Note 1 that were applied to restate the fiscal year 2014-15 financial statement and, accordingly, do not express an opinion or provide any assurance about whether the adjustments described in Note 1 that were applied to restate the comparative statement of revenues, expenses, and changes in fund net position for the month ending June 30, 2015 financial statement are in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read 'Michael J. Burns'.

Michael J. Burns, CPA  
Director



**Commonwealth of Pennsylvania  
Pennsylvania Liquor Control Board  
State Stores Fund  
Comparative Statement of Net Position  
(Unaudited)**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Assets:</b>		
Current Assets:		
Cash	\$ 19,962,868	\$ 20,209,922
Investments-Short Term	275,395,461	241,702,180
Accounts and Claims Receivable (Net)	1,567,938	1,333,108
Inventory - Merchandise (Net)	244,158,953	230,093,160
Inventory - Operating Supplies	491,962	201,448
Prepaid Expenses	-	3,766,222
Total Current Assets	<u>541,577,182</u>	<u>497,306,040</u>
Fixed Assets:		
Land	322,973	322,973
Buildings	19,557,620	19,557,620
Leasehold Improvements	757,962	757,962
Machinery and Equipment	51,584,832	44,477,826
Computer Software - Internally Generated	20,559,499	29,639,452
Total Fixed Assets	<u>92,782,886</u>	<u>94,755,833</u>
Less: Accumulated Depreciation/Amortization	<u>53,564,994</u>	<u>57,727,927</u>
Net Fixed Assets	<u>39,217,892</u>	<u>37,027,906</u>
Total Assets	<u>\$ 580,795,074</u>	<u>\$ 534,333,946</u>
Total Deferred Outflows - Pension (Note 4)	93,191,449	31,038,537
<b><u>Liabilities and Net Position</u></b>		
<b>Liabilities:</b>		
Current Liabilities:		
Trade Accounts Payable	\$ 256,513,494	\$ 253,125,319
Other Accounts Payable	13,003,109	12,338,533
Accrued Payroll-Related Expenses	26,249,581	24,129,512
Workers' Compensation Liability (Note 6)	7,771,965	7,816,604
Due to Other Funds	4,842,657	2,128,444
Total Current Liabilities	<u>308,380,806</u>	<u>299,538,412</u>
Noncurrent Liabilities:		
Other Accounts Payable - OPEB (Note 5)	90,178,113	76,652,554
Workers' Compensation Liability (Note 6)	39,287,287	42,109,251
Net Pension Liability (Note 4)	449,175,699	362,685,050
Compensated Absences	19,506,861	20,092,247
Total Noncurrent Liabilities	<u>598,147,960</u>	<u>501,539,102</u>
Total Liabilities	<u>906,528,766</u>	<u>801,077,514</u>
Total Deferred Inflows - Pension (Note 4)	5,636,121	3,002,223
<b>Net Position:</b>		
Invested in Capital Assets, net of related debt	39,217,892	37,027,906
Unrestricted	<u>(277,396,256)</u>	<u>(275,735,160)</u>
<b>Total Net Position</b>	<u>\$ (238,178,364)</u>	<u>\$ (238,707,254)</u>

**Commonwealth of Pennsylvania**  
**Pennsylvania Liquor Control Board**  
**Liquor License Fund**  
**Statement of Fiduciary Net Position**  
**As of June 30, 2016**  
**(Unaudited)**

	<u>June 2016</u>	<u>June 2015</u>
<b>Assets:</b>		
Cash in Transit	\$ 91,715	\$ 80,050
Investments - Short Term	<u>2,326,929</u>	<u>2,274,832</u>
Total Assets	<u>\$ 2,418,644</u>	<u>\$ 2,354,882</u>
<b>Liabilities:</b>		
License Fees due Municipalities	\$ 2,416,594	\$ 2,352,832
Other Liabilities	<u>2,050</u>	<u>2,050</u>
Total Liabilities	<u>\$ 2,418,644</u>	<u>\$ 2,354,882</u>

See Accountant's Compilation Report  
 The accompanying notes are an integral part of these statements.  
 Page 3



Commonwealth of Pennsylvania  
Pennsylvania Liquor Control Board  
State Stores Fund  
Comparative Statements of Revenues, Expenses, and Changes in Net Position  
For The Twelve Months Ending June 30, 2016 and June 30, 2015  
(Unaudited)

