

MADE IN
PENNSYLVANIA

MADE IN
PENNSYLVANIA



FISCAL YEAR
2014-15 ANNUAL REPORT



pennsylvania
LIQUOR CONTROL BOARD

VISION AND MISSION

VISION STATEMENT

Be recognized as the best-in-class wine and spirits retailer, distributor and regulator in the United States.

MISSION STATEMENT

The Pennsylvania Liquor Control Board serves as the commonwealth's responsible retailer of wine and spirits and regulator of the beverage alcohol industry and strives to maximize returns to the people of Pennsylvania.

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MESSAGE FROM THE BOARD

Dear Pennsylvania Residents:

Welcome to the Pennsylvania Liquor Control Board's fiscal year 2014-15 Annual Report. This publication, now in its third year, details the PLCB's operations – from marketing to merchandising, from store operations to supply chain, and from employees to expenses and income.

PLCB sales of wines and spirits including sales and liquor taxes totaled a record \$2.34 billion in fiscal year 2014-15, an increase of 4.2 percent over the previous year. As a result, the PLCB's return to the Pennsylvania General Fund and state Treasury also grew, including \$334.4 million in liquor tax, \$130.2 million in state sales tax and \$80 million operational profits transferred to the General Fund. Additionally, the PLCB provided \$25.7 million to fund Pennsylvania State Police liquor law enforcement efforts, afforded \$1.7 million to support the Pennsylvania Department of Drug and Alcohol Programs, returned \$4.5 million to local municipalities and approved \$2.3 million in alcohol education grants to 65 programs around the state promoting responsible alcohol consumption and educating youth on the dangers of underage drinking.

Our commitment to rebranding and better locating Fine Wine & Good Spirits stores continued over the past year. We completed a record 28 store upgrades to new and existing locations. The more convenient locations (many of which are colocated with grocery stores), more inviting and comfortable atmospheres for shopping and more robust product information at these stores is helping us to improve in-store consumer experiences day by day, store by store.

We also saw exciting growth last year among Pennsylvania distilleries and wineries. We are proud to continue supporting these home-grown industries. By supporting these Pennsylvania businesses and featuring their products on our shelves – in attractive sections specifically designated “Made in Pennsylvania” in our rebranded stores – we are helping to grow the local economy and satisfy Pennsylvanians' interest in buying local.

We appreciate the opportunity to share the information in this report with you, our stakeholders. We say it often – this is your agency, and we are grateful for the opportunity to share our successes, detail our operations and explain the challenges we face. We are proud of the work the agency does to provide Pennsylvania consumers with a broad selection of quality wines and spirits at reasonable prices. We pledge to continually explore ways to improve operations for the benefit of our customers and all Pennsylvanians.

Sincerely,



Tim Holden
Chairman



Joseph E. “Skip” Brion
Member



Michael Negra
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. During Fiscal Year 2014-15, the Board included:

TIM HOLDEN – CHAIRMAN



Tim Holden was nominated to the Pennsylvania Liquor Control Board by Gov. Tom Corbett on June 14, 2013. He was unanimously confirmed by the state Senate on Nov. 13, 2013, to serve a four-year term. Tim was named chairman of the PLCB by Gov. Tom Wolf on Feb. 17, 2015.

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

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

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

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

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

JOSEPH E. "SKIP" BRION – BOARD MEMBER



Joseph E. "Skip" Brion was nominated to the Pennsylvania Liquor Control Board by Gov. Tom Corbett on July 6, 2011, and was confirmed by unanimous vote of the state Senate on Oct. 18, 2011. He served as chairman of the PLCB from 2011 to February 2015.

Skip is a graduate of St. Joseph's University and Villanova Law School, and is chairman of Buckley, Brion, McGuire, Morris & Sommer LLP, a law firm based in Chester County. He specializes in zoning and land use development, zoning litigation, municipal law, real estate and commercial litigation. He was named one of Pennsylvania's "Super Lawyers" by *Philadelphia Magazine*.

Skip also serves as secretary of the Delaware Valley Regional Finance Authority and is a member of the DNB First Advisory Board. Previously, he was chairman of the Republican Committee of Chester County and treasurer of the Republican Party of Pennsylvania. He is a former member of the board of directors for Southeastern Pennsylvania Transportation Authority and a former trustee of the Chester County Historical Society. Skip continues to be

active in numerous charity organizations in Chester County including Friends Association for the Care and Protection of Children and the Chester County Art Association.

He and his wife, Glenda, live in East Bradford Township. They have two adult children, Kate and Scott, and two grandchildren, Ryan and Agnes.

MICHAEL NEGRA – BOARD MEMBER

Michael Negra, a resident of Potter Township, Centre County, was nominated to the Pennsylvania Liquor Control Board by Gov. 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, Negra served as the board president, construction manager and executive director of the non-profit, community performing arts center State Theatre in State College. In 1984, he founded Mike's Video, a video rental/music software/TV and appliance sales and service chain. Negra also has extensive experience in the entertainment industry, acting as road manager or production manager for various artists.

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

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

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

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



JOHN E. METZGER – EXECUTIVE DIRECTOR

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

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

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

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

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



EXECUTIVE TEAM

DIRECTOR OF FINANCE
Oren Bachman

CHIEF INFORMATION OFFICER
Nicholas Melnick, Jr.

