



FISCAL YEAR  
2016-17 ANNUAL REPORT



**pennsylvania**  
LIQUOR CONTROL BOARD

## O U R M I S S I O N

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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 2016-17 Annual Report.

This publication, now in its fifth year, details the PLCB's operations from July 1, 2016, to June 30, 2017 – including marketing and merchandising activities, store operations, supply chain function, licensing activity, human resources support, and customer relations engagement.

Fiscal year 2016-17 was one of if not the most transformative years in the PLCB's 85-year history. Acts 39, 85, and 166 of 2016 brought significant changes that affected the entire agency and Pennsylvania's beverage alcohol marketplace, giving Pennsylvanians the greatest access to wines, spirits, and malt and brewed beverages since the end of Prohibition.

Some of those changes include:

- The creation of a new permit that allows certain retail liquor licensees to sell up to three liters of wine to go in a single transaction. More than 460 grocery stores, convenience stores, bottle shops, restaurants, and hotels acquired these permits in the first 10 months of the permits' existence. Because the PLCB remains the wholesaler of wine, the increased product demand led to the creation of the Office of Wholesale Operations, which works directly with these permittees to acquire and deliver the products they sell.
- The lifting of restrictions limiting Fine Wine & Good Spirits stores' hours of operation on Sundays and holidays. Previously, the PLCB could not open more than 25 percent of its stores on Sundays, the second-busiest shopping day of the week. Stores could also only be open between noon and 5:00 P.M. Act 39 removed those restrictions, and hundreds more Fine Wine & Good Spirits stores opened their doors on Sundays from 11:00 A.M. to 7:00 P.M. For the first time, stores also opened on certain holidays.
- The creation of a new license that allows wine producers to ship wine directly to Pennsylvania residents, who may receive up to 36 cases of wine per winery, per year for personal use.
- The elimination of requirements that malt and brewed beverages, including beer, must be sold in minimum package sizes such as six-packs and cases. Now, distributors can sell very popular "mixed sixes," refillable growlers, and even single bottles.
- The restoration of expired and revoked liquor licenses through a new auction process. Because statutorily imposed quotas prohibit the PLCB from issuing new liquor licenses in almost every county in the commonwealth, the auction creates new opportunities for those seeking to sell beverage alcohol in Pennsylvania.
- The ability for the PLCB to negotiate lower product acquisition costs with suppliers of wine and spirits and to set retail prices based on market demand. Previously, the PLCB was statutorily held to a standard markup. Act 39 provided new flexibility in pricing for the 150 best-selling brands of wine and the 150 best-selling brands of spirits, which enables the PLCB to both maximize revenue and maintain fair and competitive prices for consumers.

These changes and others detailed in this report increased consumer convenience and opened doors for the PLCB to improve its wholesale and retail business operations.

The PLCB also embarked on new marketing initiatives in fiscal year 2016-17, began work on a long-term project to develop a customer rewards program, and completed 61 Fine Wine & Good Spirits store renovations and redesigns. Our commitment to modernizing our retail stores and enhancing the consumer experience remains steadfast.



Increased access to beverage alcohol also reinvigorated the PLCB's commitment to alcohol education and the promotion of responsible and legal consumption. The agency's biennial Report on Underage and Dangerous Drinking, released near the end of the fiscal year, provides both a look at the effectiveness of alcohol education and prevention initiatives and a roadmap that will guide the PLCB's next educational campaign. This report is available at [lcb.pa.gov](http://lcb.pa.gov), under "Education."

Overall, fiscal year 2016-17 was full of challenges, but the hard work of our committed and dedicated employees did not go unnoticed. *StateWays*, the only national magazine devoted to the issues and subjects affecting control state systems, named Pennsylvania the Overall Winner in the 2016 Control States Best Practices Awards. This honor recognized Pennsylvania as a leader in the beverage alcohol industry for its innovations in retail, wholesale operations, alcohol education, technology, and regulatory affairs.

In many ways, the projects that helped the PLCB win this prestigious award also prepared the agency for the seismic shifts brought about by the 2016 liquor reform. For example, our Licensee Online Order Portal (LOOP) and Licensee Delivery Program (LDP) – developed during the prior fiscal year – became critically important parts of our wholesale operations in fiscal year 2016-17. The conversion of our paper-based legacy licensing and permitting system to a secure online regulatory platform paved the way for streamlined licensing applications when new permits and authorities became effective in 2016.

The PLCB finished fiscal year 2016-17 with record retail sales of \$2.53 billion (including liquor and sales taxes), a \$95.5 million or 3.9 percent increase over the prior year and previous retail sales record. PLCB contributions to state and local government beneficiaries totaled \$764.7 million for the fiscal year, an increase of \$138.4 million, or 22.1 percent, over the prior year and previous record. Net income for the year totaled \$104.9 million, a \$1 million or 1 percent increase over the prior year. Additional details regarding our financials can be found beginning on page 48.

As always, we appreciate the opportunity to share the information in this report with you, our stakeholders. Fiscal year 2016-17 was full of challenges and opportunities as Pennsylvania's beverage alcohol marketplace began transformations that will continue to improve consumer convenience and customer service for years to come. Despite all the change, however, our 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



## INTRODUCTION

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 parts of Northumberland and Montgomery counties. The 17th District was comprised of Schuylkill, Dauphin, and Lebanon counties, as well as parts of Perry and Berks counties.

Tim was a member of the House Agriculture Committee, 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 U.S. 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 he testified before the U.S. Senate on the issue.

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

## INTRODUCTION

### 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. 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.



### CHARLIE MOONEY – EXECUTIVE DIRECTOR

As Executive Director, Charlie Mooney is responsible for directing the business operations of the PLCB. He provides leadership and strategic planning recommendations for agency initiatives, manages the executive team, and is a conduit to the three-member board.

Having started with the PLCB as a store clerk in college, Charlie brings more than three decades of retail and marketing experience to his leadership role. Prior to his appointment as Executive Director, Charlie served as Director of Retail Operations, then most recently as Chief Operating Officer.

He has coached basketball in the Central Dauphin School District and serves on various volunteer boards associated with Linglestown youth sports.

A native of Pennsylvania, Charlie graduated with a Bachelor of Science degree in accounting from The University of Scranton. He and his wife, Mary Ann, live in Linglestown and have two adult children.





FISCAL YEAR 2016-17  
EXECUTIVE TEAM

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DIRECTOR OF FINANCE

Oren Bachman

DIRECTOR OF SUPPLY CHAIN

Glenn Zearfoss

DIRECTOR OF WHOLESALE OPERATIONS

Doug Hitz

DIRECTOR OF MARKETING & MERCHANDISING

Dale Horst

DIRECTOR OF RETAIL OPERATIONS

Carl Jolly

DIRECTOR OF ADMINISTRATION

Jason P. Lutcavage

DIRECTOR OF REGULATORY AFFAIRS

Tisha Albert

CHIEF INFORMATION OFFICER

Nicholas Melnick, Jr.

CHIEF COUNSEL

Rodrigo Diaz

DIRECTOR OF  
LEGISLATIVE & GOVERNMENTAL AFFAIRS

Christopher L. Herrington

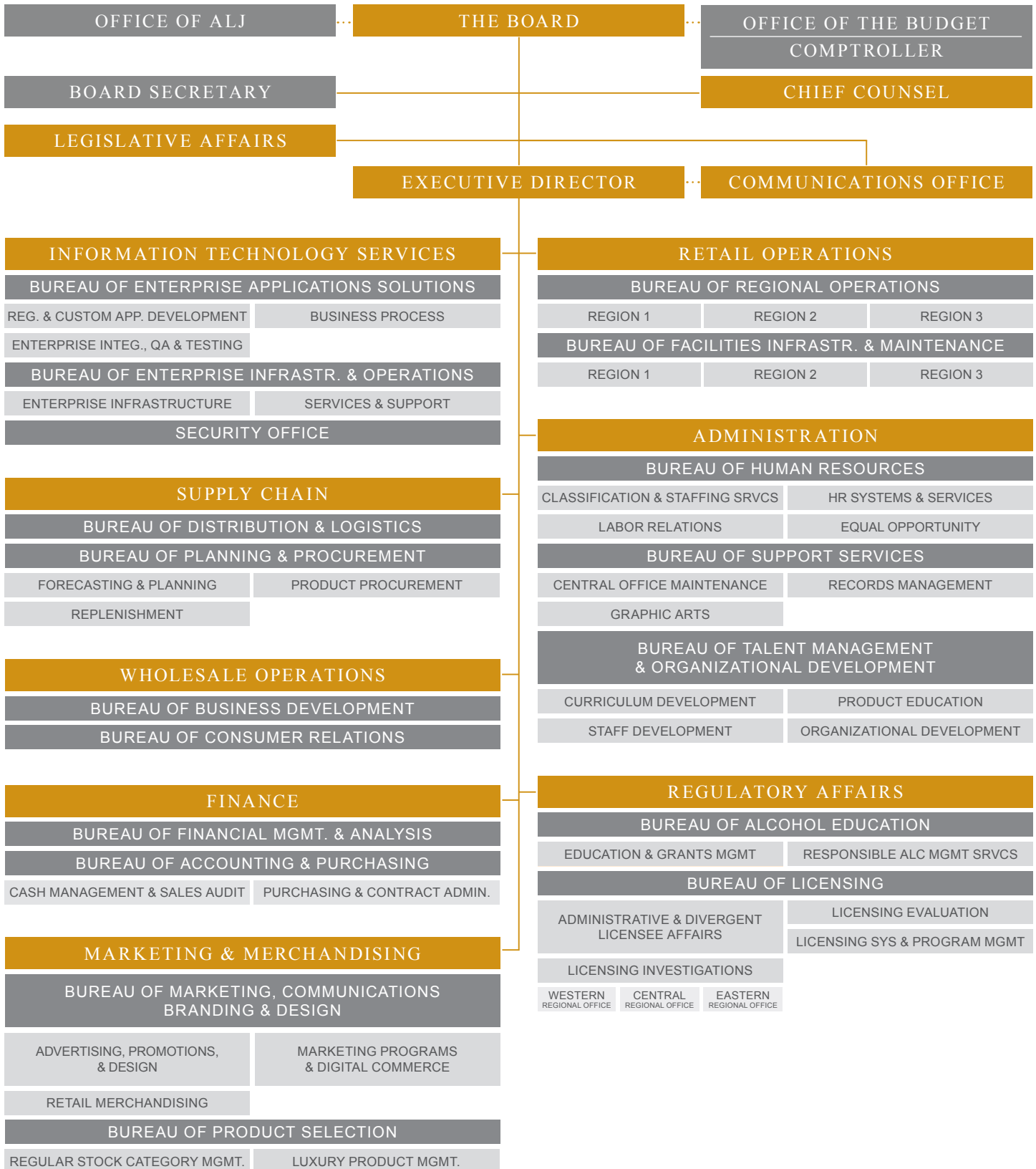
DIRECTOR OF COMMUNICATIONS

Elizabeth Brassell

BOARD SECRETARY

John Stark

## ORGANIZATIONAL STRUCTURE



### WHERE THE MONEY GOES

Fine Wine & Good Spirits stores generated more than \$2.53 billion in sales and taxes.

Together, **more than \$764.7 million** was returned to the General Fund and state and local government beneficiaries in fiscal year 2016-17.

- The PLCB returned \$720.6 million to the General Fund:
  - \$361.9 million in liquor tax
  - \$142 million in state sales tax
  - \$216.7 million transferred to the General Fund
- The Pennsylvania State Police received \$28.1 million for the enforcement of liquor laws.

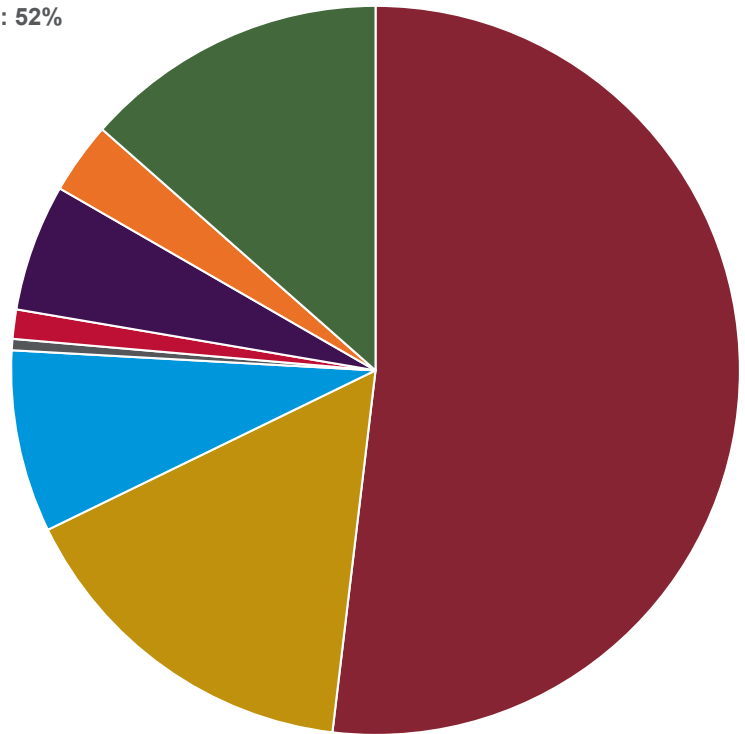
- The Department of Drug and Alcohol Programs received \$2.5 million to educate and prevent problem alcohol use.
- Philadelphia and Allegheny counties received \$9.1 million in local sales taxes.
- Local communities received \$4.5 million in returned licensing fees.

In the last five years, the PLCB has provided:

- \$2.89 billion to the Pennsylvania General Fund
- \$128.9 million to the Pennsylvania State Police
- \$12.5 million to the Department of Drug and Alcohol Programs
- \$22.3 million to local communities

### DISTRIBUTION OF PROCEEDS (IN MILLIONS)

■ Purchase of Wine and Spirits (including federal taxes paid): 52%	\$1,390.9
■ State Liquor Tax: 18%	\$361.9
■ Retail, Marketing, Supply Chain, and Wholesale: 16%	\$426.4
■ Profit Transfer to the General Fund: 8%	\$216.7
■ State and Local Sales Taxes: 6%	\$151.1
■ Administrative and ALJ Office: 3%	\$82.7
■ Contributions to Other Agencies*: 1%	\$34.9
■ Billing from Other Commonwealth Agencies**: >1%	\$13.4



■ *Contributions to Other Agencies	
State Police Liquor Control Enforcement	\$28.1
License Fees Returned to Local Municipalities	\$4.3
Dept. of Drug and Alcohol Programs	\$2.5

■ **Billing from Other Commonwealth Agencies	
Comptroller and Payroll	\$5.1
Auditor General	\$3.1
Integrated Enterprise System Services	\$1.6
Office of Administration	\$1.5
Civil Service Commission	\$1.0
Department of General Services	\$0.9
Treasury Department	\$0.2



PLCB SUMMARY FINANCIAL INFORMATION  
(IN THOUSANDS EXCEPT AS INDICATED)

	FY 2016-17*	FY 2015-16	FY 2014-15	FY 2013-14	FY 2012-13	CAGR**
Sales Net of Taxes	\$2,012,789	\$1,937,885	\$1,862,270	\$1,786,502	\$1,731,463	3.8%
Gross Profit	\$621,907	\$605,599	\$581,130	\$555,835	\$539,416	3.6%
Gross Margin	30.9%	31.3%	31.2%	31.1%	31.2%	
Operating Expenses	\$491,024	\$476,416	\$472,212	\$407,527	\$387,566	6.1%
Operating Income	\$130,883	\$129,183	\$108,918	\$148,308	\$151,850	(3.6%)
Transfers to State Police	\$28,107	\$26,091	\$25,726	\$24,959	\$23,984	4.0%
Drug & Alcohol Transfers	\$2,500	\$3,328	\$1,672	\$2,474	\$2,567	(0.7%)
Net Income	\$104,895	\$103,857	\$83,598	\$123,683	\$128,366	(4.9%)
Liquor Tax	\$361,856	\$348,056	\$334,414	\$320,912	\$311,248	3.8%
State Sales Tax	\$142,005	\$135,581	\$130,193	\$124,880	\$121,093	4.0%
Local Sales Tax***	\$9,060	\$8,688	\$8,493	\$8,270	\$8,143	2.7%
License Fees Returned <sup>▲</sup>	\$4,275	\$4,594	\$4,466	\$4,522	\$4,436	0.9%
Number of Stores (not in 000)	607	601	603	606	605	
Average Sales per Store	\$3,349	\$3,224	\$3,088	\$2,948	\$2,862	
Operating Exp./Net Sales	24.4%	24.5%	25.2%	22.8%	22.4%	
Contributions/Net Sales	32.2%	32.3%	31.4%	31.7%	31.9%	
Return on Assets	25.3%	22.4%	20.5%	30.5%	35.8%	

\* Financial results for fiscal year 2016-17 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.