	2015-16	2014-15
Sales Net of Taxes	\$ 1,937,884,590	\$ 1,862,269,904
Cost of Goods Sold	<u>1,332,285,510</u>	<u>1,281,139,778</u>
<b>Gross Revenue from Sales</b>	<b>605,599,080</b>	<b>581,130,126</b>
Operating Expenses:		
Purchasing, Storage & Transportation	20,786,373	18,432,810
Stores' Operations & Supervision	368,991,819	365,489,234
Central Administrative Support	68,517,809	69,683,255
Comptroller Operations	5,817,092	4,713,987
Commonwealth-Provided Services (Note 2)	9,715,113	<u>11,290,527</u>
Total	<u>473,828,206</u>	469,609,813
<b>Operating Income</b>	<b>131,770,874</b>	<b>111,520,313</b>
Nonoperating Revenues (Expenses):		
Enforcement Fines	1,892,032	1,975,832
Interest Income	892,769	429,542
License Fees	12,884,473	12,315,087
Miscellaneous Income	3,467,757	3,694,696
Administrative Law Judge	(2,490,903)	(2,543,018)
Legal	(3,358,611)	(3,570,359)
Licensing & Investigations	<u>(15,110,336)</u>	<u>(14,497,769)</u>
Total	<u>(1,822,819)</u>	(2,195,989)
<b>Income Before Operating Transfers</b>	<b>129,948,055</b>	<b>109,324,324</b>
Operating Transfers Out:		
PSP Enforcement (Note 3)	<u>26,091,122</u>	<u>25,726,488</u>
<b>Income After Enforcement/Before Other Transfers</b>	<b>103,856,933</b>	<b>83,597,836</b>
Other Operating Transfers Out:		
General Fund Appropriations (Note 3)	100,000,000	80,000,000
Drug and Alcohol Programs (Note 3)	3,328,043	1,671,957
Total	<u>103,328,043</u>	<u>81,671,957</u>
<b>Change in Net Position</b>	<b>528,890</b>	<b>1,925,879</b>
Total Net Position - Beginning, 2014-15		
Restated (Note 9)	<u>(238,707,254)</u>	<u>(240,633,133)</u>
Total Net Position - Ending	<u><b>\$ (238,178,364)</b></u>	<u><b>\$ (238,707,254)</b></u>

See Accountant's Compilation Report  
The accompanying notes are an integral part of these statements.  
Page 4

**Commonwealth of Pennsylvania**  
**Pennsylvania Liquor Control Board**  
**State Stores Fund**  
**Comparative Statements of Revenues, Expenses, and Changes in Net Position**  
**For The Month Ending June 30, 2016 and June 30, 2015**  
**(Unaudited)**

	June 2015-16	June 2014-15 (As Adjusted*)
Sales Net of Taxes	\$ 154,668,262	\$ 145,672,000
Cost of Goods Sold	<u>106,344,011</u>	<u>100,447,044</u>
<b>Gross Revenue from Sales</b>	<b>48,324,251</b>	<b>45,224,956</b>
Operating Expenses:		
Purchasing, Storage & Transportation	1,165,012	1,392,211
Stores' Operations & Supervision	23,681,369	31,327,714
Central Administrative Support	4,342,723	6,759,731
Comptroller Operations	1,325,913	317,964
Commonwealth-Provided Services (Note 2)	<u>(350,228)</u>	<u>1,099,120</u>
Total	30,164,789	40,896,740
<b>Operating Income</b>	<b>18,159,462</b>	<b>4,328,216</b>
Nonoperating Revenues (Expenses):		
Enforcement Fines	135,446	135,712
Interest Income	133,852	40,344
License Fees	1,117,686	989,676
Miscellaneous Income	868,624	1,019,177
Administrative Law Judge	(219,755)	(213,091)
Legal	(316,792)	(364,144)
Licensing & Investigations	<u>(753,902)</u>	<u>(1,324,515)</u>
Total	965,159	283,159
<b>Income Before Operating Transfers</b>	<b>19,124,621</b>	<b>4,611,375</b>
Operating Transfers Out:		
PSP Enforcement (Note 3)	<u>2,007,773</u>	<u>2,038,565</u>
<b>Income After Enforcement/Before Other Transfers</b>	<b>17,116,848</b>	<b>2,572,810</b>
Other Operating Transfers Out:		
General Fund Appropriations (Note 3)	25,000,000	-
Drug and Alcohol Programs (Note 3)	2,500,000	1,671,957
Total	<u>27,500,000</u>	<u>1,671,957</u>
<b>Change in Net Position</b>	<b>(10,383,152)</b>	<b>900,853</b>
Total Net Position - Beginning	<u>(227,795,212)</u>	<u>(239,608,107)</u>
Total Net Position - Ending	<u><b>\$ (238,178,364)</b></u>	<u><b>\$ (238,707,254)</b></u>

\* See Note 1.