DIRECTOR OF SUPPLY CHAIN
Glenn Zearfoss

CHIEF COUNSEL
Faith S. Diehl

DIRECTOR OF MARKETING AND MERCHANDISING
Dale Horst

DIRECTOR OF LEGISLATIVE AFFAIRS
Christopher L. Herrington

DIRECTOR OF RETAIL OPERATIONS
Charlie Mooney

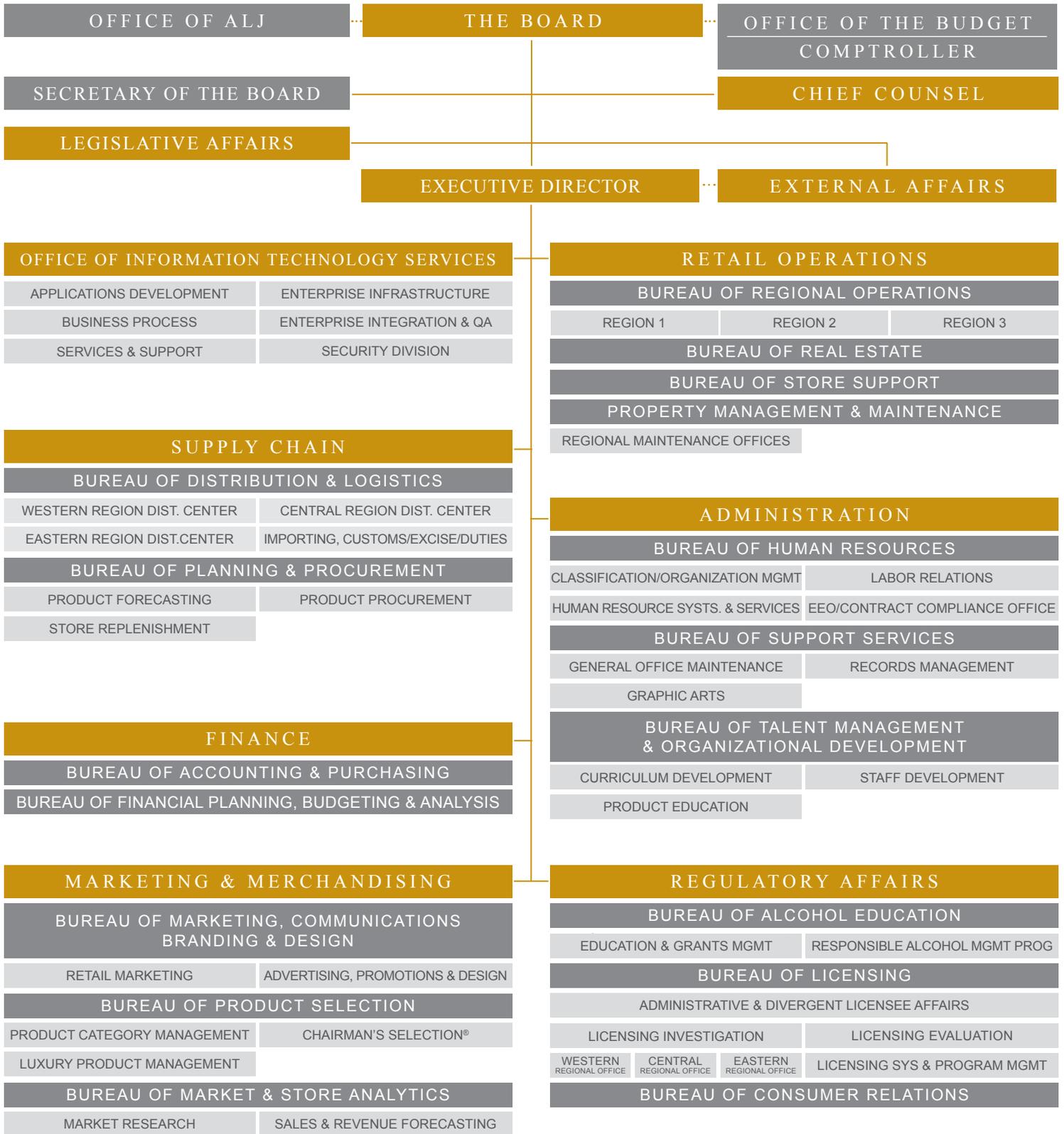
DIRECTOR OF EXTERNAL AFFAIRS
Elizabeth Brassell

DIRECTOR OF ADMINISTRATION
Jason P. Lutcavage

SECRETARY OF THE BOARD
John Stark

DIRECTOR OF REGULATORY AFFAIRS
Jerry W. Waters, Sr.

ORGANIZATIONAL STRUCTURE



The Pennsylvania Liquor Control Board achieved record wine and spirits sales of \$2.34 billion (including sales and liquor taxes) during fiscal year 2014-15, a 4.2 percent increase over the prior year.

This year the agency faced a unique fiscal challenge: commonwealth benefit accounting and reporting changes, as required by the Governmental Accounting Standards Board (GASB), as well as commonwealth accounting policy changes, are reflected for the first time on fiscal year 2014-15 financials. Had these changes – which result from the commonwealth’s growing benefit costs and liabilities related to pensions, workers’ compensation and other post-employment benefits – not been implemented, net profit for the year would have totaled a record \$132.8 million, 2.5 percent growth over fiscal year 2013-14.

These benefit accounting and reporting changes, detailed in the Management’s Discussion and Analysis beginning on page 46, resulted in a \$49.2 million reduction in net income. As a result, net income for the year totaled \$83.6 million, down \$40.1 million from fiscal year 2013-14.