Less than two weeks after historic liquor reforms took effect, Governor Tom Wolf purchased the first bottle of wine to go sold by Wegmans in Pennsylvania, praising the PLCB's ability to quickly bring a new industry to Pennsylvania.

*Photo courtesy of Commonwealth Media Services*



On the heels of the historic Liquor Code changes brought about by Act 39 of 2016, which became effective on Aug. 8, 2016, the General Assembly passed two additional measures that affected licensees and the regulated community in fiscal year 2016-17: Acts 85 and 166 of 2016.

After years of limited legislative amendments to the Liquor Code, the complexity of changes included in Act 39 contributed to the passage of these additional two enactments. Act 39 rapidly transformed the beverage alcohol industry through the sale of wine to go by wine expanded permit holders; the auction of expired restaurant licenses by the PLCB; the direct shipment of wine to consumers; the ability of certain Pennsylvania manufacturers to sell specific types of other Pennsylvania manufacturers' products for on-premises consumption; and granting the PLCB common retail marketing abilities including pricing flexibility, a customer rewards program, the authority to sell Pennsylvania Lottery tickets at Fine Wine & Good Spirits stores, and the discretion to open as many stores on Sundays and holidays as the PLCB deems appropriate. Acts 85 and 166 sought to further clarify several elements of Act 39 and continued to reform many sections of the Liquor Code.

On July 13, 2016, Governor Wolf signed House Bill 1605 into law as Act 85 of 2016. Act 85 principally amended the Fiscal Code, but also included provisions that impacted the PLCB, its licensees, and its vendors. The most prominent changes resulting from Act 85 include:

- Giving the PLCB the discretion to determine the timing and methodology of auctions of expired restaurant licenses authorized by Act 39.
- Further defining the PLCB's "best-selling items" that are subject to flexible pricing.
- Allowing the PLCB to issue permits for the sale of alcohol at the Democratic National Convention (DNC) in Philadelphia in July 2016.

These provisions became effective on Aug. 8, 2016, except for the language pertaining to the permits for the DNC, which became effective on July 13, 2016.

On Nov. 15, 2016, Governor Wolf signed House Bill 1196 into law as Act 166 of 2016. The most significant aspects of Act 166 impacted the malt and brewed beverage industry, but Act 166 also included provisions that affected other categories of licensees and modified elements of Act 39. Some of the most notable changes resulting from Act 166 include creating a malt or brewed beverage direct shipper license, permitting distributors and importing distributors to sell malt or brewed beverages in any package configuration (including single bottles and in refillable growlers) to non-licensee customers for off-premises consumption, and defining mead as a malt and brewed beverage that breweries and limited wineries may produce and sell.

Additionally, Act 166 expanded on the privileges afforded by Act 39 allowing Pennsylvania producers to sell each other's products for on-premise consumption, authorized many licensees that have Sunday sales permits to begin selling alcohol on Sundays at 9 a.m. without restriction, and created a wine and spirits auction permit, which mirrors the privileges of a wine auction permit but also includes spirits, to benefit the fundraising efforts of certain eligible entities. Act 166 became effective on Jan. 17, 2017.

A full summary of the changes included in these enactments can be found on the PLCB website.

NO PLCB REGULATIONS WERE AMENDED DURING FISCAL YEAR 2016-17.



## 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, 2017, THE AGENCY OPERATED 607 RETAIL FACILITIES:

485	93	10	19
Standard Stores	Premium Collection Stores	Licensee Service Centers	Stores Inside Grocery Stores

BY THE END OF THE FISCAL YEAR, 330 FINE WINE & GOOD SPIRITS STORES WERE OPEN ON SUNDAYS

In fiscal year 2016-17, Retail Operations completed 61 branding projects: 10 new stores, 21 remodeling/relocation projects, and 30 store refreshes.



#### PLCB RETAIL OPERATIONS FIVE-YEAR SUMMARY

	FY 2016-17	FY 2015-16	FY 2014-15	FY 2013-14	FY 2012-13
Total Units Sold*	165.7 million	159.8 million	154.4 million	151.4 million	147.9 million
Average Retail Price per Item	\$14.33	\$14.30	\$14.23	\$13.92	\$13.81
Wage % of Gross Sales**	7.0%	6.8%	7.1%	7.3%	7.3%

\* 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.

Since the creation of the PLCB at the end of Prohibition, Pennsylvania law dictated several aspects of its retail operations. Restrictions limited the number of stores the PLCB could open on Sundays, restrained operating hours on Sundays and holidays, and even prohibited the PLCB from selling Pennsylvania Lottery tickets in Fine Wine & Good Spirits stores. Legislative changes brought by Act 39 of 2016 removed those restrictions, and the PLCB moved quickly to implement changes.

Once the law was signed in June 2016, key members of the PLCB team met with officials from the Pennsylvania Lottery to devise an implementation plan and determine which of the PLCB's 600-plus stores could sell tickets. PLCB officials had an aggressive goal – to begin sales by the time the law took effect in August. Because sales were going to be conducted through modern, convenient, touchscreen terminals, critical infrastructure needs (including electrical and telecommunications requirements) had to be addressed, as did IT and physical security demands. New training procedures were devised, and thousands of Fine Wine & Good Spirits store employees were trained on Pennsylvania Lottery ticket sales and policies.

Within two days of the law taking effect, Pennsylvania Lottery sales had started in almost two dozen Fine Wine & Good Spirits stores; at the end of the first week, that number had doubled. By October 2016, more than 300 PLCB stores featured Pennsylvania Lottery ticket sales. By June 30, 2017, 317 Fine Wine & Good Spirits stores – more than half – sell Pennsylvania Lottery tickets.

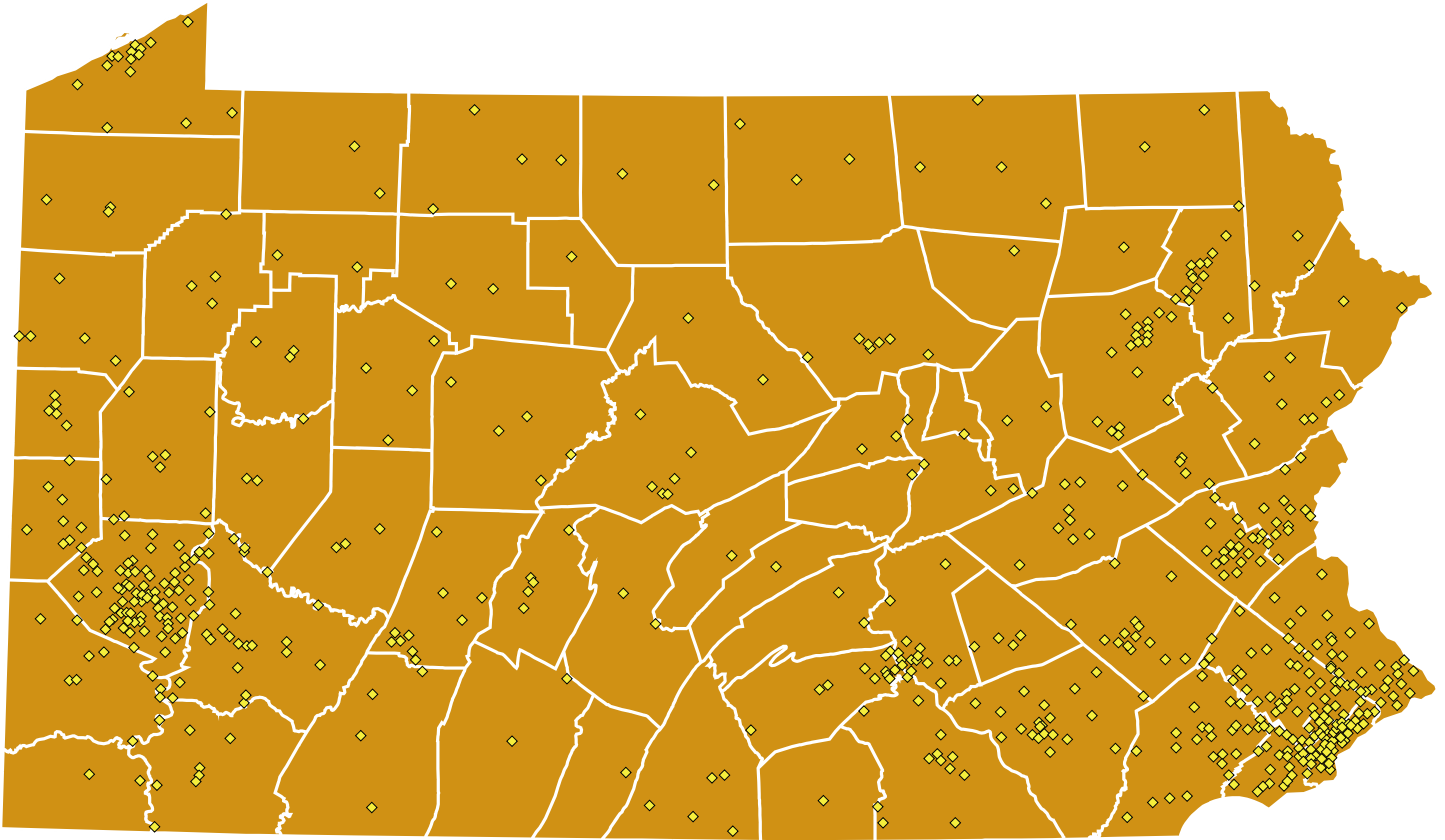
Before the passage of Act 39, the PLCB operated 188 stores from noon until 5 p.m. on Sundays. Act 39 removed those restrictions, so PLCB officials took steps to increase that number. Changing the number of stores and hours of operation required a major shift in store staffing, along with new signage and revised training. Retail Operations staff carefully studied sales patterns and trends to determine which additional stores should be open on Sundays. In some rural areas of Pennsylvania, for example, it was decided that the extra costs associated with implementing Sunday hours would outweigh any potential increase in sales.

Between the implementation of the law in early August and late September 2016, the PLCB added 142 additional Sunday stores. As of June 30, 2017, 330 Fine Wine & Good Spirits stores were open on Sundays. Most of the Sunday stores had their hours expanded from noon to 5 p.m. to 11 a.m. to 7 p.m. All told, millions of Pennsylvania customers enjoyed an additional sales day with expanded hours.

Act 39 also removed a restriction prohibiting Fine Wine & Good Spirits stores from being open on holidays. In 2017, the PLCB, working with its labor unions, announced that hundreds of stores would be open on Martin Luther King Jr. Day, Presidents Day, Memorial Day, and the Fourth of July. This was another step taken by the PLCB to increase customer service and convenience.



FINE WINE & GOOD SPIRITS STORE LOCATIONS



REGION III WESTERN REGION 216 STORES		REGION II CENTRAL REGION 221 STORES		REGION I EASTERN REGION 170 STORES	
Total Square Feet	896,030	Total Square Feet	1,053,148	Total Square Feet	1,043,124
Average Store Size	4,148	Average Store Size	4,765	Average Store Size	6,136
Annual Rent Paid	\$11,907,461	Annual Rent Paid	\$14,704,617	Annual Rent Paid	\$22,920,269
Average Price per Sq. Ft.	\$13.29	Average Price per Sq. Ft.	\$13.96	Average Price per Sq. Ft.	\$21.97

STATEWIDE STORES	607
SQUARE FEET	2,992,302
AVERAGE STORE SIZE	4,930 sq. ft.
ANNUAL RENT	\$49,532,347
AVERAGE PRICE PER SQ. FT.	\$16.55



Act 39 of 2016 granted the PLCB the ability to sell Pennsylvania Lottery tickets inside its Fine Wine & Good Spirits stores. Within two days of the law taking effect, Pennsylvania Lottery sales had started in almost two dozen Fine Wine & Good Spirits stores; at the end of the first week, that number had doubled. By October 2016, more than 300 PLCB stores featured Pennsylvania Lottery ticket sales.

## 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



Judy Bosner of Erie watches as Pat Monahan of Train signs her bottle during the grand opening of the Erie Fine Wine & Good Spirits store.



Guests enjoy sampling the many different wines available at the Pittsburgh Wine Festival held at Heinz Field.

Bottle signings and events, 2016-17



Bethenny Frankel signs a fan's bottle of Skinny Girl wine during her bottle signing event at a Fine Wine & Good Spirits store in Philadelphia.



50 Cent poses for a photo with one of his fans during a bottle signing.



Guests at the Central PA Whiskey Festival in Harrisburg enjoy tastings from numerous vendors.



FINE WINE & GOOD SPIRITS



Brian Rizzi, member of the Charm City Ghostbusters, poses with Dan Aykroyd during a Crystal Head Vodka bottle signing at the Hummelstown Fine Wine & Good Spirits Premium Collection store.



Customers browse the selection of products available for purchase at the Fine Wine & Good Spirits on-site store at the PHS Philadelphia Flower Show.



Bottle signings and events, 2016-17

Master Distiller Matt Hoffman shares samples of his whiskey with customers during a bottle signing at a Fine Wine & Good Spirits store in Philadelphia.



Smokey Robinson signs a bottle of Engine House 25 Smokey Robinson Riesling for fans during the Harrisburg Wine Festival.



Customers enjoy sampling many of the different spirits at the Pittsburgh Whiskey Festival.