See Accountant's Compilation Report  
 The accompanying notes are an integral part of these statements.  
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**Commonwealth of Pennsylvania  
Pennsylvania Liquor Control Board  
State Stores Fund  
Statement of Cash Flows  
For the Period July 1, 2015 to June 30, 2016  
(Unaudited)**

<b>Cash Flows From Operating Activities:</b>	
Receipts from customers	\$ 1,955,894,022
Payments to suppliers	(1,784,201,267)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>171,692,755</b>
<b>Cash Flows From Noncapital Financing Activities:</b>	
PSP expenses	(26,091,122)
General Fund Transfer	(100,000,000)
DDAP Transfer	(1,671,957)
<b>Net Cash Used For Noncapital Financing Activities</b>	<b>(127,763,079)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(11,376,218)
<b>Net Cash Used For Capital and Related Financing Activities</b>	<b>(11,376,218)</b>
<b>Cash Flows From Investing Activities:</b>	
Purchase of investments	(1,613,172,159)
Proceeds from sale and maturities of investments	1,579,478,878
Investment income	892,769
<b>Net Cash Used in Investing Activities</b>	<b>(32,800,513)</b>
<b>Net Increase / (Decrease) in Cash</b>	<b>(247,054)</b>
Cash - July 1, 2015	20,209,922
<b>Cash - June 30, 2016</b>	<b>\$ 19,962,868</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>	
<b>Operating Income</b>	<b>129,055,286</b>
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	9,170,108
Disposition of Capital Assets	16,124
Accounts Receivable	(234,830)
Inventory	(14,356,307)
Prepaid expenses	3,766,222
Deferred Outflows - Pension Related	(62,152,912)
Accounts Payable and accrued liabilities	16,246,390
Due to other funds	1,058,127
Net Pension Liability	86,490,649
Deferred Inflows - Pension Related	2,633,898
<b>Total Adjustments</b>	<b>42,637,469</b>
<b>Net Cash Provided By (Used For) Operating Activities:</b>	<b>\$ 171,692,755</b>

**Noncash Investing, Capital and Financing Activities:**

A liability of \$828,043 was established to DDAP in April 2016 to increase the amount owed for fiscal year ended June 30, 2015 to \$2.5 million as a result of the enactment of Act 25 of 2016 on April 25, 2016. An additional liability of \$2,500,000 was established to DDAP in June 2016 for the fiscal year ended June 30, 2016 as a result of the enactment of Act 85 of 2016 on July 13, 2016. Total cash transferred to DDAP is \$1,671,957 year-to-date.

See Accountant's Compilation Report  
The accompanying notes are an integral part of these statements.  
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COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA LIQUOR CONTROL BOARD  
STATE STORES AND LIQUOR LICENSE FUNDS  
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pennsylvania Liquor Control Board (PLCB), established in 1933 upon the repeal of Prohibition, was mandated the responsibility of protecting the peace and morals of Pennsylvania citizens by regulating the sale of alcoholic beverages. The PLCB's mission remained relatively constant until the passage of *Act 14 in 1987*. As a result, liquor law enforcement authority was transferred to the Pennsylvania State Police, and the Office of the Administrative Law Judge was created to preside over all citation cases and other enforcement hearings.

The significant accounting policies employed by the PLCB in the preparation of the accompanying financial statements are as follows:

Basis of Presentation: The PLCB is primarily responsible for the accounting and reporting of the State Stores Fund and the Liquor License Fund, except for funds appropriated from the State Stores Fund to the Pennsylvania State Police (PSP) for Liquor Code enforcement activities and to the Department of Drug and Alcohol Programs for alcohol rehabilitation programs. The State Stores Fund is an enterprise fund primarily used to account for wine and spirits sales and related operating expenses. The Liquor License Fund is an agency fund used for the collection and subsequent disbursement of certain annual license fees, which are returned to municipalities.