The impact of the benefit adjustments is contained within the personnel expenses in all areas of the Income Statement on page 59. The liabilities include short-term and long-term components and are reflected accordingly in the balance sheet. Operational expenses excluding pension, workers’ compensation and post-employment benefits adjustments grew by 5.3 percent in the most recently completed fiscal year.

Year-end cash and short-term investments increased by \$20.7 million to \$261.9 million in fiscal year 2014-15, and net cash generated by operating activities totaled \$139.1 million. Such positive cash flow means the PLCB is in an excellent position to provide a transfer of at least \$80 million in profit to the General Fund next fiscal year.

The PLCB is one of only two completely self-funded state agencies that returns profit to commonwealth coffers. As such, the agency is unique in that it produces detailed annual income and loss statements – similar to those seen in private industry – reporting a level of detail not exposed in other agencies’ financials. While the impact of growing pension and benefit costs is a systemic problem facing all commonwealth agencies, the State Stores Fund is the only fund to separately report its share of the commonwealth’s unfunded pension obligation and changes to the unfunded obligation on its fiscal year 2014-15 financial statements.

While these changes will require the PLCB, along with the commonwealth as a whole, to consider new ways to meet long-term obligations, they have no impact on the agency’s statutory obligation and commitment to regulate beverage alcohol in Pennsylvania and educate consumers about the risks of dangerous and underage drinking. The agency’s mission is not simply to sell alcohol, but also to invest in social responsibility.

Sales Growth

The 4.2 percent sales growth can be attributed to several initiatives. The PLCB completed 28 store rebranding projects – five new stores and 23 remodeling projects. Upgraded Fine Wine & Good Spirits stores are long-term investments in our business that have the critical short-term benefit of improving customer service today.

In addition to our continuing effort to relocate and remodel the stores from which we sell our products, we’re also making strides in delivering more personal, customized service to shoppers through better in-store merchandising and knowledgeable store staff. The agency expanded its Wine Specialist Program, adding 20 “green aprons” to the ranks in fiscal year 2014-15.

Monthly sales promotions, the hugely successful Chairman's Selection® and Chairman's Advantage programs and special marketing programs featuring product themes and recipes throughout the year also helped spur increased growth. Online sales grew as well, with an average of 5,200 bottles a month being shipped from the eCommerce fulfillment center.

The PLCB also set a new one-day sales record – on Dec. 31, 2014, sales topped \$24.1 million.

Our sales growth also generated growing tax revenues for the commonwealth, including \$334.4 million in liquor tax and \$130.2 million in state sales tax. Last year we also provided \$25.7 million to fund Pennsylvania State Police liquor law enforcement efforts, afforded \$1.7 million to support the Pennsylvania Department of Drug and Alcohol Programs, returned \$4.5 million to local municipalities and approved \$2.3 million in alcohol education grants to 65 programs around the state promoting responsible alcohol consumption and deterring underage drinking. An additional \$16 million was provided to other commonwealth agencies including the Comptroller and Auditor General, among others, and funds were also dedicated to local police and security services for helping to protect our Fine Wine & Good Spirits stores in certain communities.

Other Highlights

In the last five years, the number of craft distilleries in Pennsylvania has more than doubled, and the state's growing multi-billion dollar wine industry has grown to more than 200 wineries. The PLCB appreciates Pennsylvanians' interest in "buying local," and it continued its partnership last year with Pennsylvania wineries and distilleries to feature their products in Fine Wine & Good Spirits stores. Our remodeled stores prominently feature "Made in Pennsylvania" sections that make it easier for customers to find Pennsylvania products and help boost the economy of the commonwealth. In 2014, Fine Wine & Good Spirits stocked 134 different Pennsylvania wines, and more than 30 Pennsylvania distilleries were licensed by the agency.

Nearly a quarter of the PLCB's sales are made to licensees, and more than 66,800 license and permit applications were processed last year, including 444 new licenses granted.

Additionally, through an advisory opinion issued in March 2015, the PLCB clarified that beer distributors may sell 12-packs in addition to kegs and cases of 24 bottles, so long as the 12-packs are sold in the manufacturers' original cases and contain at least 128 ounces. Today, a number of manufacturers, including craft brewers, produce 12-packs of beer, and the smaller cases appeal to consumers interested in sampling a beer without having to buy 24 bottles. While the PLCB's intent was not to change the marketplace through policy, this advisory increased consumer convenience and access to beer.

Moving Forward

Several key initiatives were begun or substantially advanced in the fiscal year, as well:

- The agency set the groundwork in fiscal year 2014-15 to upgrade all point-of-sale terminals in Fine Wine & Good Spirits stores by Fall 2015. These upgrades to more modern units allow for acceptance of PIN-and-chip credit cards and technology intended to prevent credit and debit card fraud.
- The PLCB is planning a record number of store rebrands in fiscal year 2015-16 – more than 30, including new stores development and remodels of existing stores – for the benefit of Pennsylvania residents.
- The agency also achieved significant progress in fiscal year 2014-15 in developing the Licensee Online Order Portal (LOOP), which will make the process by which liquor licensees purchase wine and spirits easier and more user-friendly. Pilot programs began in July 2015, and a wider rollout of LOOP is expected in the first quarter of 2016.
- Finally, development of PLCB+, a new online licensing platform, will transition paper applications to electronic processes for the Bureau of Licensing. Beginning in 2016, PLCB+ will allow liquor licensees to renew licenses and apply for permits online.

Other programs, including the grant program offered by the Bureau of Alcohol Education, are highlighted in this annual report.