## MARKETING & MERCHANDISING

### SOCIAL MEDIA

JULY 1, 2016 — JUNE 30, 2017



#### FACEBOOK

Total fans: **282,958**  
 New followers: **38,997**  
 Impressions: **29,687,400**  
 Avg. daily impressions: **86,396**  
 Avg. daily engagements: **671**  
 Total engagements (likes, comments, shares): **244,991**



#### TWITTER

Total followers: **20,665**  
 New followers: **14,402**  
 Tweets sent: **1,027**  
 Retweets: **1,688**  
 Impressions (est.): **9,047,522**  
 Total mentions: **2,058**



#### YOUTUBE

Subscribers: **1,265**  
 Views: **2,491,872**  
 New videos: **26**



#### PINTEREST

Total followers: **4,016**  
 New followers: **656**  
 Pins reach: **858,996**  
 Avg. monthly impressions: **97,131**



#### INSTAGRAM

Followers: **4,172**  
 Likes: **4,393**  
 Avg. likes per post: **33**  
 Total engagement: **4,499**

#### FINEWINEANDGOODSPIRITS.COM

Visits

Average monthly clicks

July 2016 — June 2017: **7,569,766** July 2016 — June 2017: **630,814**

#### FW&GS MOBILE APP

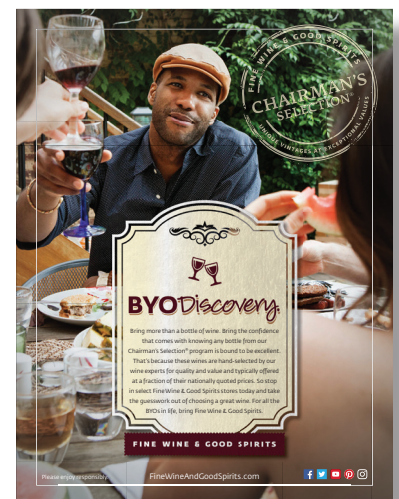
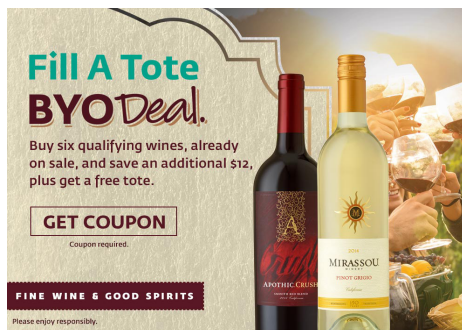
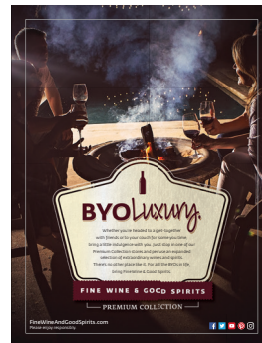
Total mobile app downloads: **46,904**

Android: **17,358** | iPhone: **29,546**

### ADVERTISING

The PLCB launched a new advertising campaign in 2016-17 called “BYO \_\_\_\_.” The BYO campaign facilitates expanding the conversation Fine Wine & Good Spirits has with its customers beyond the product. Now, customers aren’t just bringing vodka to the party or Merlot to dinner, but they’re bringing stories and excitement as well. Ultimately the campaign allows Fine Wine & Good Spirits to associate with the good times and experiences surrounding wines and spirits as the PLCB continues to empower customers with the knowledge they’ve come to expect.

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 2016-17, the PLCB spent about \$7.1 million in total advertising.



E-COMMERCE SALES

The Fine Wine & Good Spirits e-commerce site experienced an 10.7 percent increase in sales in fiscal year 2016-17. Convenience continues to drive the growth of the ship-to-home option, as more consumers become aware of this feature and use it to purchase rare or specialty products as well as items available in Fine Wine & Good Spirits stores.

In addition, out-of-state consumers continue to shop the agency's online store and have products sent to brick-and-mortar Fine Wine & Good Spirits stores or to Pennsylvania addresses.

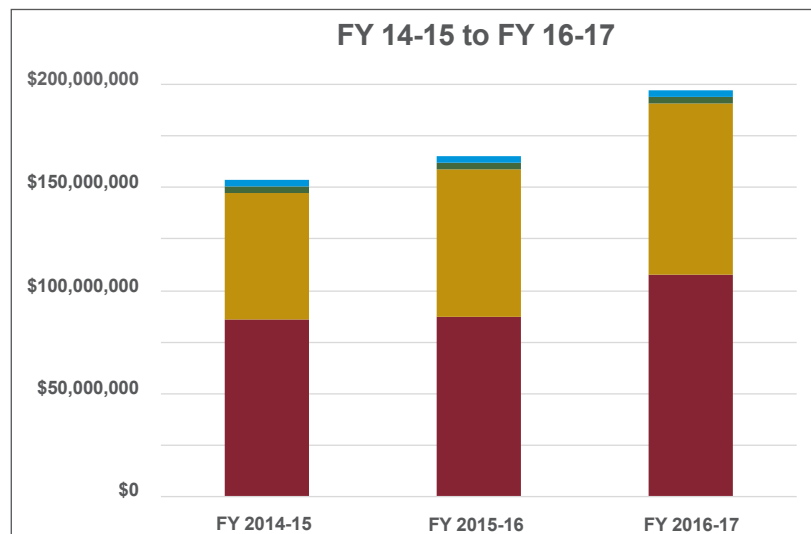
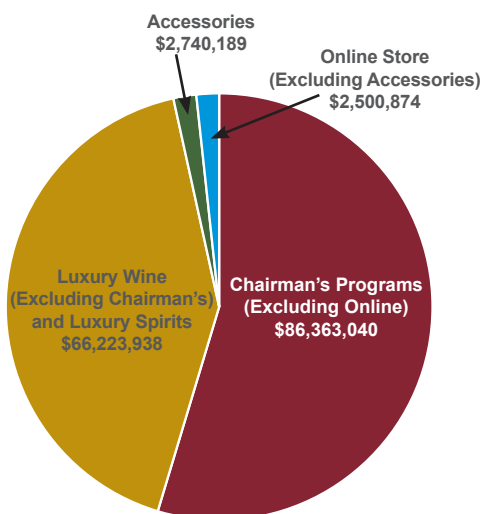
Numerous improvements were made last fiscal year to the site's search, navigation, usability, and content, which have enhanced the overall online shopping experience. These functional enhancements have made it easier for shoppers to find products and obtain information about them. A complete site redesign will be pursued in coming years to further optimize the online experience, with more and more products available to purchase.

FINE WINE & GOOD SPIRITS E-COMMERCE SALES INSIGHTS AT A GLANCE

FISCAL YEAR	TOTAL SALES	TOTAL TRANSACTIONS	YEAR OVER YEAR REVENUE GROWTH	AVERAGE TRANSACTION VALUE
FY 2016-17	\$2,500,874	20,463	10.7%	\$122.21
FY 2015-16	\$2,259,869	22,942	4.3%	\$98.50
FY 2014-15	\$2,170,139	23,012	18.9%	\$94.30

SALES BY CATEGORY/CHANNEL OTHER THAN REGULAR STOCK

	FY 2016-17 Retail Sales Amount*	FY 2015-16 Retail Sales Amount*	FY 2014-15 Retail Sales Amount*
CHAIRMAN'S PROGRAMS (EXCLUDING ONLINE)	\$86,363,040	\$69,816,656	\$68,742,292
LUXURY WINE (EXCLUDING CHAIRMAN'S) AND LUXURY SPIRITS	\$66,223,938	\$57,256,450	\$49,349,503
ACCESSORIES	\$2,740,189	\$2,580,262	\$2,398,076
ONLINE STORE (EXCLUDING ACCESSORIES)	\$2,500,874	\$2,259,869	\$2,170,139
<b>TOTAL</b>	<b>\$157,828,040</b>	<b>\$131,913,238</b>	<b>\$122,660,011</b>

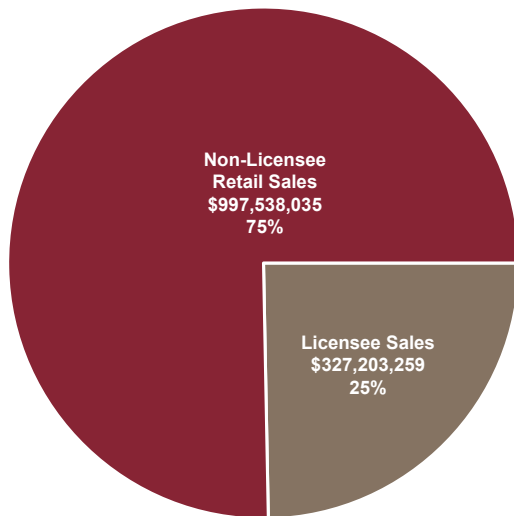


- Luxury Wine (Excluding Chairman's) and Luxury Spirits
- Chairman's Programs (Excluding Online)
- Online Store (Excluding Accessories)
- Accessories

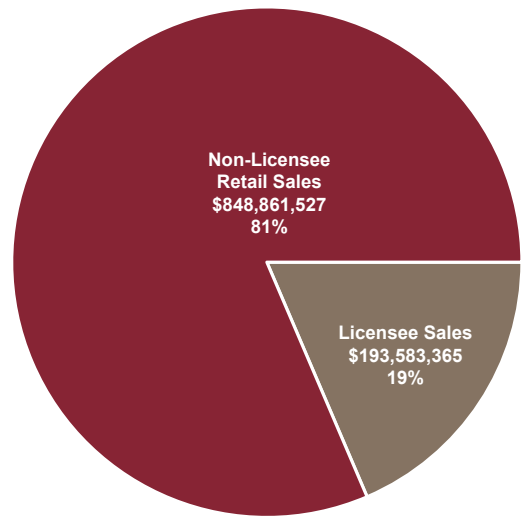
\*Retail sales amounts exclude sales to licensees and include liquor tax but not sales tax.

LICENSEE AND NON-LICENSEE\*  
DOLLAR SALES  
SPIRITS CATEGORY, FY 2016-17

In fiscal year 2016-17, sales to licensees accounted for \$520.8 million, or 22 percent, of total PLCB sales.

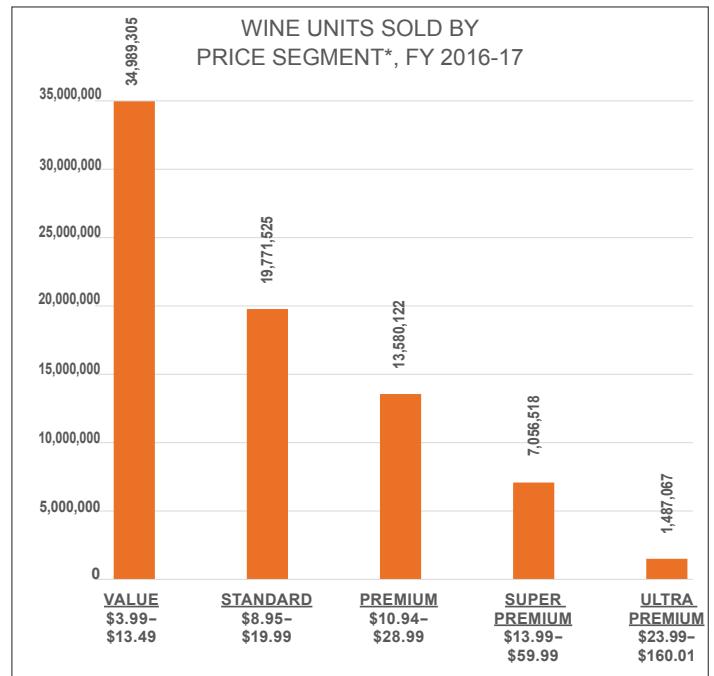
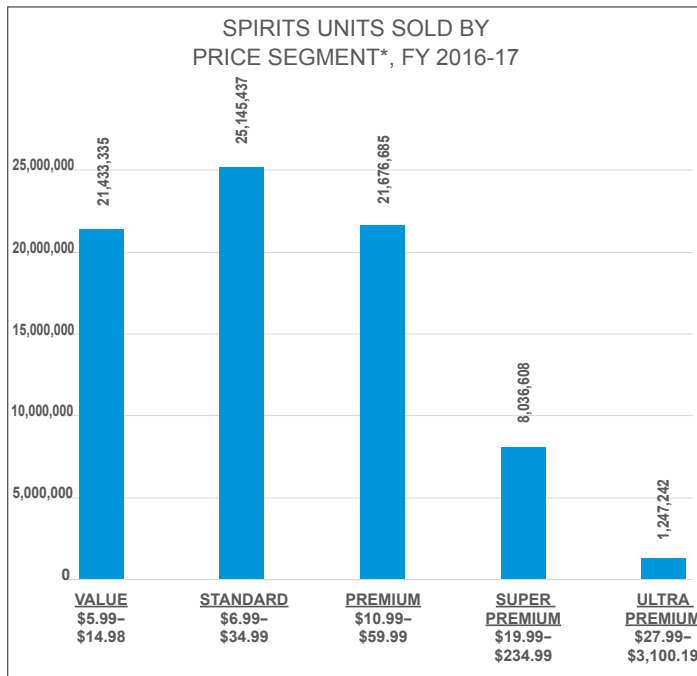


LICENSEE AND NON-LICENSEE\*  
DOLLAR SALES  
WINE CATEGORY, FY 2016-17



Dollar sales attributed to licensees holding wine expanded permits accounted for 5.13 percent of total wine sales and 10.27 percent of total sales to licensees, including wine and spirits.

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



\* 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.



CHAIRMAN'S PROGRAM SUMMARY

In the last fiscal year, the Chairman's brand saw nearly \$86.6 million in sales, an increase of almost 24 percent over the previous year. The brand – which began in 2003 with Chairman's Selection® wines and now includes the Chairman's Advantage® value wines and Chairman's Spirits offerings – is incredibly popular with customers.

Each year, Chairman's Selection offers more than 500 individual wines from all over the world at up to 40 percent off national pricing. In the last fiscal year, Chairman's Selection wines were sold at 455 Fine Wine & Good Spirits stores and the e-commerce store.

The Chairman's Advantage program began in 2015 with four wines offered for under \$10 a bottle in 100 stores. It has since expanded to 385 stores; at any time, eight Chairman's Advantage wines are available, and the price remains under \$10 a bottle.

The Chairman's Spirits program, which offers high-quality spirits at very aggressive prices, began in 2016. The program offered two spirits in all stores and the e-commerce store during its inaugural fiscal year.

SALES	FY 2016-17	FY 2015-16	FY 2014-15	FY 2013-14
Chairman's Selection	\$71,425,941	\$66,524,990	\$68,150,374	\$63,412,318
Chairman's Advantage	\$10,404,251	\$3,452,643	\$1,054,384	---
Chairman's Spirits	\$4,761,151	---	---	---
<b>Total Sales</b>	<b>\$86,591,343</b>	<b>\$69,977,933</b>	<b>\$69,204,758</b>	<b>\$63,412,318</b>
<b>Year over Year change</b>	<b>+23.7%</b>	<b>+1.1%</b>	<b>+9.1%</b>	<b>---</b>



TOP 10 PRODUCT CATEGORIES

PRODUCT CATEGORY	FY 2016-17 Dollar Sales Amount	FY 2015-16 Dollar Sales Amount	FY 2014-15 Dollar Sales Amount	FY 2013-14 Dollar Sales Amount
VODKA	\$276,447,161.00	\$271,081,859.49	\$261,870,126.12	\$257,487,186.95
BOURBON	\$99,176,592.41	\$91,752,829.97	\$82,137,679.55	\$71,835,622.67
VODKA - FLAVORED	\$93,516,682.78	\$100,101,828.92	\$104,633,884.36	\$108,214,874.23
US CABERNET	\$81,451,886.07	\$77,328,772.72	\$73,339,004.38	\$69,522,946.56
US CHARDONNAY	\$79,534,195.19	\$78,468,803.81	\$75,121,950.21	\$74,272,178.72
CANADIAN WHISKY	\$66,894,866.27	\$65,589,388.79	\$61,616,704.95	\$56,881,424.86
RUM - SPICED	\$66,508,787.08	\$66,668,020.39	\$68,289,217.75	\$68,164,808.62
FLAVORED WHISKEY	\$63,396,632.06	\$58,767,817.15	\$52,764,144.59	\$41,141,920.55
5L BOX WINE	\$60,281,479.27	\$60,941,750.75	\$60,001,206.90	\$57,492,912.91
ALTERNATIVE SIZE BOX WINE	\$55,698,326.03	\$47,354,863.71	\$42,163,925.80	\$36,021,425.21

TOP 10 PRODUCTS

PRODUCT	FY 2016-17 Avg. Retail Price	FY 2016-17 Retail Sales Amount	FY 2015-16 Retail Sales Amount	% Chg Retail Sales Amount
JACK DANIEL'S TENNESSEE WHISKEY OLD NUMBER 7 - 750 ML	\$23.28	\$20,212,551	\$20,248,567	-0.18%
TITO'S VODKA - 1.75 L	\$33.66	\$18,511,277	\$12,807,137	44.54%
HENNESSY COGNAC VS - 750 ML	\$33.18	\$17,080,417	\$12,723,687	34.24%
TITO'S VODKA - 750 ML	\$18.39	\$16,838,800	\$11,152,828	50.98%
CAPTAIN MORGAN ORIGINAL SPICED RUM - 1.75 L	\$28.42	\$15,439,593	\$16,500,335	-6.43%
FIREBALL CINNAMON WHISKY - 750 ML	\$17.16	\$14,540,155	\$16,745,927	-13.17%
JAMESON IRISH WHISKEY - 750 ML	\$27.14	\$14,529,602	\$13,270,405	9.49%
CAPTAIN MORGAN ORIGINAL SPICED RUM - 750 ML	\$16.02	\$14,315,181	\$13,886,788	3.08%
JACK DANIEL'S TENNESSEE WHISKEY OLD NUMBER 7 - 1.75 L	\$43.73	\$14,122,918	\$14,141,061	-0.13%
GREY GOOSE VODKA - 750 ML	\$29.44	\$12,152,766	\$13,222,731	-8.09%

## WHOLESALE OPERATIONS

The Office of Wholesale Operations is committed to partnering with licensees in building collaborative relationships, developing innovative delivery and product offerings, and effectively and efficiently coordinating the acquisition of wines and spirits in ways that meet wholesale customers' needs.