The preparation of financial statements in conformity with generally accepted accounting principles requires the PLCB to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting: The financial statements of the State Stores Fund and Liquor License Fund are presented on the accrual basis of accounting according to Government Accounting Standards Board (GASB). Accrual basis accounting requires recognition of revenue when earned and recognition of expenses when incurred.

Cash: Cash includes PLCB funds held by the State Treasurer, imprest balances held at financial institutions and change funds used at stores.

Investments: The PLCB participates in the Commonwealth Investment Program administered by the Pennsylvania Treasury Department. PLCB's funds in the Commonwealth Investment Program are invested in short-term fixed income investments and cash which provides a high degree of liquidity and security.

Merchandise Inventories: Inventories are stated at weighted average cost. Product warehousing and handling, as well as transportation to store costs, are reported as part of Merchandise Inventories and are charged to Cost of Goods Sold as product is sold.

PLCB established a provision for obsolete inventory beginning fiscal year end June 30, 2015. Management will regularly review, at least once annually, inventory quantities on hand and increase the provision for obsolete inventory as necessary based upon factors that include historical unsalable product write-off, the age of the inventory and forecasts of product demand. The allowance for obsolete inventory was \$198,704.44 as of June 30, 2016 and \$151,295.56 as of June 30, 2015.

Capital Assets: Capital assets are reported at cost. Depreciation is calculated for buildings, machinery and equipment; amortization is calculated for Internally-Generated Computer Software. Both depreciation and amortization are calculated on the straight-line basis over the capital assets' estimated useful lives.

Compensated Absences: Employees accumulate annual leave based on 2.7% to 10% of regular hours paid to a maximum of 45 days. Employees are paid for accumulated annual leave upon termination or retirement.

Employees accumulate sick leave based on 4.24 - 5% of regular hours paid to a maximum of 300 days. Retiring employees that meet service, age, or disability requirements are paid for 30% to 50% of their accumulated unused sick leave.

Taxes: All taxes are excluded from Sales reported on the Statement of Revenues, Expenses, and Changes in Net Position. The 18% state liquor excise taxes (emergency tax), the 6% state sales taxes and the local sales taxes are collected and remitted monthly to the Department of Revenue for the General Fund. Taxes collected for the Period July 1, 2015 to June 30, 2016 are as follows:

Liquor Tax	\$348,055,772
State Sales Tax	135,581,351
Local Sales Tax	<u>8,687,993</u>
Total	\$492,325,116

Comparative Data and Reclassifications:

The amounts reported in the comparative statement of revenues, expenses, and changes in fund net position for the month ending June 30, 2016 previously issued statement is voluntarily adjusted to recognize retroactive monthly allocation of FY 2014-15 Pension, Workers' Compensation and OPEB year-end actual accounting valuation expenses and the restatement of beginning net position as a result of implementing GASB 68. The effect of the year-end actual accounting valuation expense adjustments was material to the results of continuing operations for the full fiscal year and a portion of the adjustment can be identified with and is directly related to the business activities of the prior interim periods.



The following tables summarize the adjustments on the affected Comparative Statements of Revenue, Expenses, and Changes in Net Position and Statement of Net Position line items for the month ending June 30, 2016:

Statement of Revenue, Expenses and Changes in Net Position			
	June 2014-15 PTD		
	Unadjusted Statements	Pension, OPEB, WC Adjustments	As Adjusted Comparison Statements
Purchasing, Storage & Transportation	2,153,319	(761,108)	1,392,211
Stores' Operations & Supervision	56,683,299	(25,355,585)	31,327,714
Central Administrative Support	10,100,776	(3,341,045)	6,759,731
<b>Operating Income</b>	(25,129,522)	(29,457,738)	4,328,216
Licensing & Investigations	(2,876,450)	(1,551,935)	(1,324,515)
<b>Income Before Operating Transfers</b>	(26,398,298)	(31,009,673)	4,611,375
<b>Income After Enforcement/Before Other Transfers</b>	(28,436,863)	(31,009,673)	2,572,810
<b>Change in Net Position</b>	(30,108,820)	(31,009,673)	900,853