During fiscal year 2014-15, no laws were enacted that amended the Pennsylvania Liquor Code.

On Jan. 23, 2015, the Pennsylvania House of Representatives introduced House Bill 189, a bill that would allow wine manufacturers to ship wine directly to the homes of Pennsylvanians. The House passed the bill on May 11 by a vote of 192 to 1. On June 24, after a committee amended the bill, the Senate passed it, 31 to 18. The bill was returned to the House for concurrence on the Senate amendments; no other action was taken as of June 30. If the House concurs, the bill will then be sent to Gov. Tom Wolf.

POLICY PRONOUNCEMENT

In March 2015, the PLCB issued an advisory opinion clarifying that, so long as 12-packs of beer are sold in the manufacturers' original cases and contain at least 128 ounces, distributors are permitted to sell 12-packs to customers.

The guidance was issued in response to a request for legal review of sections of the Liquor Code from a brewery considering production of 12-packs. Today, a number of manufacturers, including craft brewers, produce 12-packs of beer, and the smaller cases appeal to consumers interested in sampling a beer without having to buy 24 bottles.

THE FOLLOWING REGULATION WAS AMENDED DURING FISCAL YEAR 2014-15:

BREWERIES

This regulation allows the holder of a Brewery (G) license holder to serve its own beer for consumption on the licensed premises. Previously, a G licensee had to obtain a Brewery Pub (GP) license in order to serve malt or brewed beverages (“beer”) for on-premises consumption.

In order to serve beer for consumption on the premises, the brewery must have seating for at least 10 patrons and must make food available for each patron. The food can be in the form of potato chips or pretzels, or may be prepared by the brewery or by a third party. On-premises consumption may occur only between 10 a.m. and midnight Mondays through Saturdays; if the licensee acquires a Sunday sales permit, consumption is allowed from 10 a.m. to 9 p.m. on Sundays. In addition, the brewery may offer tastings of beer on the licensed premises in accordance with the PLCB’s regulations on tastings (40 Pa. Code §§ 13.201, 13.211).

The regulation does not, however, negate the benefits of holding a GP license. A GP licensee may sell alcohol from 7 a.m. until 2 a.m. Monday through Sunday. [47 P.S. §§ 4-432(f), 4-492.1(e)]. In addition, a GP licensee may sell wine manufactured by a Pennsylvania limited winery licensee and may obtain an off-premises catering permit. [47 P.S. § 4-446(a), (b)].

EFFECTIVE
MAY 30, 2015
40 PA. CODE § 3.93

WHERE THE MONEY GOES

Fine Wine & Good Spirits stores generated more than \$2.34 billion in sales and taxes.

Together, **more than \$584 million** was returned to the Pennsylvania Treasury, funded state programs or was returned to local communities in fiscal year 2014-15.

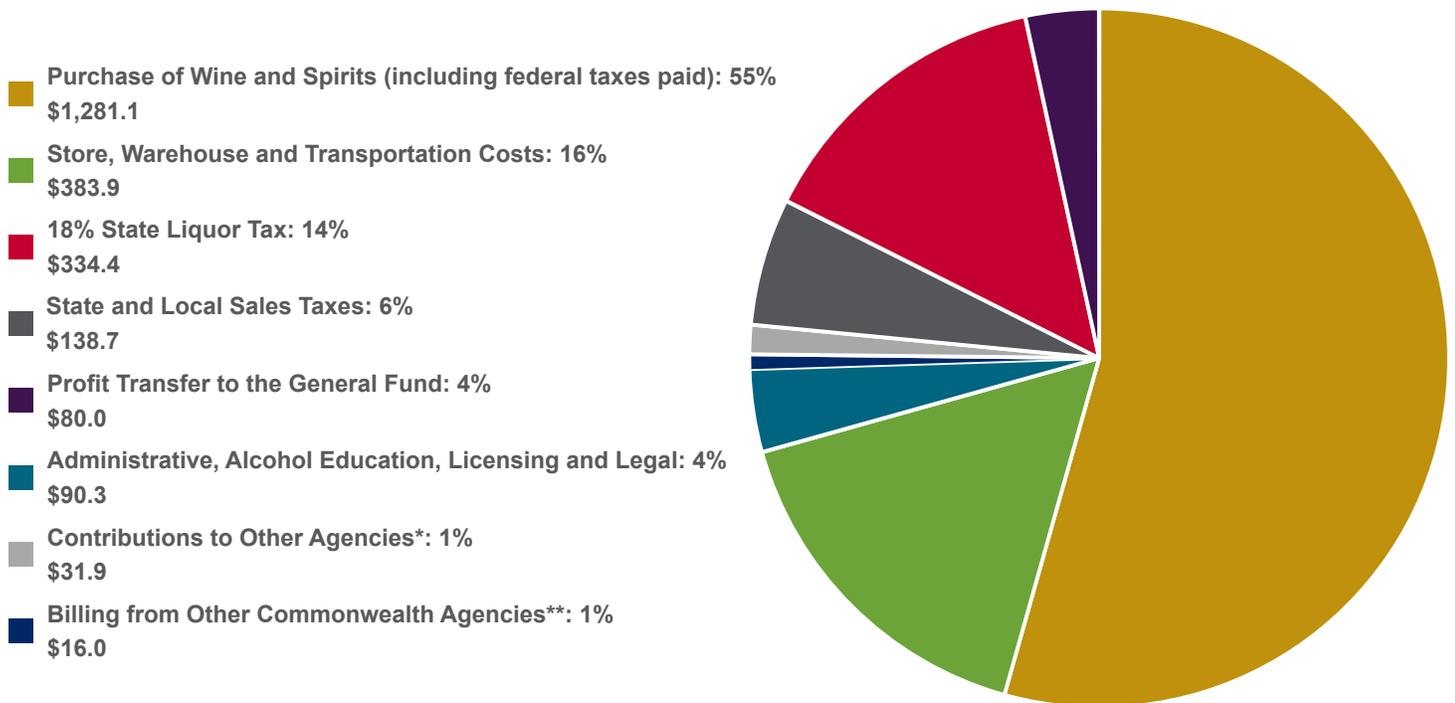
- The PLCB returned \$544.6 million to the Pennsylvania Treasury:
 - \$334.4 million in liquor tax
 - \$130.2 million in state sales tax
 - \$80.0 million transferred to the General Fund
- The Pennsylvania State Police received \$25.7 million for the enforcement of liquor laws.