In order to implement one of the most publicized parts of Act 39 of 2016, the PLCB had to create an entirely new division and implement several new key processes – all in the span of 60 days. Act 39 authorized a new class of off-premise retail establishment – restaurant and hotel licensees, including grocery and convenience stores, interested in obtaining wine expanded permits authorizing the sale of wine to go. However, when the law was signed in June 2016, there was no infrastructure to handle the influx of new orders.

To meet that demand, the PLCB created a new Office of Wholesale Operations to work directly with larger-volume wine permittees. Wholesale Operations worked with trade groups and high-volume chains to collaboratively plan and develop pilot programs – intended to test and refine processes for forecasting product needs, planning replenishment orders, and delivering wine from PLCB distribution centers directly to stores – followed by system-wide launches of wine to go across multiple locations. Wine-to-go licensees were taught how to use the PLCB's existing Licensee Online Ordering Portal (LOOP), an Internet-based product ordering system.

The first pilot program debuted in August 2016, less than two weeks after the historic liquor reforms took effect, with western Pennsylvania chain grocer Giant Eagle. Two weeks after that, Governor Tom Wolf purchased the first bottle of wine to go sold by Wegmans in Pennsylvania, praising the PLCB's ability to quickly bring a new industry to Pennsylvania.

By Sept. 1, 2016, the PLCB had received 243 applications for wine-to-go permits and had issued 120 permits to businesses all across Pennsylvania. These ranged from large grocery chains to sub shops, and from specialty restaurants to bottle shops. By the end of November, the PLCB was working with all major grocery store chains in Pennsylvania.

As more and more chains came on board, the Wholesale Operations team expanded its delivery options beyond direct store delivery. Warehouse-to-warehouse delivery options were developed for certain chains, while others began to take advantage of a shipper-load-and-count option, where a retailer drops an empty trailer at a PLCB warehouse and retrieves it once it has been filled by the distribution center. Both of these latter delivery options were completely new for the PLCB, developed in coordination with wholesale customers to meet their business needs.

By June 30, 2017, the PLCB had issued 469 permits authorizing the sale of wine to go, with Wholesale Operations servicing 245 active grocery and convenience store locations whose average weekly orders totalled more than \$1.1 million and 11,000 cases. In addition to grocery and convenience stores, Wholesale Operations works with any permit holder needing assistance, including bottle shops, hotels, and restaurants.

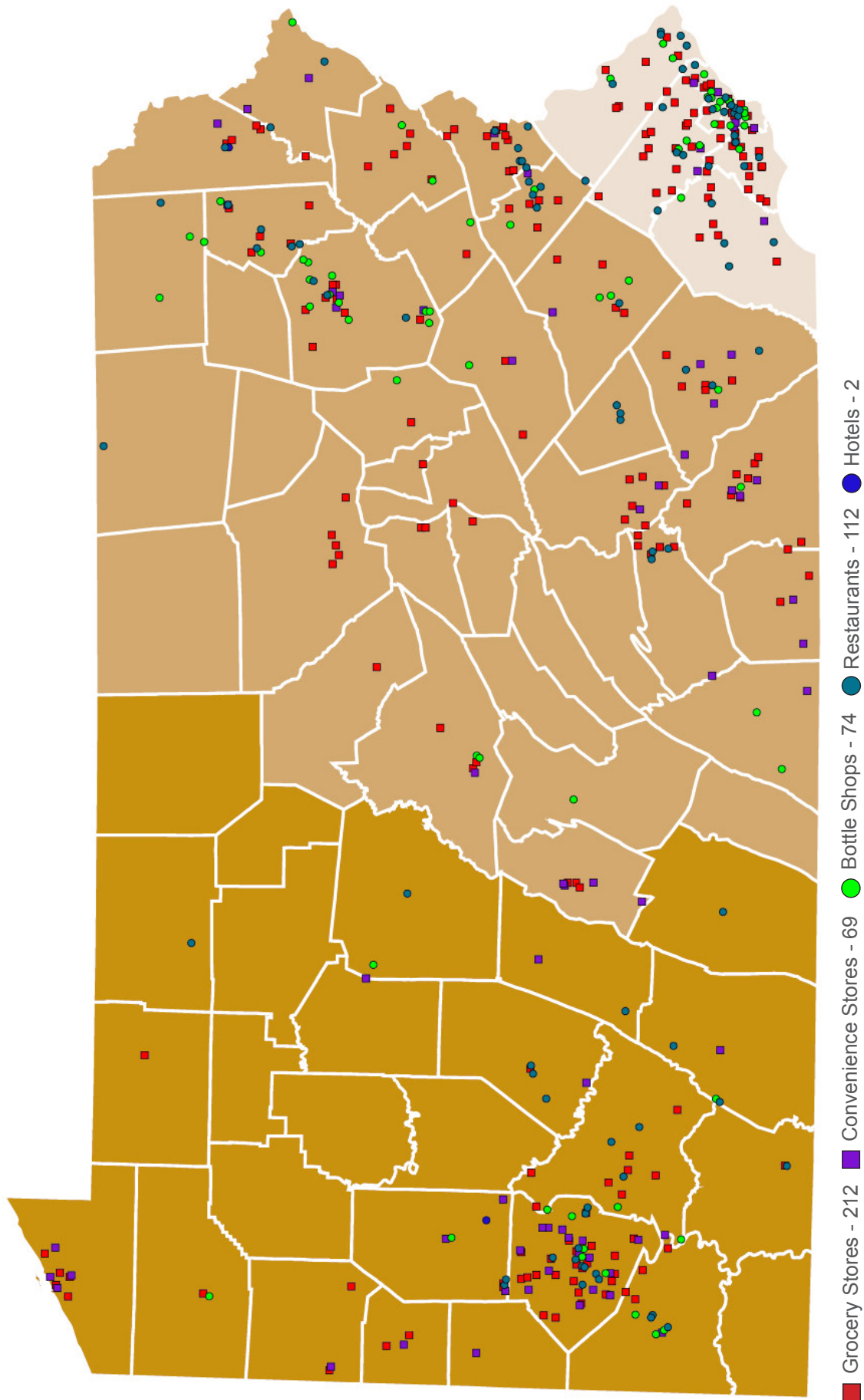
Fifty of the 67 counties in Pennsylvania have at least one wine expanded permit, with Philadelphia, Allegheny, Luzerne, Montgomery, and Delaware counties accounting for more than 40 percent of wine-to-go locations in the commonwealth.

Total sales to wine expanded permittees for the fiscal year totaled more than \$60 million, with grocery stores purchasing slightly more than \$46 million.

While the Wholesale Operations team invested time and resources working with the new wine expanded permittees in 2016-17, the team also started to develop relationships with the largest on-premises licensees, such as casinos, resorts, and restaurants.

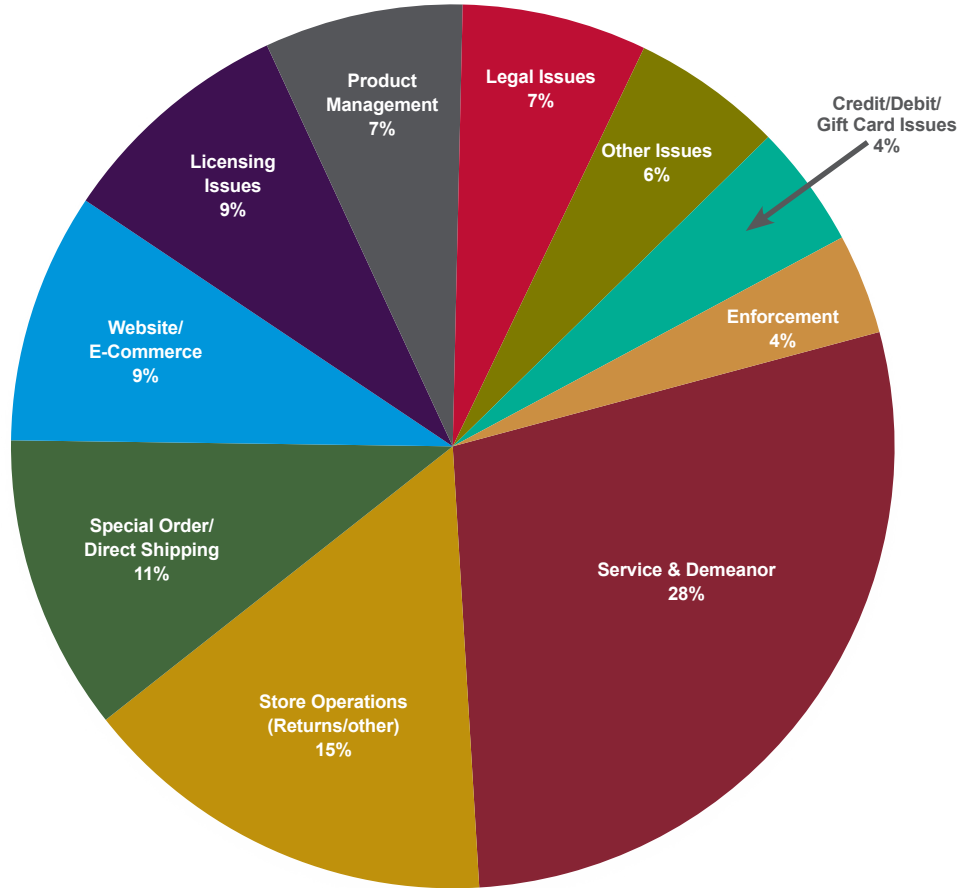
Moving forward, Wholesale Operations will continue to engage with licensees, searching for ways to bring value, strengthen partnerships, and provide a customer-centric experience.

WINE EXPANDED PERMITS, AS OF JUNE 30, 2017



As an integral part of the Office of Wholesale Operations, 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.

BUREAU OF CONSUMER RELATIONS  
FISCAL YEAR 2016-17 INQUIRIES





## 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.

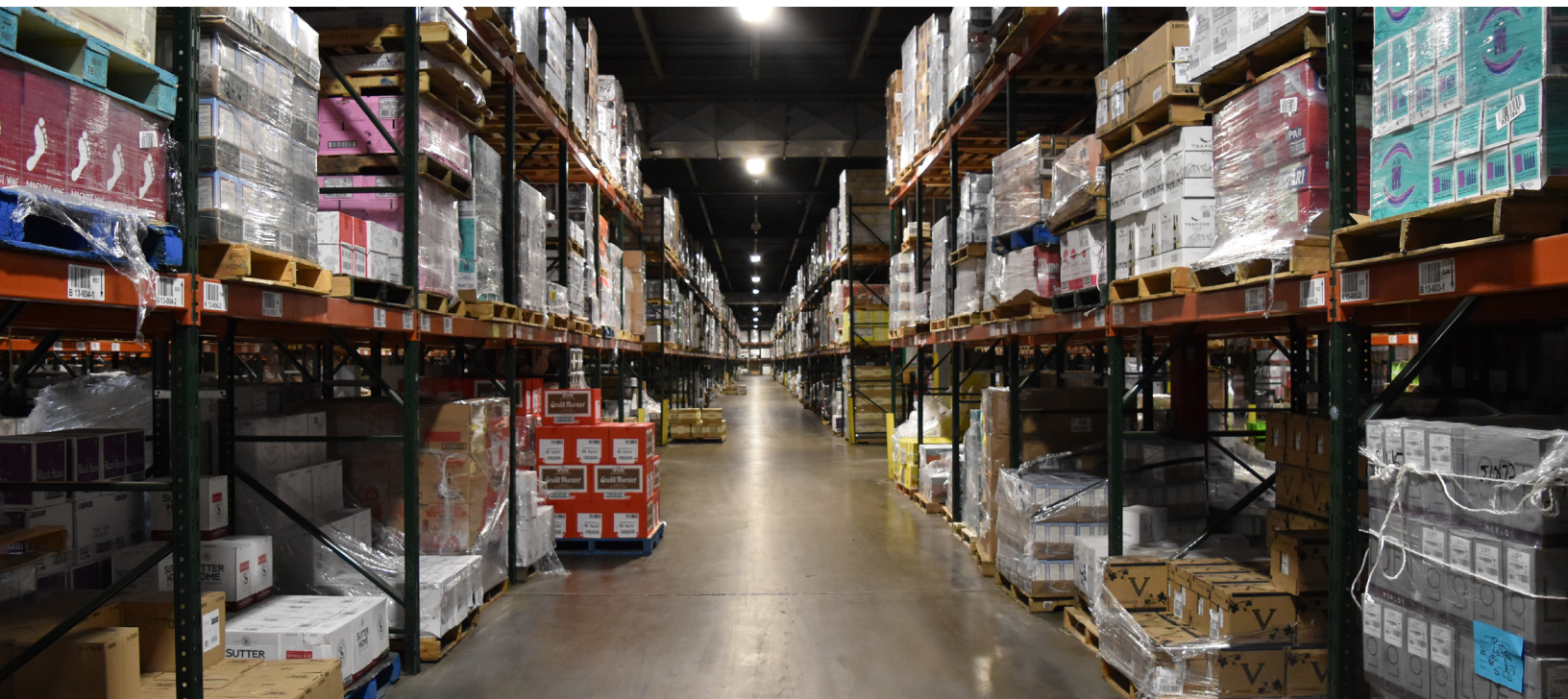
The Office of Supply Chain is responsible for keeping 600-plus Fine Wine & Good Spirits stores, as well as 220 licensees in the Licensee Delivery Program (LDP), supplied with products.

Wines and spirits are received from more than 260 suppliers across six continents into three distribution centers. Products are then transported directly to Fine Wine & Good Spirits stores and licensees. Case fill rates from the distribution centers, a key performance indicator that measures the percentage of cases that were shipped versus cases that were ordered, were 98.5 percent for fiscal year 2016-17.

Before Act 39 of 2016 became law, the Office of Supply Chain developed the infrastructure and systems needed for LDP so products could be shipped directly to licensees from the distribution centers. This proved useful after Act 39 because the law created a new type of licensee, the wine expanded permit holder, who can sell wine for off-premise consumption. Many of these new licensee customers, especially grocery and convenience store chains, are using LDP to receive shipments from PLCB distribution centers directly to their warehouses or store loading docks. Deliveries to about 220 wine expanded permit holders are made on the same trucks that take product to 600-plus Fine Wine & Good Spirits stores, maximizing efficiency.