In addition, certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

## 2. COMMONWEALTH-PROVIDED SERVICES

Expenses reflected in Commonwealth-Provided Services include year-to-date charges for interagency billings for services provided by the following agencies:

Auditor General Services	\$ 2,688,681
Consolidated Data Services	2,034,144
Treasury Department Services	163,798
Civil Service Commission Services	1,091,084
Payroll Operations Services	368,345
<b>OA Office</b>	
Classification & Pay Services	271,061
Strategic Services/SEAP	159,028
IES -Contracted Main services	1,584,794
OA Telecommunication charges	313,257
<b>Dept of General Services</b>	
Real Estate & Shared Services Accrual	743,029
Employee Self & Tort Insurance	100,792
Warehouse and Distribution Services	34,053
Capital Complex Services	163,047
	<u><u>\$ 9,715,113</u></u>

### 3. OPERATING TRANSFERS OUT

These amounts represent operating transfers as follows:

#### PSP Enforcement

Funds provided for operating expenses of the Pennsylvania State Police, Bureau of Liquor Control Enforcement.

#### General Fund

Act 10A of 2015 was enacted December 29, 2015 with a provision that the sum of \$100,000,000 shall be transferred from the State Stores Fund to the General Fund. The Act 10A of 2015 transfer does not replace or supplant the PLCB's authority to make payments to the General Fund pursuant to 40 P.S. §744-907b.

#### Drug & Alcohol Programs

Per Act 1987-14, two percent of the PLCB's profits from the sale of alcohol shall be transferred to the Department of Drug and Alcohol Programs (DDAP) for drug and alcohol rehabilitation programs. The PLCB establishes a liability for the amount due to DDAP and transfers the payment in a subsequent fiscal year.

In addition to the fiscal year 2014-2015 amount for the purposes set forth in Act 1987-14, Act 25 of 2016 was enacted April 25, 2016 and contains a provision that resulted in an additional \$0.8M other operating transfer out reported in fiscal year 2015-2016.

Act 85 of 2016 was enacted July 13, 2016 and contains a provision that resulted in a \$2.5M other operating transfer out reported for fiscal year 2015-2016 (for fiscal year 2016-2017 transfer) for the purposes set forth in Act 1987-14.

The PLCB's DDAP liability was \$3.3M as of June 30, 2016 and \$1.7M as of June 30, 2015.

### 4. PENSION

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth including the PLCB. PLCB employees are members of the State Employees' Retirement System (SERS). The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established to provide pension benefits for Commonwealth employees. The SERS issues stand-alone, audited financial statements which are available at [www.sers.state.pa.us](http://www.sers.state.pa.us). Written requests for SERS financial statements should be directed to the following address:

State Employees' Retirement System  
30 North Third Street, Suite 150  
Harrisburg, PA 17101-1716

Membership in the SERS is mandatory for most PLCB employees. Certain elected or appointed officials are given the option to participate.

SERS provides retirement, death and disability benefits. Article II of the commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Member retirement benefits are determined by taking years of credited service, multiplied by final average salary, multiplied by 2%, multiplied by class of service multiplier.

Section 5507 of the SERC (Pa C.S. §5507) requires the Commonwealth, including the PLCB, whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the SERS board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2013/2014 was 4.5% and will remain at that rate until no longer needed. The PLCB's contributions to the SERS were \$37.7M and \$30.9M for the years ended June 30, 2016 and 2015, respectively.

The general membership contribution rate for all Class A and Class AA members is 5% and 6.25% of salary, respectively. The general membership contribution rate under Act 2010-120 for A-3 and A-4 members is 6.25% and 9.3%, respectively. All employee contributions are recorded in individually identified accounts that are credited with interest, calculated at 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

Effective July 1, 2014, the PLCB implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. GASB 68 established accounting and financial reporting standards for pensions that are provided to employees of state and local governmental employers through pension plans that are administered through trusts. This standard establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 68 requires all member employers of a cost sharing multiple-employer defined benefit retirement plan to report its proportionate share of the pension liability, deferred outflows and deferred inflows. Deferred Outflows are a balance sheet reporting category similar to an asset, representing outflows of resources that occurred in the current reporting year that are applicable to future years. Deferred Inflows are a balance sheet reporting category similar to a liability. Deferred Inflows represent inflows of resources that occurred in the current reporting year, however, are applicable to future years.