- Department of Drug and Alcohol Programs received \$1.7 million to educate and prevent problem alcohol use.
- Philadelphia and Allegheny counties received \$8.5 million in local sales taxes.
- Local communities received \$4.5 million in returned licensing fees.

In the last five years, the PLCB has provided:

- More than \$2.57 billion to the Pennsylvania Treasury
- \$116.7 million to the Pennsylvania State Police
- \$10.5 million to the Department of Drug and Alcohol Programs
- \$22.4 million to local communities

DISTRIBUTION OF PROCEEDS (IN MILLIONS)



**Billing from Other Commonwealth Agencies

| | |
|-----------------------------------|-------|
| Comptroller & Payroll | \$5.0 |
| Consolidated Data Services | \$4.0 |
| Department of the Auditor General | \$1.4 |
| Office of Administration | \$2.3 |
| Civil Service Commission | \$1.0 |
| Department of General Services | \$2.0 |
| Treasury Department | \$0.2 |

*Contributions to Other Agencies

| | |
|---|--------|
| State Police Liquor Control Enforcement | \$25.7 |
| License fees returned to local municipalities | \$4.5 |
| Dept. of Drug and Alcohol Programs | \$1.7 |

FINANCIAL HIGHLIGHTS — FIVE-YEAR SUMMARY

PLCB SUMMARY FINANCIAL INFORMATION (IN 000s EXCEPT AS INDICATED)

| | 2014-2015* | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | CAGR** |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|--------|
| Sales Net of Taxes | \$1,862,270 | \$1,786,502 | \$1,731,463 | \$1,657,205 | \$1,571,223 | 4.3% |
| Gross Profit | \$581,130 | \$555,835 | \$539,416 | \$511,738 | \$490,262 | 4.3% |
| Gross Margin | 31.2% | 31.1% | 31.2% | 30.9% | 31.2% | |
| Operating Expenses | \$469,610 | \$407,876 | \$387,538 | \$387,057 | \$386,083 | 5.0% |
| Operating Income | \$111,520 | \$147,959 | \$151,878 | \$124,991 | \$103,757 | 1.8% |
| Transfers to State Police | \$25,726 | \$24,959 | \$23,984 | \$21,738 | \$20,308 | 6.1% |
| Drug & Alcohol Transfers | \$1,672 | \$2,474 | \$2,567 | \$2,070 | \$1,674 | 0.0% |
| Net Income | \$83,598 | \$123,683 | \$128,366 | \$103,494 | \$83,704 | 0.0% |
| Liquor Tax | \$334,414 | \$320,912 | \$311,248 | \$298,144 | \$281,746 | 4.4% |
| State Sales Tax | \$130,193 | \$124,880 | \$121,093 | \$116,033 | \$109,652 | 4.4% |
| Local Sales Tax*** | \$8,493 | \$8,270 | \$8,143 | \$7,835 | \$7,386 | 3.6% |
| License Fees Returned [▲] | \$4,538 | \$4,522 | \$4,436 | \$4,469 | \$4,522 | 0.01% |
| Number of Stores (not in 000) | 603 | 606 | 605 | 608 | 610 | |
| Average Sales per Store | \$3,088 | \$2,948 | \$2,862 | \$2,726 | \$2,576 | |
| Operating Exp./Net Sales | 25.2% | 22.8% | 22.4% | 23.4% | 24.6% | |
| Contributions/Net Sales | 31.4% | 31.7% | 31.9% | 32.0% | 33.8% | |
| Return on Assets | 20.5% | 30.5% | 35.8% | 28.1% | 23.8% | |

PLCB RETAIL OPERATIONS FIVE-YEAR SALES, REVENUE, PROFIT AND WAGE SUMMARY (IN 000s EXCEPT AS INDICATED)

| | 2014-2015* | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | CAGR** |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|--------|
| Sales Net of Taxes | \$1,862,270 | \$1,786,502 | \$1,731,463 | \$1,657,205 | \$1,571,223 | 4.3% |
| Gross Profit | \$581,130 | \$555,835 | \$539,416 | \$511,738 | \$490,262 | 4.3% |
| Combined Wage Expense | \$136,371 | \$134,186 | \$129,639 | \$128,113 | \$130,984 | 1.0% |
| Total All Other Expenses | \$213,292 | \$191,339 | \$162,870 | \$161,470 | \$158,267 | 7.9% |
| Income from Retail Operations | \$231,467 | \$229,653 | \$246,907 | \$223,652 | \$157,907 | 11.5% |
| Total Units Sold (not in 000) | 163,140,952 | 158,187,937 | 155,528,209 | 150,894,901 | 138,832,314 | 4.1% |
| Average Price Per Item | \$13.65 | \$13.33 | \$13.13 | \$12.96 | \$13.35 | 0.6% |
| Wage % of Gross Sales | 7.32% | 7.51% | 6.35% | 6.55% | 7.07% | |

* Financial results for FY 2014-15 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.