The influx of new wine expanded permit holders required the PLCB to bring in additional inventory in August and September 2016 to accommodate the initial stocking orders submitted by the first private retailers to sell wine to go. This inventory buildup happened simultaneously with the PLCB's traditional holiday inventory buildup, which is needed to support its retail business during the holidays and the busiest months of the year. The Office of Supply Chain met the demands of the increased size and frequency of shipments for both the private wine retailers and Fine Wine & Good Spirits stores.

From the creation of wine expanded permits in August 2016 through June 30, 2017, the PLCB shipped more than 5,500 orders – more than 428,000 cases of products – through LDP, and customer response to the program has been overwhelmingly positive.



## INFORMATION TECHNOLOGY SERVICES

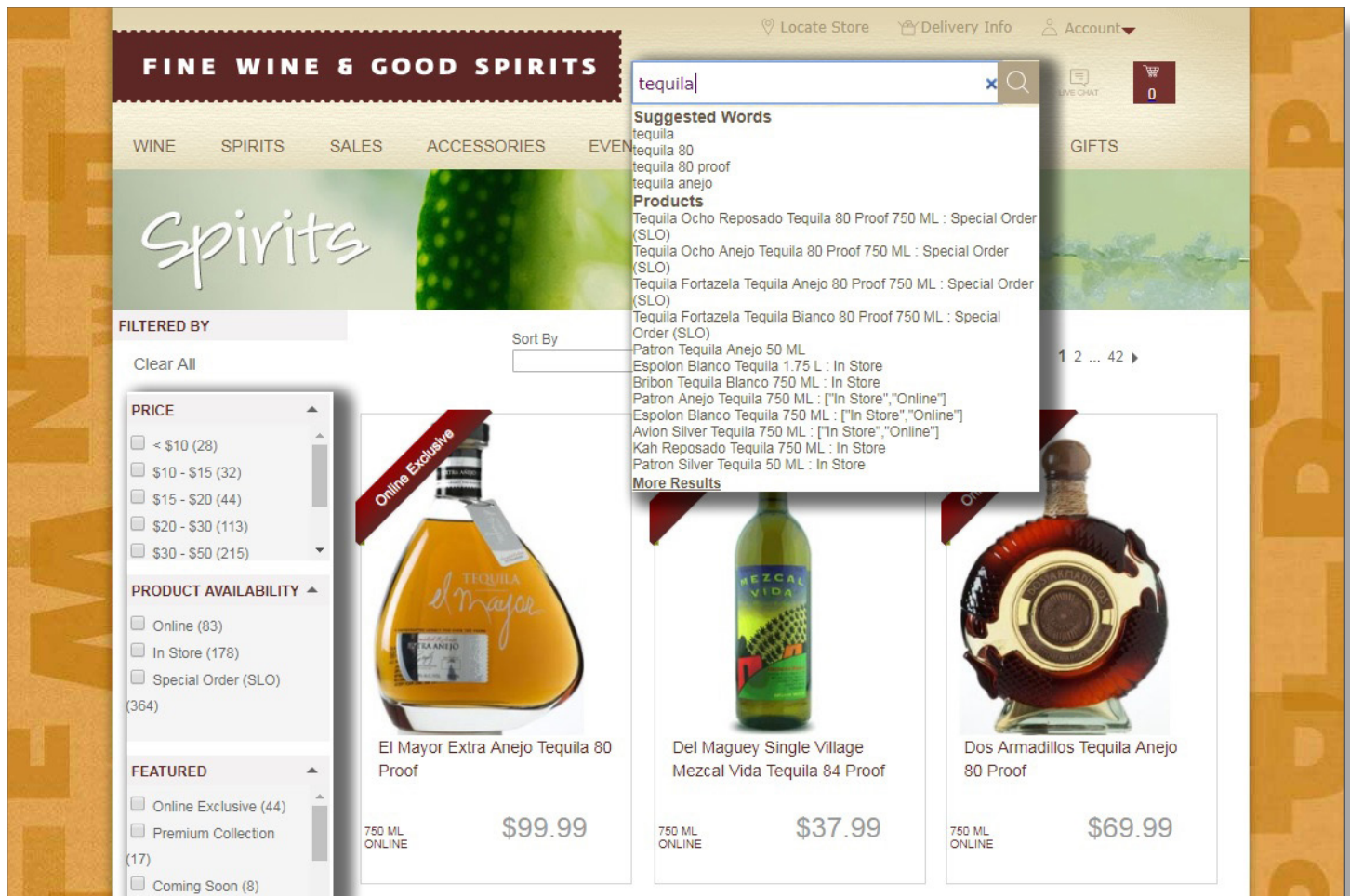
Information Technology Services (ITS) supports and enhances multiple complex computer systems the PLCB relies on, including a large-scale Oracle Enterprise Resource Planning (ERP) system with a point-of-service system in more than 600 stores. ITS also warehouses and analyzes data related to financials, inventory, forecasting, replenishment, pricing, and product management. Additionally, ITS supports and enhances IT systems including the Fine Wine & Good Spirits e-commerce site, mobile apps, human resources platforms, warehouse management systems, and a variety of other general use applications.



ITS worked with the various PLCB business teams to integrate software changes required to meet initiatives related to Acts 39, 85, and 116 of 2016. The acts required changes to major systems including the Licensing Online Order Portal (LOOP), PLCB+, and the Oracle ERP. All of the required changes were in place for the Aug. 8, 2016, effective date of Act 39.

The www.FineWineAndGoodSpirits.com e-commerce site received several updates in fiscal year 2016-17 as well. The product catalog was redesigned to provide a more modern look and feel. Search capabilities were enhanced to provide better results and allow consumers to find products more easily. Several other changes helped to provide a more streamlined and modern experience for the customer. Enhancements to the e-commerce website will continue in coming years with a full site redesign to further optimize the online customer experience.

In addition, the Fine Wine & Good Spirits store point-of-service system finished new security requirements necessary to process bank and debit cards that feature chips.



## 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.

## REGULATORY AFFAIRS

TOTAL LICENSE APPLICATIONS AND PERMITS RECEIVED AND PROCESSED JULY 1, 2016, THROUGH JUNE 30, 2017

Renewals/Validations 18,706	Transfers 1,006	New Licenses 1,395	Special Occasion Permits 2,610
Special Wine Permits 1,485	Criminal Record Checks 9,456	Other Applications 3,348	AP-SS-EHF Permits* 21,203
Catering Permits 630	Tavern Gaming Licenses 4	Brand Registration 10,985	Wine Expanded Permits 469
<b>TOTAL APPLICATIONS — 71,297</b>			

\* Amusement Permit-Sunday Sales-Extended Hours Food

### INVESTIGATIONS PROCESSED

Type of Investigation	2016	2015	2014	2013
New License	297	297	247	229
Renewal	35	44	65	58
Transfer – Place	69	76	68	62
Transfer – Person	629	665	559	523
Double Transfer Person-Place	392	358	343	306
Correction	39	39	46	32
Extension	922	897	766	752
Manager Change	1,239	1,188	1,263	1,056
Reinvestigation	2,049	2,060	1,723	1,767
Officer Change	633	636	664	616
Reissue Safekeeping	478	464	407	389
Special Occasion Permit	47	61	50	42
Limited Winery	91	85	57	56
Non-Compliance	14	17	54	19
Miscellaneous	298	442	415	401
Nuisance Bars	221	214	192	298
Management Company	32	---	---	---
License Conversions (E to R, D to ID, C to CC, etc.)	34	---	---	---
<b>Total</b>	<b>7,519</b>	<b>7,543</b>	<b>6,919</b>	<b>6,606</b>

### NUISANCE BARS

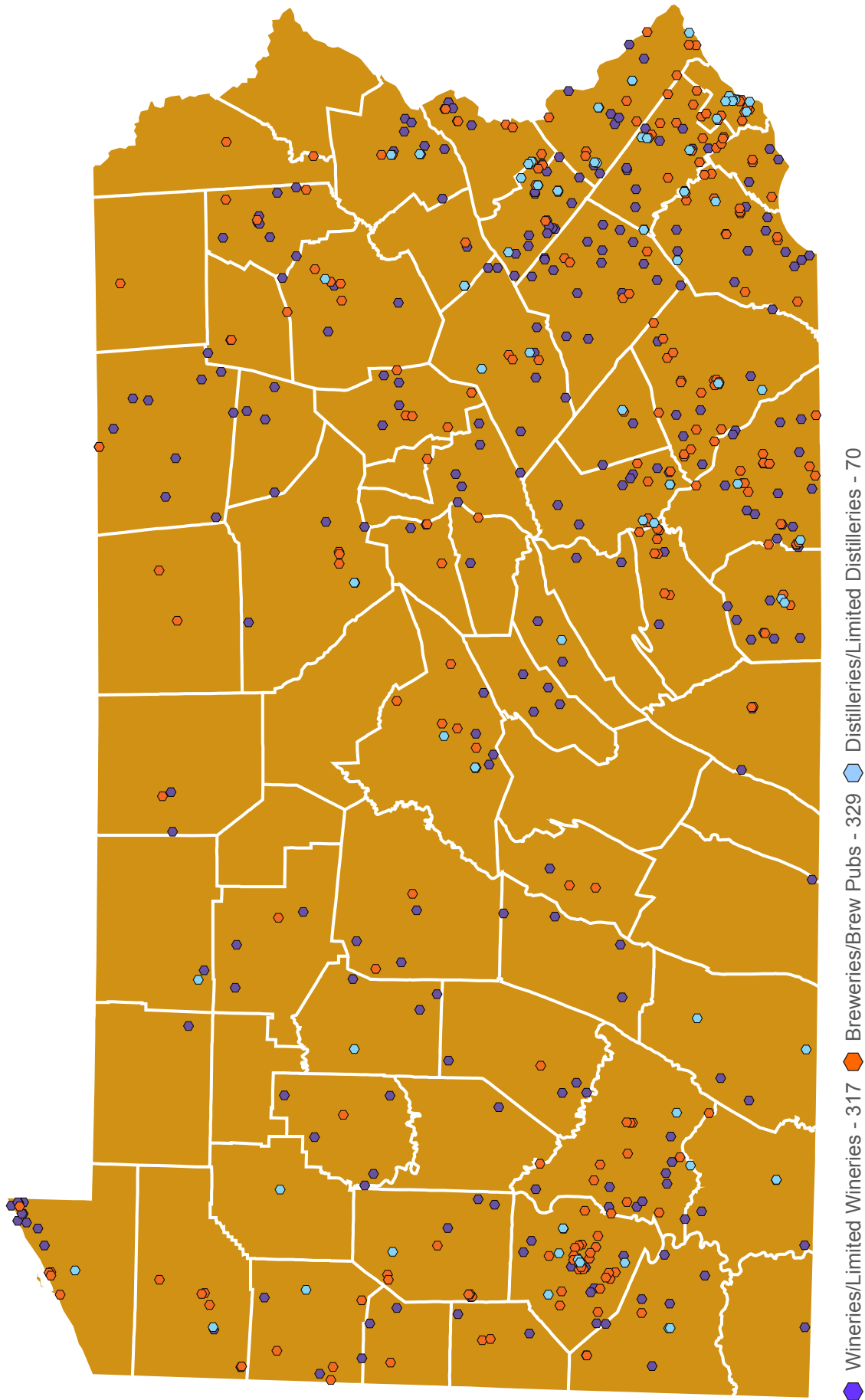
Under the provisions of the Liquor Code, the Pennsylvania Liquor Control Board maintains a Nuisance Bar Program to review the operational history of any licensed establishment that, by its actions, may have abused license privileges. The Bureau of Licensing seeks information from the community, law enforcement 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

2016	2015	2014	2013
<b>160</b>	<b>133</b>	<b>171</b>	<b>123</b>



PENNSYLVANIA PRODUCERS, JUNE 30, 2017



RETAIL LICENSES IN EFFECT AS OF DECEMBER 31, 2016

COUNTY	2010 POP	AREA SQ MI	RETAIL LIQUOR										RETAIL MALT BEVERAGE										NUMBER OF LICENSES	
			RESTAU-RANT	HOTEL	CLUB	OWR	AIR-PORT REST.	GOLF COURSE			CONT. CARE RETIRE-MENT	ECO-NOMIC DEVEL-OP	PER-FORM ARTS	PUBLIC VENUE	EATING PLACE	ECON DEV	HOTEL	CLUB	GOLF COURSE		TOTAL RETAIL LICENSES			
								MUNIC.	PRIVATE	R. C.									MUNIC.	PRIVATE EAT.				
STATE TOTAL	12,702,379	44,740	9,708	1,194	2,856	12	46	33	223	36	36	21	58	96	501	1	0	26	5	6	14,858	3.51	0.33	
Adams	101,407	519	53	17	16	0	0	0	6	0	0	0	0	2	6	0	0	1	0	0	101	2.99	0.19	
Allegheny	1,223,348	730	1,463	96	293	1	9	2	10	1	5	0	9	17	25	0	0	2	1	0	1,934	4.74	2.65	
Armstrong	68,941	653	67	7	25	0	0	0	5	0	0	0	0	0	0	0	0	0	0	1	105	4.57	0.16	
Beaver	170,539	435	140	12	65	0	0	0	5	1	0	0	1	0	0	0	0	0	0	0	224	3.94	0.51	
Bedford	49,762	1,012	21	9	15	0	0	0	2	0	0	0	0	0	2	0	0	0	0	0	49	2.95	0.05	
Berks	411,442	857	269	45	116	0	1	1	6	1	4	0	1	4	8	0	0	2	0	0	458	3.34	0.53	
Blair	127,089	526	81	15	30	0	0	0	3	1	0	0	1	3	15	0	0	1	0	0	150	3.54	0.29	
Bradford	62,622	1,147	29	17	22	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	70	3.35	0.06	
Bucks	625,249	604	333	56	48	0	0	3	5	1	2	1	2	0	11	0	0	0	0	1	463	2.22	0.77	
Butler	183,862	789	101	18	26	0	2	1	5	0	1	0	1	1	2	0	0	0	0	1	159	2.59	0.20	
Cambria	143,679	688	146	21	107	0	0	0	2	0	0	0	0	3	3	0	0	0	0	0	282	5.89	0.41	
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	75	15	31	0	0	0	4	0	0	0	1	0	2	0	0	0	0	0	128	5.89	0.34	
Centre	153,990	1,110	69	20	27	0	1	0	2	0	1	0	1	4	2	0	0	2	0	0	129	2.51	0.12	
Chester	498,886	751	185	33	49	0	1	1	12	8	1	6	2	0	8	0	0	0	1	0	307	1.85	0.41	
Clarion	39,988	601	35	8	12	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	57	4.28	0.09	
Clearfield	81,642	1,145	70	8	37	0	0	0	2	0	0	0	0	0	2	0	0	1	0	0	120	4.41	0.10	
Clinton	39,238	888	27	11	15	0	0	1	1	0	0	0	0	1	7	0	0	0	0	0	63	4.82	0.07	
Columbia	67,295	483	43	8	24	0	0	0	3	0	0	0	2	0	0	0	0	0	0	0	80	3.57	0.17	
Crawford	88,765	1,012	81	7	30	0	0	0	5	0	0	1	0	0	0	0	0	0	0	0	124	4.19	0.12	
Cumberland	235,406	545	79	22	30	0	0	1	5	0	1	2	1	0	6	0	0	0	0	0	147	1.87	0.27	
Dauphin	268,100	525	196	31	65	0	1	2	6	0	0	0	1	8	13	0	0	0	0	1	324	3.63	0.62	
Delaware	558,979	184	320	22	53	1	2	2	0	2	4	0	2	1	30	0	0	0	0	0	439	2.36	2.39	
Elk	31,946	827	27	12	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	19	72	0	1	2	8	0	1	0	2	5	8	0	0	1	0	0	367	3.92	0.46	
Fayette	136,606	790	160	14	68	0	0	0	2	1	0	0	0	0	3	0	0	0	0	0	248	5.45	0.31	
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	20	6	19	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	45	3.49	0.08	

