

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES AND LIQUOR LICENSE FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 Pennsylvania Liquor Control Board (PLCB) in the preparation of the accompanying financial statements are as follows:

Basis of Presentation: The Pennsylvania Liquor Control Board 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 Health for alcohol abuse 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.

Accounting Period: The State Stores Fund and the Liquor License Fund is accounted for on a fiscal year basis, comprised of twelve (12) calendar months.

Basis of Accounting: The financial statements of the State Stores Fund are presented on the accrual basis of accounting according to Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Accrual basis accounting requires recognition of revenue when earned and recognition of expenses when incurred. The Liquor License Fund is normally presented on the modified accrual basis of accounting for recognizing assets and liabilities. However, year-end reporting is on the full accrual basis according to GASB 34 requirements.

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.

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

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

Employees accumulate sick leave based on 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.

The accumulated annual and sick leave and related payroll benefits reported for fiscal years ended June 30, 2012 and June 30, 2011 was \$24,383,400 and \$24,005,660 respectively.

Sales: All taxes are excluded from Sales reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. 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, 2011 to June 30, 2012 are as follows:

Liquor Tax	\$298,144,199
State Sales Tax	116,033,064
Local Sales Tax	<u>7,835,495</u>
Total	\$422,012,758

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:

Consolidated Data Center Charges	\$3,848,272
Department of the Auditor General	3,085,401
Department of General Services	769,592
State Civil Service Commission	892,374
Office of Administration:	
Bureau of Personnel	251,940
Integrated Enterprise System	1,621,533
Other	169,035
Office of the Budget:	
Payroll	280,005
Treasury Department	<u>226,185</u>
	<u>\$11,144,337</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

Funds transferred to the General Fund to be used for general appropriation purposes.

Drug & Alcohol Programs

Funds transferred to the Department of Health for administering drug and alcohol rehabilitation programs.

4. 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, 2012 and 2011 was not fully funded. The PLCB's allocated OPEB liability was \$46.15M as of June 30, 2012 and \$36.02M as of June 30, 2011.

5. 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. The Self Insurance liability is calculated actuarially on an annual basis and is included in the financial statements. In addition to the amounts paid during the fiscal year, the State Stores Fund is liable for \$30.52M as of June 30, 2012 for PLCB employee disability due to business-type activities.

6. 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.

7. OPERATING LEASE COMMITMENTS

The PLCB has commitments to lease certain buildings. Future minimum rental commitments for noncancellable operating leases as of June 30, 2012, were as follows (expressed in thousands):

<u>Year Ending June</u>	<u>Real Estate</u>
2012	\$30,858
2013	22,535
2014	16,982
2015	10,167
2016	<u>4,878</u>
Total Minimum Lease Payments	<u>\$85,420</u>

Rental expense for all operating leases for the period ending June 30, 2012, amounted to \$40.10M.