▲ As provided by statute, a portion of license fees are returned to municipalities. License fees have not increased since 1991.

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.

The Pennsylvania Liquor Control Board gives consumers two ways to purchase wine and spirits – at more than 600 Fine Wine & Good Spirits stores or online at www.FineWineAndGoodSpirits.com.

AS OF JUNE 30, 2015, THE AGENCY OPERATED 603 RETAIL FACILITIES:

| | | | |
|-------------------------------------|--|---|---|
| <h1>518</h1> <p>Standard Stores</p> | <h1>75</h1> <p>Premium Collection Stores</p> | <h1>10</h1> <p>Licensee Service Centers</p> | <h1>18</h1> <p>One-Stop Shops (inside grocery stores)</p> |
|-------------------------------------|--|---|---|

177 OF THESE STORES ARE OPEN ON SUNDAYS

In fiscal year 2014-15, Retail Operations completed 28 rebranding projects, including five new stores and 23 remodels. By the end of the fiscal year, 238 Fine Wine & Good Spirits Stores were conveniently colocated with grocery stores. As of June 30, 90 stores were rebranded and 10 more were in the process of being rebranded.





Fine Wine & Good Spirits store staff is the first line of defense against underage drinking. To ensure that only those 21 years of age and older purchased alcohol at our stores, employees conducted more than 1.3 million age verification checks in 2014.

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.

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 2014-15, the PLCB spent about \$5.6 million in total advertising.

SOCIAL MEDIA
FROM JULY 1, 2014 — JUNE 30, 2015

| | | | |
|--|---|---|---|
|  <p>FACEBOOK New likes: 66,542 Avg. daily engagement: 1,020 Avg. daily impressions: 89,824 Total engagements (likes, comments, share): 179,485</p> |  <p>TWITTER New followers: 1,740 Tweets sent: 1,058 Retweets: 694 Impressions (est.): 11.2 million Total mentions: 2,458* (*394 mentions via Foursquare)</p> |  <p>PINTEREST Total pins: 5,562 Pins reach: 635,995 Avg. monthly impressions: 53,000 people Pin impressions: 673,877</p> |  <p>YOUTUBE Viewers: 30,411 Subscribers: 190 New FWGS videos: 26</p> |
|--|---|---|---|



FINEWINEANDGOODSPIRITS.COM

Total clicks
July 2014 — June 2015: **6,743,079**

Average monthly clicks
July 2014 — June 2015: **561,923**



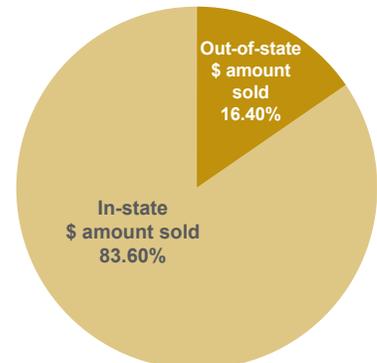
MOBILE APP

Total mobile app downloads: **62,505**
Android: **23,903** | iPhone: **38,602**

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

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

Since detailed tracking of this statistic started in February 2014, a significant portion of online sales was made to out-of-state customers and shipped to in-state addresses. While those consumers accounted for less than 12 percent of bottles sold on the eCommerce site, they accounted for more than 15 percent of total orders and 16.4 percent of total dollar sales.





Since its inception in 2011, the Wine Specialist Program has continued to grow, with more than 80 “green aprons” now serving customers at Fine Wine & Good Spirits Premium Collection stores across the commonwealth.



Dan Aykroyd signs bottles of Crystal Head Vodka at the 2015 Flower Show in Philadelphia.



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

Bottle signings and events, 2014-15



Train guitarist Jimmy Stafford signs a bottle of Save Me, San Francisco wine at the Fine Wine & Good Spirits store in Hummelstown, Dauphin County.

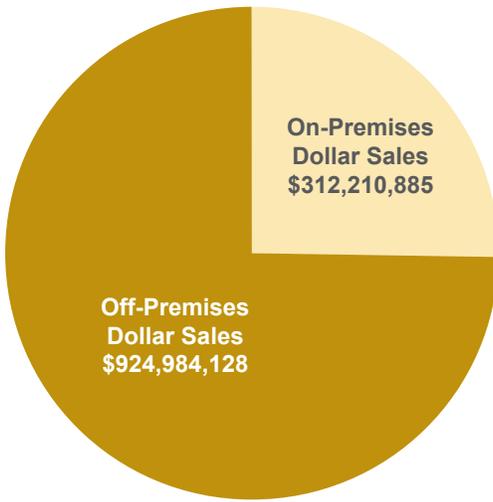


During an event in Philadelphia, pop artist Shepard Fairey signs bottles of Hennessy featuring a label he designed.