RETAIL LICENSES IN EFFECT AS OF DECEMBER 31, 2016

COUNTY	2010 POP	AREA SQ MI	RETAIL LIQUOR										RETAIL MALT BEVERAGE							NUMBER OF LICENSES	
			RESTAU- RANT	HOTEL	CLUB	OWR	AIR- PORT REST.	GOLF COURSE		CONT. CARE RETIRE- MENT	ECO- NOMIC DEVEL- OP	PER- FORM ARTS	PUBLIC VENUE	EATING PLACE	ECON DEV	HOTEL CLUB	GOLF COURSE		TOTAL RETAIL LICENSES	PER 3,000 POP.	PER SQ. MILE
								MUNIC.	PRIVATE								MUNIC.	PRIVATE EAT			
Huntingdon	45,913	875	15	6	12	0	0	0	0	1	0	0	0	4	0	0	0	0	40	2.61	0.05
Indiana	88,880	827	66	9	22	0	0	0	0	2	0	0	0	1	0	0	0	0	101	3.41	0.12
Jefferson	45,200	652	29	5	19	0	1	0	2	0	0	0	0	6	0	0	0	0	62	4.12	0.10
Juniata	24,636	391	6	1	3	0	0	0	1	0	0	0	0	0	0	0	0	0	11	1.34	0.03
Lackawanna	214,437	459	338	24	52	1	0	0	4	1	0	2	4	20	0	0	0	0	446	6.24	0.97
Lancaster	519,445	944	213	41	62	1	1	1	2	6	1	1	2	10	0	0	0	0	342	1.98	0.36
Lawrence	91,108	358	61	3	21	1	0	0	2	1	0	0	0	6	0	0	0	0	95	3.13	0.27
Lebanon	133,568	362	58	8	36	0	0	0	4	0	0	0	0	4	0	1	0	0	111	2.49	0.31
Lehigh	349,497	345	176	46	67	1	1	1	4	2	1	4	4	22	0	1	0	0	332	2.85	0.96
Luzerne	320,918	890	512	18	94	0	2	1	4	0	0	2	3	22	0	0	0	0	658	6.15	0.74
Lycoming	116,111	1,229	99	17	31	0	1	1	0	0	1	1	1	6	0	0	0	0	158	4.08	0.13
McKean	43,450	979	41	13	17	0	1	0	3	0	0	0	0	3	0	0	0	0	78	5.39	0.08
Mercer	116,638	673	93	12	37	0	0	0	7	1	0	0	0	0	0	0	0	0	150	3.86	0.22
Mifflin	46,682	411	24	3	12	0	0	0	0	0	0	0	0	3	0	0	1	0	43	2.76	0.10
Monroe	169,842	608	117	50	18	1	0	2	3	2	0	1	0	12	0	0	0	0	206	3.64	0.34
Montgomery	799,874	483	411	74	103	2	0	4	24	3	7	2	2	21	0	0	0	0	655	2.46	1.36
Montour	18,267	130	11	1	9	0	0	0	1	0	0	0	0	0	0	2	0	0	24	3.94	0.18
Northampton	297,735	370	187	40	86	0	0	1	7	0	2	2	4	8	0	1	0	0	338	3.41	0.91
Northumberland	94,528	458	87	5	65	0	0	0	0	0	0	0	0	4	0	3	0	0	164	5.20	0.36
Perry	45,969	551	23	2	11	0	0	0	0	0	0	0	0	0	0	0	0	0	36	2.35	0.07
Philadelphia	1,526,006	134	1,442	51	137	2	17	2	1	0	2	12	22	143	0	0	3	0	1834	3.61	13.69
Pike	57,369	545	44	15	7	0	0	0	1	0	0	0	0	5	0	0	0	0	72	3.77	0.13
Porter	17,457	1,081	16	6	7	0	0	0	0	0	0	0	0	0	0	0	0	0	29	4.98	0.03
Schuylkill	148,289	779	207	13	89	0	0	0	2	0	0	0	0	1	0	1	0	0	313	6.33	0.40
Snyder	39,702	329	17	2	10	0	0	0	0	0	1	0	0	1	0	0	0	0	31	2.34	0.09
Somerset	77,742	1,074	63	19	35	0	0	0	3	0	0	0	0	1	0	0	0	1	122	4.71	0.11
Sullivan	6,428	450	6	7	4	0	0	0	0	0	0	0	0	0	0	0	0	0	17	7.93	0.04
Susquehanna	43,356	823	39	9	7	0	0	0	1	1	0	0	0	0	0	0	0	0	57	3.94	0.07
Tioga	41,981	1,134	28	8	14	0	0	1	1	1	0	0	0	0	0	0	0	0	53	3.79	0.05
Union	44,947	316	14	5	8	0	0	0	0	0	1	0	0	0	0	0	0	0	28	1.87	0.09
Venango	54,984	674	32	2	12	0	1	0	2	0	0	1	0	2	0	0	0	0	52	2.84	0.08
Warren	41,815	884	36	7	12	0	0	0	0	0	1	0	0	2	0	1	0	0	59	4.23	0.07
Washington	207,820	887	211	23	117	0	0	0	6	2	0	1	2	0	0	0	0	0	362	5.23	0.42
Wayne	52,822	726	56	19	6	0	0	0	2	1	1	0	0	3	0	0	0	0	88	5.00	0.12
Westmoreland	365,169	1,028	348	34	205	0	2	1	14	1	1	1	0	12	0	0	0	0	619	5.09	0.60
Wyoming	28,276	397	23	6	3	0	0	0	1	0	0	0	0	2	0	0	0	0	35	3.71	0.09
York	434,972	904	156	28	53	1	0	0	11	1	1	2	2	10	1	0	1	0	267	1.84	0.30



WHOLESALE LICENSES  
IN EFFECT AS OF DECEMBER 31, 2016

COUNTY	2010 POP	AREA SQ MI	LICENSE TYPE		TOTAL WHOLESALE LICENSES	NUMBER OF LICENSES	
			DISTRIBUTOR	IMPORTING DISTRIBUTOR		PER 30,000 POPULATION	PER SQUARE MILE
STATE TOTAL	18,712,471	44,740	1,108	154	1,262	2.02	0.03
Adams	101,407	519	6	0	6	1.78	0.01
Allegheny	1,223,348	730	127	16	143	3.51	0.20
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	5	0	5	3.01	0.00
Berks	411,442	857	38	5	43	3.14	0.05
Blair	127,089	526	13	3	16	3.78	0.03
Bradford	62,622	1,147	5	1	6	2.87	0.01
Bucks	625,249	604	30	2	32	1.54	0.05
Butler	183,862	789	21	2	23	3.75	0.03
Cambria	143,679	688	23	6	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	8	4	12	4.41	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	13	2	15	5.07	0.01
Cumberland	235,406	545	10	3	13	1.66	0.02
Dauphin	268,100	525	16	6	22	2.46	0.04
Delaware	558,979	184	55	3	58	3.11	0.32
Elk	31,946	827	5	2	7	6.57	0.01
Erie	280,566	799	37	4	41	4.38	0.05
Fayette	136,606	790	17	2	19	4.17	0.02
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, 2016

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	1	7	4.65	0.01
Juniata	24,636	391	6	0	6	7.31	0.02
Lackawanna	214,437	459	23	6	29	4.06	0.06
Lancaster	519,445	944	30	6	36	2.08	0.04
Lawrence	91,108	358	8	1	9	2.96	0.03
Lebanon	133,568	362	12	0	12	2.70	0.03
Lehigh	349,497	345	29	6	35	3.00	0.10
Luzerne	320,918	890	35	4	39	3.65	0.04
Lycoming	116,111	1,229	12	1	13	3.36	0.01
Mckean	43,450	979	5	2	7	4.83	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	7	2	9	1.59	0.01
Montgomery	799,874	483	54	2	56	2.10	0.12
Montour	18,267	130	2	1	3	4.93	0.02
Northampton	297,735	370	23	2	25	2.52	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	116	9	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	2	31	6.27	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	3	6	4.29	0.01
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	21	2	23	3.32	0.03
Wayne	52,822	726	5	1	6	3.41	0.01
Westmoreland	365,169	1,028	44	6	50	4.11	0.05
Wyoming	28,276	397	4	0	4	4.24	0.01
York	434,972	904	27	4	31	2.14	0.03



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.



The 2017 Report on Underage and Dangerous Drinking, as prescribed by Act 85 of 2006, was released in late May 2017. The report, written and distributed by the PLCB, presents information about alcohol education and prevention programming, underage drinking and dangerous drinking statistics, and initiatives taken by various organizations to combat underage and dangerous drinking in Pennsylvania.

Upon release of the report, Board Chairman Tim Holden said, “While the beverage alcohol landscape in Pennsylvania has changed since the passage of landmark laws last year, the critically important alcohol education mission of the Pennsylvania Liquor Control Board has not. This report is an excellent opportunity to take stock of what programs are working; to examine current patterns of alcohol use, especially among young people; and to call attention to concerning trends we see emerging.”

Holden continued, “Perhaps most troubling is the number of children eight, nine, and 10 years old – kids traditionally thought of as way too young to drink – who are trying alcohol and even drinking on a somewhat regular basis. Whether that trend is inspired by increased consumption among adult populations or other factors, we don’t know, but these are important issues for the PLCB and public health and education communities to explore.”

#### EDUCATION & GRANTS MANAGEMENT DIVISION

In fiscal year 2016-17, the Education & Grants Management Division reached citizens in nearly every Pennsylvania county. The Bureau of Alcohol Education:

- Attended 203 events throughout the commonwealth.
- Distributed more than 439,542 educational materials.
- Hosted a conference for 300 prevention professionals from across the state.
- Held the 25th annual Alcohol Education Poster Contest, which received 772 entries. Fifty winners were recognized in an awards ceremony at 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.
- Participated in National Night Out celebrations in 13 communities.

Additionally, since its creation in 2014, the Bureau of Alcohol Education’s Facebook page has gained more than 1,000 likes and nearly as many follows. The page shares prevention information regarding underage and dangerous drinking, features community events the bureau participates in, and highlights grantee activities. The goal of the page is to interact with stakeholders and make the bureau and its resources more accessible to the public.

#### GRANTS

Beginning in 2013, Alcohol Education grants for reducing underage and dangerous drinking went to a two-year cycle. The amount awarded for the second year of funding in the 2015-17 grant cycle was \$1,120,280, which went to 63 grantees.

Grant recipients used funds to support some of the following programs: MADD® Power of Parents; Project ALERT; increased enforcement activities; Parents Who Host, Lose the Most®; Project Sticker Shock; AlcoholEDU®; Core survey implementation, Operation Buzzkill; MyStudentBody; and peer educators.

At the completion of second-year funding, grantees made 5,779,049 contacts with the public.

HERE ARE SOME OF THE WAYS PEOPLE WERE REACHED:

Police and Campus Patrols	Public Service Announcements	Billboards	Newspapers	Online Programs	Peer Educators
1,791	657	153	131	21	52

The purpose of the Responsible Alcohol Management Program (RAMP) is to give licensees the tools they need to serve alcohol responsibly. RAMP was established in 2001 as a voluntary program, but Act 26 mandated RAMP certification for licensees found guilty of sales to minors or visibly intoxicated persons (VIPs). Subsequent state laws also require elements of RAMP training for owners/managers and servers/sellers. 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.

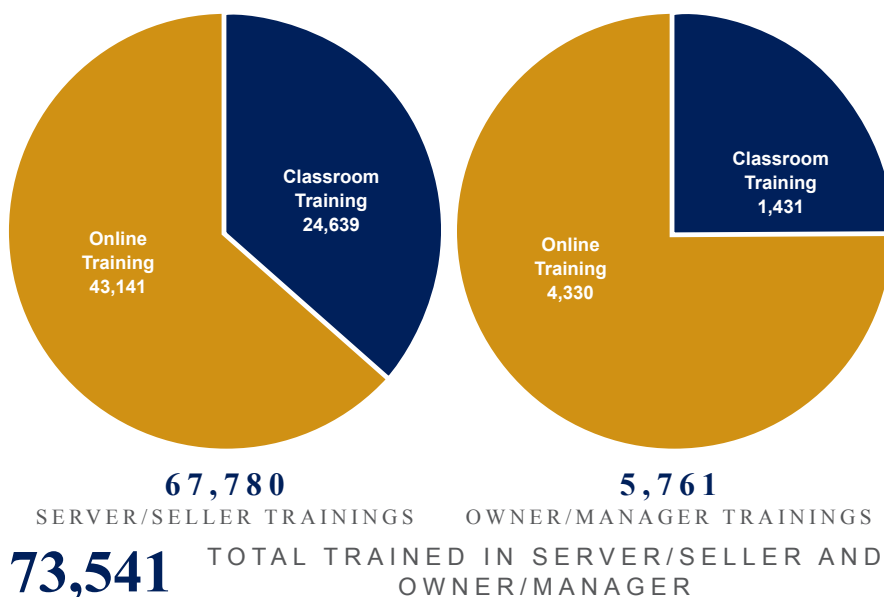
**Signage** – Posters or signs about acceptable forms of ID and the refusal of alcohol service to minors and VIPs must be displayed at the licensed establishment.

**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.

Act 39 of 2016 requires that all alcohol service personnel complete RAMP server/seller training within six months of being hired by a licensee, unless the person had successfully completed such training prior to being hired. This new law has led to an increase in the number of server/seller trainings and owner/manager trainings conducted by PLCB staff.

In order to meet the growing training demand, PLCB regulations were changed to allow third parties like Training for Intervention Procedures (TIPS) to create their own server/seller curriculums. If a curriculum is equivalent to or exceeds

RAMP curriculum, the PLCB will certify the curriculum, the entity may offer that training in Pennsylvania, and the training will be considered the same as RAMP training.