For the years ended June 30, 2016 and June 30, 2015, the PLCB recognized pension expense of \$64,659,497 and \$47,707,665, respectively, as follows:

	FYE June 30, 2016	FYE June 30, 2015
Employer Contributions	37,687,862	30,881,097
Change in Net Pension Liability	86,490,649	31,708,215
Change in Deferred Outflows		
Contributions Subsequent to Measurement Date	(3,428,103)	(2,202,415)
Difference between Projected and Actual Investment Earnings	(35,255,308)	(10,479,149)
Change in Proportion	(2,840,708)	(2,728,913)
Difference Between Employer Contributions and Proportionate Share	(157,876)	(504,488)
Difference between Expected and Actual Experience	(7,126,041)	(1,968,905)
Difference in Change in Assumptions	(13,344,876)	-
Total Change in Deferred Outflows	(62,152,912)	(17,883,870)
Change in Deferred Inflows		
Change in Proportion	2,444,045	2,699,912
Difference Between Employer Contributions and Proportionate Share	189,853	302,311
Total Change in Deferred Inflows	2,633,898	3,002,223
<b>Total Pension Expense</b>	<b>64,659,497</b>	<b>47,707,665</b>

## 5. OTHER POST EMPLOYMENT BENEFITS FOR EMPLOYEES (OPEB)

Employees of the PLCB participate in the Retired Employees Health Program (REHP), which is sponsored by the Commonwealth of PA and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). PLCB's allocated share of the Commonwealth's REHP annual required contribution is established by the Office of Administration and the Governor's Budget Office. The REHP annual required contribution for the fiscal years ended June 30, 2016 and 2015 was not fully funded. The PLCB's allocated OPEB liability was \$90.18M as of June 30, 2016 and \$76.65M as of June 30, 2015.

## 6. SELF INSURANCE LIABILITY

The Commonwealth of Pennsylvania is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability) for employees injured on the job. Commonwealth Agencies contribute to a workers compensation reserve account via a percentage of their payroll. Agency contribution rates are set annually by the Office of Administration in conjunction with the Governor's Budget Office. In addition to the annual contributions paid to the reserve account, Agencies are allocated a portion of the Commonwealth's total workers compensation self-insurance liability, if one exists. The self-insurance liability for workers' compensation is calculated actuarially on an annual basis by the Department of Labor and Industry in conjunction with the Office of Administration and is included in the Commonwealth's financial statements. The PLCB's allocated workers' compensation liability was \$47.06M as of June 30, 2016 and \$49.93M as of June 30, 2015.

## 7. LITIGATION

The PLCB is a defendant in various legal proceedings pertaining to matters normally incidental to routine operations. The probability of an adverse decision and/or damage assessment in these matters is indeterminate.

## 8. OPERATING LEASE COMMITMENTS

The PLCB has commitments to lease certain buildings. Future minimum rental commitments for noncancellable operating leases as of June 30, 2016, were as follows (expressed in thousands):

<u>Year Ending June</u>	<u>Real Estate</u>
2017	\$36,755
2018	31,344
2019	25,813
2020	20,220
2021	<u>16,784</u>
Total Minimum Lease Payments	<u>\$130,918</u>

Rental expense for all operating leases for the period ending June 30, 2016, amounted to \$47.3M.

## 9. RESTATEMENT

Restatement Due to Change in Accounting Principle:

The implementation of GASB 68 resulted in the reporting of a pension liability and deferred outflow, therefore, the State Store Fund's beginning net position has been restated.

Presented below are the changes to the State Store Fund's Statement of Net Position as a result of implementing GASB 68. The State Stores Fund Net Position changed by a total of \$(317,822,168).

	<u>State Stores Fund</u>
<b>Net Position, as previously reported, at June 30, 2014.....</b>	<b>\$ 77,189,035</b>
Apply GASB 68	
Pension Liability.....	\$ (330,976,835)
Deferred Outflows.....	\$ 13,154,667
Total Prior Period Adjustment.....	<u>\$ (317,822,168)</u>
<b>Net Position, as restated, at July 1, 2014.....</b>	<b><u>\$ (240,633,133)</u></b>





*In order to be fiscally and environmentally responsible, the Pennsylvania Liquor Control Board limits the printing of this document. This annual report can be accessed online at [www.lcb.pa.gov](http://www.lcb.pa.gov).*