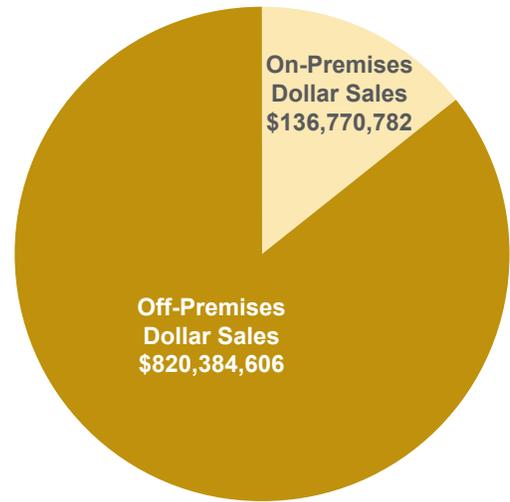


Guests of the Taste Festival of Food, Wine and Spirits in Valley Forge enjoy some new wines.

ON-PREMISES AND OFF-PREMISES*
DOLLAR SALES
SPIRITS CATEGORY, FY 2014-15

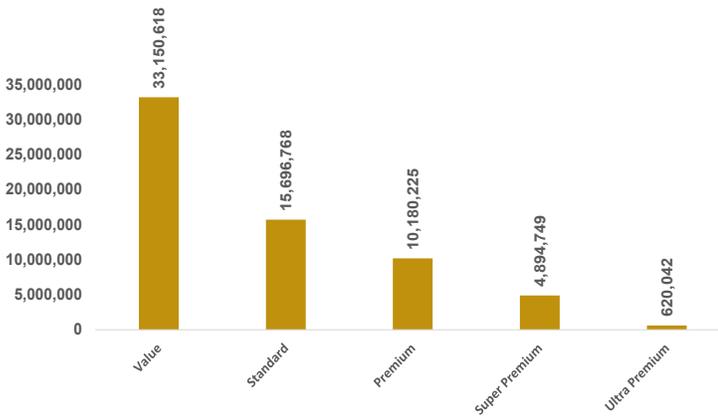


ON-PREMISES AND OFF-PREMISES*
DOLLAR SALES
WINE CATEGORY, FY 2014-15

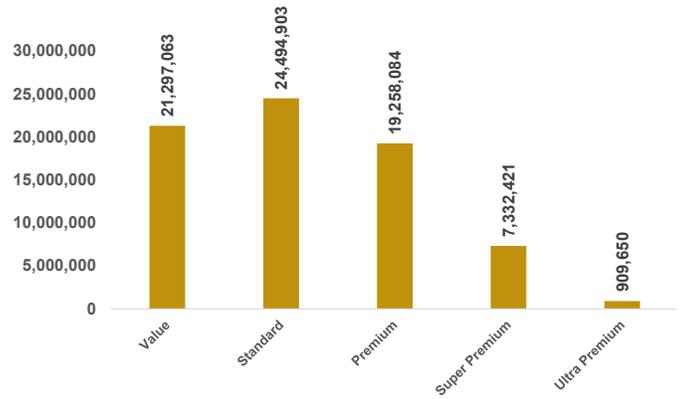


* "On-premises sales" are those to licensees. The name is derived from the fact that beverage alcohol is consumed at the same place it is purchased. "Off-premises sales" are retail purchases made to shoppers for consumption at a location other than a licensed establishment.

SPIRITS UNITS SOLD BY
PRICE SEGMENT, FY 2014-15



WINES UNITS SOLD BY
PRICE SEGMENT, FY 2014-15



TOP 10 PRODUCT CATEGORIES

| PRODUCT CATEGORY | FY 2014-15 Dollar Sales Amount | FY 2013-14 Dollar Sales Amount | FY 2012-13 Dollar Sales Amount | FY 2011-12 Dollar Sales Amount |
|------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| VODKA | \$262,096,409.96 | \$257,481,069.99 | \$255,091,597.62 | \$250,477,789.17 |
| BOURBON | \$126,775,014.51 | \$114,686,702.76 | \$106,231,564.59 | \$98,500,372.48 |
| VODKA - FLAVORED | \$104,538,943.54 | \$108,211,111.56 | \$111,166,285.10 | \$109,189,541.44 |
| RUM - SPICED | \$68,328,053.37 | \$68,164,808.62 | \$68,447,823.33 | \$66,364,772.65 |
| U.S. CHARDONNAY | \$68,010,974.39 | \$65,154,068.12 | \$63,271,509.46 | \$59,546,055.74 |
| U.S. CABERNET | \$62,337,849.50 | \$57,950,982.60 | \$54,015,954.11 | \$48,454,293.08 |
| CANADIAN WHISKY | \$61,790,948.82 | \$56,895,407.16 | \$57,728,233.62 | \$57,059,937.21 |
| 5 L BOX WINE | \$60,056,877.79 | \$57,492,912.91 | \$55,429,614.38 | \$48,911,503.51 |
| SHOOTERS - SCHNAPPS/LIQUEURS | \$59,909,951.11 | \$64,153,787.04 | \$67,507,808.43 | \$67,818,340.80 |
| FLAVORED WHISKEY | \$56,120,952.40 | \$44,234,777.35 | \$25,320,972.78 | \$14,244,262.29 |