**1,459** LICENSED ESTABLISHMENTS BECAME RAMP-CERTIFIED IN FISCAL YEAR 2016-17

## 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.



# ADMINISTRATION

## EMPLOYMENT DEMOGRAPHICS



**AVG. AGE FOR STORE EMPLOYEES**

**44**  
years old

**AVG. AGE FOR ADMINISTRATORS**

**46**  
years old

**AVG. LENGTH OF SERVICE FOR STORE EMPLOYEES**

**7**  
years

**AVG. LENGTH OF SERVICE FOR ADMINISTRATORS**

**13**  
years

### AGENCY TURNOVER RATES

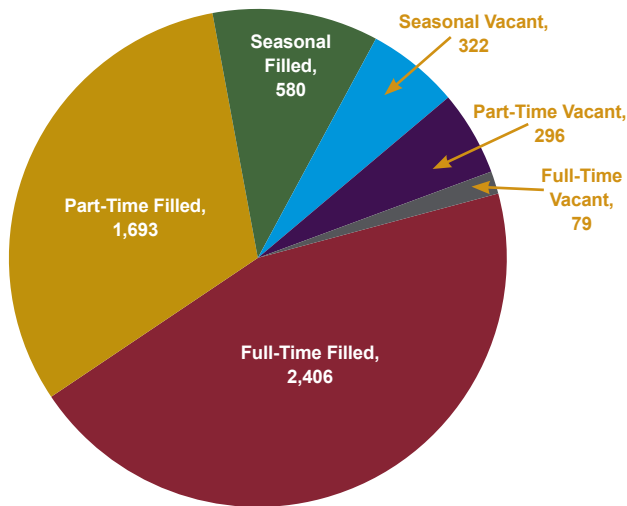
SALARIED EMPLOYEES:

**10.7%**

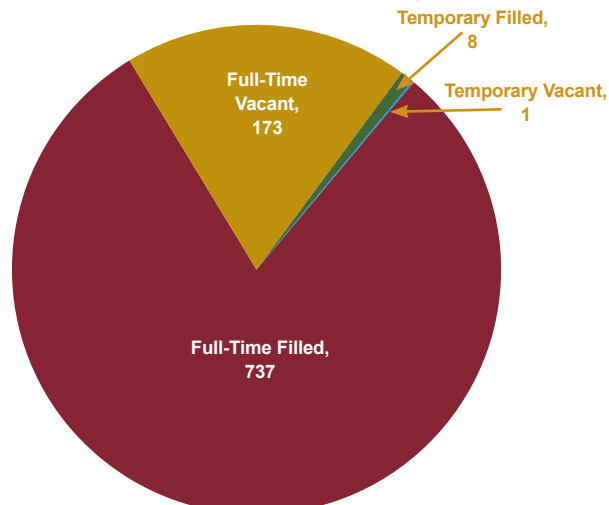
INTERMITTENT CLERKS:

**49.3%**

### TOTAL STORE POSITIONS (ON JUNE 30, 2017)



### TOTAL ADMINISTRATION POSITIONS (ON JUNE 30, 2017)



### NEW HIRES & REHIRES

**1,170**  
Stores

**49**  
Administration

### NEW HIRES & REHIRES-SEASONAL

**1,471**  
Stores

### HIRES FROM OTHER AGENCIES

**36**  
Administration & Stores

### INTERNAL PROMOTIONS

**610**  
Stores

**101**  
Administration

### INTERNAL LATERAL/ TRANSFERS

**1,550**  
Stores

**231**  
Administration

## ADMINISTRATION

In fiscal year 2016-17, the Bureau of Talent Management and Organizational Development (TMOD) provided training to agency staff and management. In an effort to emphasize product knowledge, TMOD developed the Touring Fine Wine & Good Spirits series, an agency-wide online initiative focusing on wine and spirit topics. Additional offerings included new courses in the administrative and supervisory curriculum; basic, intermediate, advanced, and master's wine courses; and store operations training for full- and part-time clerks.

### INSTRUCTOR-LED TRAINING

53 courses offered	705 sessions held	6,709 participants
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### WEB-BASED TRAINING

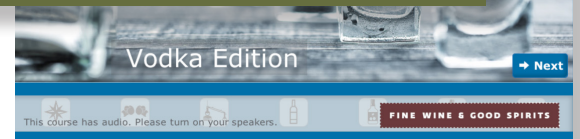
82 courses	78,881 completions
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### TYPES OF TRAINING OFFERED

Human Resources  
Health & Safety  
Basic Wine  
Intermediate Wine  
Advanced Wine  
Masters Wine

Wine Specialist  
Store Staff Development  
Supervisory/Leadership  
Microsoft Office  
New Hire  
Seasonal New Hire

Code of Conduct  
unCORK Customer Service  
General Manager  
Professional Development  
Touring Fine Wine & Good Spirits



## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

PLCB management is responsible for the preparation, integrity, and fair presentation of the agency's financial statements. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the U.S., and, as such, include amounts based on estimates and judgments by management. The PLCB maintains a system of internal controls designed to provide reasonable assurance that its financial statements are free from material misstatement due to fraud or error.

## 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 report are the State Stores Fund Comparative Statement of Net Position and Comparative Statements of Revenues, Expenses, and Changes in Net Position for the Twelve Months Ending June 30, 2017 and June 30, 2016; the State Stores Fund Comparative Statement of Cash Flows for the Period July 1, 2016 to June 30, 2017; and the Liquor License Fund Statement of Fiduciary Net Position as of June 30, 2017.

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 Statement of Revenues, Expenses, and Changes in Net Position reports the operating revenue activity, expenses related to such activity, and operating transfers out for each fiscal year. The Comparative Statement of Cash Flows outlines the cash inflows and outflows relating to the operations for each 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 Statement of Changes in Fiduciary Net Position illustrates the net asset and net liability activity throughout the fiscal year. The basic financial statements also include Notes to Financial Statements that provide additional information that is 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 the liquor tax nor the state and local sales taxes are reflected in the basic financial statements as revenue, expenses, or liabilities.

## EXECUTIVE SUMMARY & HIGHLIGHTS

The liquor reforms contained in Acts 39, 85, and 166 of 2016 impacted all facets of the PLCB's business and regulatory functions. While the goals of these reforms were to increase both consumer convenience and revenue, not all elements of the changes were accretive to the PLCB's net income for fiscal year 2016-17.

Key liquor reform changes having direct impact on PLCB financials include the following:

- Elimination of proportional markup and adoption of flexible pricing on the 150 best-selling brands of wine and the 150 best-selling brands of spirits. This change allows the PLCB to both maximize financial returns to the commonwealth and offer competitive retail prices for consumers.



- Introduction of retail wine sales to go at private retailers. The PLCB is the wine wholesaler to holders of wine expanded permits, who purchase wine at a 10 percent discount off retail prices. Private wine sales are having an impact on Fine Wine & Good Spirits sales as customers appreciate the convenience of buying wine with the rest of their groceries and convenience items.
- Auction of restaurant licenses that expired or lapsed since 2000. Three auctions conducted via sealed bid were conducted in fiscal year 2016-17 offering a total of 140 licenses. Auction proceeds are held in escrow and recorded as revenue when the license transfers are approved, but revenue recognized from auctions through the end of the fiscal year totaled \$4 million.
- Removal of restrictions limiting Fine Wine & Good Spirits store hours of operation on Sundays and holidays. Since Sundays are the second biggest shopping day of the week and most major retailers are open on holidays like Presidents Day and Memorial Day, the flexibility to open stores on additional days and for longer hours has greatly enhanced consumer convenience. Over 50 percent of the more than 600 Fine Wine & Good Spirits stores are now open Sunday, primarily from 11 a.m. to 7 p.m. While this has shifted more sales to Sundays and holidays on which we used to be closed, it has also resulted in higher store wages and overtime expense. We are continually assessing the cost-benefit of expanded store hours against improved convenience, particularly during the busy holiday season.
- Authority for Pennsylvania Lottery ticket sales in Fine Wine & Good Spirits stores. As of fiscal year-end, more than half of Fine Wine & Good Spirits stores participated as lottery retailers. Lottery commissions from August 2016 through the end of the fiscal year, which were deposited into the General Fund, totaled more than \$469,000.
- Authority for wine producers licensed as direct wine shippers to ship to each resident up to 36 cases of wine per year for personal consumption. Although direct wine shipments are subject to sales tax and a \$2.50 per gallon wine excise tax, that revenue is remitted directly to the Department of Revenue and is not credited to the State Stores Fund. Nearly 1,000 licenses were licensed as direct wine shippers by fiscal year-end, and wine shipped into Pennsylvania in fiscal year 2016-17 totaled more than \$24.2 million and one million units.

Additionally, two projects resulting from the 2016 legislative changes remained in-process at the end of fiscal year 2016-17: development of a customer relationship management (CRM) program and introduction of a more efficient and accountable system for processing Special Orders. CRM demonstrates the potential to drive sales growth through a rewards program and personalized communication and sales offers. Special Orders, which are a growing sales channel accounting for \$103.7 million in sales in fiscal year 2016-17, fulfill customer needs (primarily licensees) for items not available from the PLCB. However, Act 39 of 2016 decreased the PLCB markup on Special Orders from 30 percent to 10 percent, lowering the profitability of these items for the commonwealth and requiring the PLCB to streamline and make more efficient the Special Order process.

All of the changes above required significant operational and system enhancements to be implemented effectively and in a very short period of time. Successful implementation in 2016 of PLCB+, a 24/7, on-line regulatory and licensing system, greatly facilitated smooth implementation of regulatory aspects of the 2016 liquor reforms.

## REVENUES AND COSTS

Fiscal year 2016-17 sales grew 3.9 percent over the prior year entirely as a result of volume increases. Vendor price increases were more than offset by the initial market shift in wine sales to grocery and convenience stores and other holders of wine expanded permits, which purchase from the PLCB at a 10 percent discount off retail prices. PLCB fiscal year 2016-17 net income of \$104.9 million was \$1.0 million, or 1.0 percent, higher than the prior year, reflecting higher sales and license fees offset by lower gross margin and higher operating expenses.

Other financial highlights include:

- License fees grew by \$17.9 million, or 139 percent, due to statutory increases to license fees (surcharges) and new revenue from the auction of expired and lapsed restaurant licenses.
- Contributions to the General Fund totaled \$720.6 million, a \$136.9 million, or 23.5 percent, increase over the prior year.
- Net cash flow of \$184.9 million from operating activities, which was up \$13.1 million from the prior year after covering all PLCB operating expenses (including implementation costs related to the 2016 liquor reforms), PLCB funding of Pennsylvania State Police liquor control enforcement efforts, and transfers to the Department of Drug & Alcohol Programs.
- Year-end cash and investments decreased \$66.0 million to \$229.4 million, due to legislatively mandated transfers to the General Fund that exceeded annual free cash flow.
- Total liabilities increased by \$58.0 million to \$964.5 million, reflecting primarily the PLCB's share of the commonwealth's increasing net pension liability and other post-employment benefits.
- The PLCB's total net deficit position increased to \$388.6 million from \$277.4 million the prior year due to the increased transfer of cash to the General Fund and to higher benefit obligations.

**Sales**

Sales and tax revenue in fiscal year 2016-17 totaled \$2.53 billion, an increase of \$95.5 million, or 3.9 percent, over fiscal year 2015-16. Excluding liquor and sales taxes, net sales of \$2.01 billion were up \$74.9 million, also 3.9 percent over the prior year. Unit volume growth accounted for all the sales increase, while expanded sales at a discount to the new wine expanded permit licensees substantially offset vendor price increases. Total wine sales growth, including sales to holders of wine expanded permits, was 5.0 percent, while spirit sales grew 2.9 percent.

Retail sales to individual consumers grew 1.7 percent, while wholesale sales to licensees increased by 12.3 percent, reflecting the shift in wine sales to wine expanded permit holders. In Fine Wine & Good Spirits stores, spirit sales grew 3.4 percent while wine sales declined by 0.3 percent from the prior year. On a volume basis, total spirit unit sales grew 2.6 percent, and total wine unit sales grew 5.0 percent.

Debit/credit card purchases increased slightly to 65.0 percent of sales in 2016-17, up from 64.7 percent in 2015-16. The average debit card and credit card sales were \$30.66 and \$51.59, respectively, as compared to \$30.65 and \$53.57 the prior year.

**Gross Margin**

Gross margin decreased to 30.9 percent in fiscal year 2016-17, down from 31.3 percent the prior year. The decrease is due mainly to \$42.8 million of wine sales to grocery and convenience stores selling wine to go.

**Operating Income & Expense**

In fiscal year 2016-17, the definition of operating income was revised to include licensing fees and fines, as well as administrative law judge expenses, to be consistent with the presentation format used by the Auditor General.

Operating income for the year ending June 30, 2017, was \$130.9 million, up \$1.7 million, or 1.3 percent, from the \$129.2 million reported the prior year. The increase is attributable to increases in license fees of \$17.9 million and gross profit of \$16.3 million, substantially offset by a \$30.3 million increase in operating expenses and a \$2.1 million reduction in miscellaneous income and enforcement fines. License fee increases resulting from the 2016 legislative changes include the following, along with other less significant fee changes:

- \$9.5 million as a result of increased licensee renewal fees (surcharges);
- \$4 million in revenue realized by fiscal year end from the auction of expired restaurant licenses; and
- \$1.3 million in fees generated from the conversion of eating place licenses, which allow for the sale of malt and brewed beverages but not wine or liquor, to restaurant licenses, which allow for the sale of beer, wine and liquor.

Within operating expenses, salary and wages increased by \$7.5 million, or 4.4 percent, due to commonwealth negotiated rate increases and higher overtime associated with expanded Sunday and holiday sales hours. Benefits expense increased by \$16.0 million, or 9.4 percent, and reflects primarily increases in pension expense (\$10.3 million), and worker's compensation (\$4.3 million). The PLCB's annual pension expense currently represents 42.5 percent of total salaries and wages. Non-payroll related expenses grew by \$6.8 million, or 4.5 percent, mostly due to increases in store rent (up 8.8 percent) due to store relocations, redesigns, and new stores; credit and debit card service fees (up 8.2 percent); and Auditor General fees (up 14.2 percent). Such increases were partially offset by decreased information technology consulting expenses.

**Transfers Out**

The Bureau of Liquor Control Enforcement within the Pennsylvania State Police received \$28.1 million in funding in fiscal year 2016-17, an increase of \$2.0 million, or 7.7 percent, over the previous year. Contributions to the Department of Drug & Alcohol Programs decreased to \$2.5 million from \$3.3 million the prior year. Legislation in 2015-16 increased the annual transfer to the Department of Drug and Alcohol Programs to \$2.5 million and contained a retroactive increase for 2014-15 of \$0.8 million.

Inter-agency billings totalled \$13.4 million.

The PLCB transferred a record \$216.7 million to the General Fund during fiscal year 2016-17, a \$116.7 million increase over the \$100 million transfer the prior year.

Other contributions to the General Fund during fiscal year 2016-17 generated by the PLCB's operations, but not reflected as revenues, expenses, or cash flows in the State Stores Fund financial statements, included \$361.9 million in liquor tax and \$142.0 million in state sales tax, an overall 4.2 percent increase. Additionally, the PLCB remitted \$9.1 million in local sales taxes to Philadelphia and Allegheny County.

Licensing fees returned to local municipalities from the Liquor License Fund totaled \$4.5 million for fiscal year 2016-17, compared to \$4.6 million in the prior year.



Sales on Friday, Dec. 23, 2016, totaled \$27.4 million (including sales and liquor taxes), \$1 million or 3.9 percent higher than the previous one-day sales record set on Dec. 31, 2015. While New Year's Eve is often the busiest wine and spirit sales day, the 2016 calendar put both Christmas and New Year's Day on Sundays, allowing customers to spread out their holiday buying. December 2016 achieved a new record for highest monthly sales in PLCB history – \$327.3 million in total sales, including taxes – an increase of \$17.1 million, or 5.5 percent, more than the previous monthly sales record set in December 2015.







September 28, 2017

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, 2017 and June 30, 2016, and the comparative statement of fiduciary net position for the Liquor License Fund as of June 30, 2017 and June 30, 2016, and the related State Stores Fund comparative statements of revenues, expenses, and changes in fund net position for the period ended June 30, 2017 and June 30, 2016, 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.

A handwritten signature in black ink, appearing to read "Michael J. Burns". The signature is fluid and cursive, with a large loop at the end.

Michael J. Burns, CPA  
Director

# FINANCIAL STATEMENTS

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash	\$ 40,011,403	\$ 19,962,868
Investments - short term	189,402,604	275,395,461
Accounts and claims receivable, net	2,136,850	1,567,938
Due from other funds - Note 8	-	-
Merchandise inventories, net	254,916,713	244,158,953
Operating supplies	358,595	491,962
Prepaid expenses	3,082,918	-
Total current assets	<u>489,909,083</u>	<u>541,577,182</u>
Non-current assets:		
Non-depreciable capital assets:		
Land	322,973	322,973
Depreciable capital assets:		
Building	19,816,479	19,557,620
Leasehold improvements	582,597	757,962
Machinery and equipment	47,112,135	51,584,832
Intangibles - internally generated software	29,508,013	20,559,499
Less: accumulated depreciation	<u>61,236,089</u>	<u>53,564,994</u>
Net depreciable capital assets	<u>35,783,135</u>	<u>38,894,919</u>
Total non-current capital assets	<u>36,106,108</u>	<u>39,217,892</u>
Total assets	<u>\$ 526,015,191</u>	<u>\$ 580,795,074</u>
Total deferred outflows of resources - Note 4	\$ 105,861,773	\$ 93,191,449
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Trade accounts payable	\$ 269,948,690	\$ 256,513,494
Other accounts payable	19,279,117	13,003,109
Accrued expenses	14,695,432	22,413,212
Self-insurance, workers' compensation - Note 6	6,739,857	7,771,965
Due to other funds - Note 8	5,933,219	4,842,657
Due to fiduciary funds - Note 8	1,628,252	2,947,966
Due to other governments - Note 8	492,484	888,403
Total current liabilities	<u>318,717,051</u>	<u>308,380,806</u>
Non-current liabilities:		
OPEB - Note 5	107,216,012	90,178,113
Self-insurance, workers' compensation - Note 6	42,256,546	39,287,287
Net pension liability - Note 4	477,443,490	449,175,699
Compensated absences - Note 1	18,904,788	19,506,861
Total non-current liabilities	<u>645,820,836</u>	<u>598,147,960</u>
Total liabilities	<u>\$ 964,537,887</u>	<u>\$ 906,528,766</u>
Total deferred inflows of resources - Note 4	\$ 19,817,976	\$ 5,636,121
<b><u>NET POSITION</u></b>		
Net investment in capital assets	\$ 36,106,108	\$ 39,217,892
Deficit	<u>(388,585,007)</u>	<u>(277,396,256)</u>
Total net position	<u>\$ (352,478,899)</u>	<u>\$ (238,178,364)</u>

See Accountant's Compilation Report  
The accompanying notes are an integral part of these statements.  
Page 2

**Commonwealth of Pennsylvania**  
**Pennsylvania Liquor Control Board**  
**Liquor License Fund**  
**Statement of Fiduciary Net Position**  
**As of June 30, 2017**  
**(Unaudited)**

	<u>June 2017</u>	<u>June 2016</u>
<b>Assets:</b>		
Cash in Transit	\$ 86,325	\$ 91,715
Investments - Short Term	<u>2,389,665</u>	<u>2,326,929</u>
Total Assets	<u>\$ 2,475,990</u>	<u>\$ 2,418,644</u>
<b>Liabilities:</b>		
License Fees due Municipalities	\$ 2,475,990	\$ 2,416,594
Other Liabilities	<u>-</u>	<u>2,050</u>
Total Liabilities	<u>\$ 2,475,990</u>	<u>\$ 2,418,644</u>

See Accountant's Compilation Report  
 The accompanying notes are an integral part of these statements.  
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# FINANCIAL STATEMENTS

## 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, 2017 and June 30, 2016 (Unaudited)

	2016-17	2015-16
Sales net of taxes	\$ 2,012,789,087	\$ 1,937,884,590
Cost of goods sold	(1,390,882,364)	(1,332,285,510)
Gross profit from sales	621,906,723	605,599,080
Operating (expenses):		
Retail operations	(400,020,196)	(375,905,446)
Marketing & merchandising	(14,792,217)	(12,549,629)
Supply chain	(10,418,668)	(8,236,744)
Wholesale operations	(1,193,681)	-
Information technology services	(33,086,472)	(32,521,478)
Regulatory affairs	(22,280,153)	(20,516,378)
Administration	(14,430,335)	(13,234,066)
Finance	(3,716,756)	(5,392,976)
Board & secretary	(6,144,528)	(5,049,620)
Legal	(3,066,932)	(3,358,611)
Commonwealth provided services - Note 2	(13,436,645)	(15,532,205)
Total	(522,586,582)	(492,297,153)
Operating profit	99,320,141	113,301,927
Other operating revenues (expenses):		
Enforcement fines	1,352,931	1,892,032
License fees	30,812,542	12,884,473
Miscellaneous income	2,020,451	3,595,285
Administrative law judge	(2,622,807)	(2,490,903)
Total	31,563,117	15,880,887
Total operating income	130,883,257	129,182,814
Non-operating revenues (expenses):		
Interest income	2,225,054	892,769
Other	(106,249)	(127,528)
Total	2,118,805	765,241
Income before operating transfers	133,002,062	129,948,055
Operating transfers out:		
PSP enforcement - Note 3	(28,106,852)	(26,091,122)
Income after enforcement/before other transfers	104,895,210	103,856,933
Other operating transfers out:		
General fund - Note 3	(216,695,746)	(100,000,000)
Drug and alcohol programs - Note 3	(2,500,000)	(3,328,043)
Total	(219,195,746)	(103,328,043)
Change in net position	(114,300,535)	528,890
Total net position - beginning	(238,178,364)	(238,707,254)
Total net position - ending	\$ (352,478,899)	\$ (238,178,364)

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, 2017 and June 30, 2016  
(Unaudited)**

	June 2016-17	June 2015-16
Sales net of taxes	\$ 167,000,860	\$ 154,668,262
Cost of goods sold	(117,966,982)	(106,344,011)
Gross profit from sales	49,033,878	48,324,251
Operating (expenses):		
Retail operations	(34,201,432)	(24,326,561)
Marketing & merchandising	(838,447)	(397,506)
Supply chain	(1,196,590)	(767,506)
Wholesale operations	(124,910)	-
Information technology services	(1,362,868)	(2,488,309)
Regulatory affairs	(1,561,924)	(1,122,429)
Administration	(1,258,545)	(668,091)
Finance	(294,887)	(162,486)
Board & secretary	(449,262)	(10,120)
Legal	(264,461)	(316,792)
Commonwealth provided services - Note 2	(1,111,059)	(975,685)
Total	(42,664,385)	(31,235,483)
Operating profit	6,369,493	17,088,768
Other operating revenues (expenses):		
Enforcement fines	139,491	135,446
License fees	3,521,151	1,117,687
Miscellaneous	193,148	650,347
Administrative law judge	(220,814)	(219,755)
Total	3,632,976	1,683,725
Total operating income	10,002,469	18,772,492
Non-operating revenues (expenses):		
Interest income	191,158	133,852
Other	(4,297)	218,277
Total	186,861	352,129
Income before operating transfers	10,189,330	19,124,621
Operating transfers out:		
PSP enforcement - Note 3	(2,971,608)	(2,007,773)
Income after enforcement/before other transfers	7,217,722	17,116,848
Other operating transfers out:		
General fund - Note 3	(25,000,000)	(25,000,000)
Drug and alcohol programs - Note 3	(2,500,000)	(2,500,000)
Total	(27,500,000)	(27,500,000)
Change in net position	(20,282,278)	(10,383,152)
Total net position - beginning	(332,196,621)	(227,795,212)
Total net position - ending	\$ (352,478,899)	\$ (238,178,364)

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  
Comparative Statement of Cash Flows  
For the Twelve Months Ending June 30, 2017 and June 30, 2016  
(Unaudited)**

	FY16	FY15
Cash flows from operating activities:		
Receipts from customers	\$ 2,046,406,099	\$ 1,956,021,550
Payments to suppliers	(1,861,485,490)	(1,784,217,391)
Net cash provided by (used for) operating activities	184,920,609	171,804,159
Cash flows from noncapital financing activities:		
PSP expenses	(28,106,852)	(26,091,122)
General fund transfer	(216,695,746)	(100,000,000)
DDAP transfer	(1,053,439)	(1,671,957)
Net cash used for noncapital financing activities	(245,856,037)	(127,763,079)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(7,265,514)	(11,502,957)
Proceeds from capital assets	31,565	15,335
Net cash used for capital and related financing activities	(7,233,949)	(11,487,622)
Cash flows from investing activities:		
Purchase of investments	(1,549,743,449)	(1,613,172,159)
Proceeds from sale and maturities of investments	1,635,736,307	1,579,478,878
Investment income	2,225,054	892,769
Net cash provided by (used for) investing activities	88,217,912	(32,800,513)
Net increase / (decrease) in cash	20,048,535	(247,054)
Cash - July 1	19,962,868	20,209,922
Cash - June 30	<u>\$ 40,011,403</u>	<u>\$ 19,962,868</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income	\$ 130,883,257	\$ 129,182,814
Depreciation	10,239,483	9,170,108
Change in assets and liabilities		
Accounts receivable	(572,175)	(240,574)
Inventory	(10,624,393)	(14,356,307)
Due from other funds	3,263	5,744
Other operating net assets	(3,082,918)	3,766,222
Deferred outflows - pension related	(12,670,324)	(62,152,912)
Accounts payable and accrued liabilities	10,231,516	4,571,874
Due to other funds	(355,999)	1,058,127
Due to pension trust funds	34,547	1,291,607
Net pension liability	28,267,791	86,490,649
Due to other governments	11,730	309,339
Other post-employment benefit obligations	17,037,899	13,525,559
Self-insurance liabilities	1,937,150	(2,866,603)
Compensated Absences	(602,073)	(585,386)
Deferred inflows - pension related	14,181,855	2,633,898
Total adjustments	54,037,351	42,621,345
Net cash provided by (used for) operating activities:	<u>\$ 184,920,609</u>	<u>\$ 171,804,159</u>

Noncash investing, capital and financing activities:

\$2.3 million of a \$2.5 million liability established for a FY15-16 statutory transfer to Department of Drugs and Alcohol (DDAP) for the fiscal year ended June 30, 2016 remains to be withdrawn as of June 30, 2017. In addition, a \$2.5 million DDAP liability was accrued in June 2017 for the FY 16-17 statutory obligation.

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

COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA LIQUOR CONTROL BOARD  
STATE STORES AND LIQUOR LICENSE FUNDS  
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 \$192,578 as of June 30, 2017 and \$232,993 as of June 30, 2016.

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: From July 1, 2016 to the end of the 2016 leave calendar year, employees accumulated annual leave based on 2.7% to 10% of regular hours paid to a maximum of 45 days. Effective with the beginning of the 2017 leave calendar year, employees accumulate annual leave based on 5.39% to 11.55% 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, 2016 to June 30, 2017 are as follows:

Liquor Tax	\$361,856,317
State Sales Tax	142,005,398
Local Sales Tax	<u>9,060,399</u>
Total	\$512,922,114

Comparative Data and Reclassifications:

Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation. Such reclassifications did not affect Income after enforcement / before other transfers, Change in net position, or Total net position.



## 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:

Comptroller	\$ 4,761,259
Auditor General Services	3,069,261
Treasury Department Services	159,537
Civil Service Commission Services	1,038,087
Payroll Operations Services	349,947
<b>OA Office</b>	
Classification & Pay Services	288,762
Strategic Services/SEAP	184,237
IES -Contracted Main Services	1,606,311
OA Telecommunication Charges	948,552
Commonwealth User Provisioning and Self-Service	45,439
Executive Offices Labor Relations	41,393
<b>Dept of General Services</b>	
Real Estate & Shared Services Accrual	801,932
Employee Self & Tort Insurance	102,711
Capital Complex Services	39,217
	<u><u>\$ 13,436,645</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

Per Act 21 of 1951, as reenacted by Act 14 of 1987, the PLCB is subject to transfer moneys to the General Fund for use of the Commonwealth.

Per Act 39 of 2016, any commissions, compensation or any type of incentive award based upon the sale of lottery tickets and games shall be deposited by the PLCB into the General Fund.

Per Act 166 of 2016, all moneys collected from converting an eating place retail dispensing license to a restaurant license, casino license fees, and license auction proceeds shall be transferred from the State Stores Fund to the General Fund on a quarterly basis.

## Drug & Alcohol Programs

Per Act 21 of 1951, as reenacted by Act 14 of 1987, 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. 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 21 of 1951, as reenacted by Act 14 of 1987. An estimated amount of \$2.5M has been accrued for the FYE June 30, 2017.

## 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 2015/2016 was 4.5%, and will no longer apply effective July 1, 2017. The PLCB's

contributions to the SERS were \$45.2M and \$37.7M for the years ended June 30, 2017 and 2016, 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, 2017 and June 30, 2016, the PLCB recognized pension expense of \$74,978,586 and \$64,659,497, respectively, as follows:

	<b>FYE</b> <b>June 30, 2017</b>	<b>FYE</b> <b>June 30, 2016</b>
Employer Contributions	45,199,264	37,687,862
Change in Net Pension Liability	28,267,790	86,490,649
Total Change in Deferred Outflows		
Contributions Subsequent to Measurement Date	(3,383,196)	(3,428,103)
Difference between Projected and Actual Investment Earnings	5,610,163	(35,255,306)
Change in Proportion	(1,027,714)	(2,840,708)
Difference Between Employer Contributions and Proportionate Share	(254,382)	(157,876)
Difference between Expected and Actual Experience	2,203,141	(7,126,041)
Difference in Change in Assumptions	(15,818,335)	(13,344,876)
Total Change in Deferred Outflows	(12,670,324)	(62,152,910)
Total Change in Deferred Inflows		
Change in Proportion	3,364,312	-
Difference Between Employer Contributions and Proportionate Share	135,246	2,444,045
Difference between Expected and Actual Experience	10,682,297	189,853
Total Change in Deferred Inflows	14,181,855	2,633,898
<b>Total Pension Expense</b>	<b>74,978,586</b>	<b>64,659,499</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, 2017 and 2016 was not fully funded. The PLCB's allocated OPEB liability was \$107.2M as of June 30, 2017 and \$90.2M as of June 30, 2016.

### New Accounting Pronouncement:

The Commonwealth will adopt GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, for the fiscal year beginning July 1, 2017.

Many of the provisions of GASB 75 are parallel to the provisions of GASB 68 for pensions. Pension accounting and financial reporting were overhauled with GASB 68, and the changes made for OPEB mostly follow the same guidelines.

The GASB 75 OPEB expense is designed to recognize in the current period income statement certain changes to the Net OPEB Liability (NOL). Changes to the NOL not fully recognized in a given years' OPEB expense will be tracked as deferred inflows and outflows, and recognized incrementally in the OPEB expense over time.

The cumulative effect of applying GASB 75 will be reported as a restatement of beginning net position as of July 1, 2017, in the PLCB financial statements for the FYE June 30, 2018, due to a Change in Accounting Principle.

## 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 \$49.0M as of June 30, 2017 and \$47.1M as of June 30, 2016.



## 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. DUE TO / FROM OTHER FUNDS, FIDUCIARY FUNDS, OTHER GOVERNMENTS

Amounts due from / to other funds are reported for other state agencies' unremitted charges or collections at period end that arise in connection with routine, ordinary operations.

Amounts due to fiduciary funds consist of the PLCB's estimated accrual for employer contribution owed to the SERS.

Amounts due to other governments consist of PLCB's estimated accrual for Social Security and Medicare taxes owed to the United States Treasury.

## 9. OPERATING LEASE COMMITMENTS

The PLCB has commitments to lease certain buildings. Future minimum rental commitments for noncancellable operating leases as of June 30, 2017, were as follows (expressed in thousands):

<u>Year Ending June</u>	<u>Real Estate</u>
2018	\$45,978
2019	39,104
2020	32,124
2021	26,242
2022	<u>11,675</u>
Total Minimum Lease Payments	<u>\$155,123</u>

Rental expense for all operating leases for the period ending June 30, 2017, amounted to \$51.3M.



*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).*