TOP 10 PRODUCTS

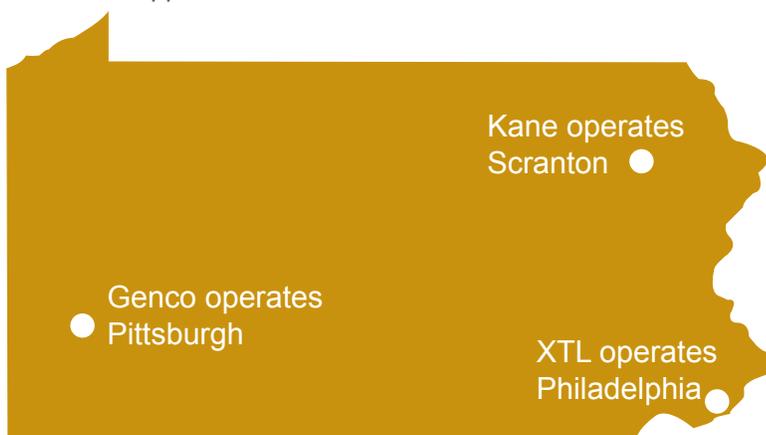
| PRODUCT | FY 2014-15 Avg. Price | FY 2014-15 Dollar Sales Amount | FY 2013-14 Dollar Sales Amount | % Chg Dollar Sales Amount |
|---|--------------------------|-----------------------------------|-----------------------------------|------------------------------|
| JACK DANIEL'S OLD NUMBER 7 TENNESSEE WHISKEY - 750 mL | \$22.25 | \$20,259,369.25 | \$19,734,539.00 | 2.66% |
| FIREBALL CINNAMON WHISKEY - 750 mL | \$16.68 | \$17,124,146.17 | \$12,578,956.00 | 36.13% |
| CAPTAIN MORGAN ORIGINAL SPICED RUM - 1.75 L | \$28.23 | \$16,636,896.67 | \$18,269,967.00 | -8.94% |
| JACK DANIEL'S OLD NUMBER 7 TENNESSEE WHISKEY - 1.75 L | \$43.31 | \$13,827,929.96 | \$13,755,117.00 | 0.53% |
| GREY GOOSE VODKA - 750 mL | \$29.47 | \$13,746,533.55 | \$14,355,985.00 | -4.25% |
| CAPTAIN MORGAN ORIGINAL SPICED RUM - 750 mL | \$15.91 | \$12,374,381.63 | \$14,870,201.00 | -16.78% |
| JAMESON IRISH WHISKEY - 750 mL | \$25.25 | \$11,854,731.23 | \$10,216,575.00 | 16.03% |
| CROWN ROYAL CANADIAN WHISKY - 750 mL | \$25.33 | \$11,124,017.85 | \$10,934,284.00 | 1.74% |
| ABSOLUT VODKA - 750 mL | \$17.94 | \$11,051,201.18 | \$11,619,389.00 | -4.89% |
| JAGERMEISTER LIQUEUR - 750 mL | \$18.98 | \$10,275,858.95 | \$10,986,474.00 | -6.47% |

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 the buying responsibilities, Supply Chain handles product importation, processing of all excise taxes and customs duties, warehousing and transportation of wines and spirits to get products from suppliers to retail stores.

The PLCB contracts with three privately held, Pennsylvania-headquartered companies to operate its distribution centers. Located in Philadelphia, Scranton and Pittsburgh, the three warehouses total 780,000 square feet – the equivalent of 14.5 football fields. In fiscal year 2014-15, the distribution centers shipped more than 16 million cases.

During the year, Supply Chain implemented two new pilot programs designed to provide improved support for our licensee customers. More than 14,000 licensee customers purchase more than 21 percent of the merchandise sold by the PLCB. These two programs are the first of several ongoing programs specifically aimed at this important group of customers.



The first licensee program executed this year involved developing an updated and improved Internet portal to allow our licensees to place orders with our stores. The previous Internet ordering system, dating back to 2009, was difficult to navigate and use, and accordingly was not widely adopted by licensees. A new, intuitive, user-friendly Licensee Online Ordering Portal (LOOP) was developed and rolled out to select licensees in a pilot program. This new platform enables licensees to search for items in the stores, see available store inventory, look for items on sale and create and submit orders to the stores for fulfillment. The new portal also includes the ability to import orders from and export orders to a licensee’s own system. It allows users to develop and save multiple order templates to simplify placing repeat orders. It also provides licensees with email confirmation of orders placed and notifies licensees when shipments occur.

Along with LOOP, a second pilot program was also implemented, the Licensee Direct Shipping Program. This new initiative allows licensees to place orders through LOOP that are then shipped directly from PLCB distribution centers to the licensee’s loading dock, bypassing the retail store. Preliminary results of the direct delivery program have been positive for both participating licensees as well as the PLCB.

The new focus on licensee customers has been enlightening for the PLCB as we use input and feedback from participating licensees to fine tune the workings of LOOP and review the design of the licensee delivery program. A wider rollout of LOOP to all licensees is planned for early 2016, and licensee delivery program parameters are being reviewed and will also be updated in early 2016. Finally, as a further commitment to licensees, a new licensee customer service group has been established to provide support for LOOP and to address any issues licensees have in interacting with the PLCB.

INFORMATION TECHNOLOGY SYSTEMS

The Office of Information Technology Systems (OITS) supports and enhances multiple complex computer systems, including a large-scale Oracle Enterprise Resource Planning (ERP) system that includes a point-of-sale system in more than 600 stores, financials, inventory, forecasting, replenishment, pricing, product management, data warehousing and analytics. Additionally, the OITS supports and enhances other IT systems: a licensing system serving more than 15,000 bars, taverns, restaurants, casinos and other licensees; a legal tracking system; human resources and time-tracking systems; the Fine Wine & Good Spirits eCommerce site and mobile apps; and other general web applications.

The PLCB is a high-profile state agency that manages regulatory, supply chain, retail and administrative operations. To manage the system needs, the OITS deploys a portfolio of systems designed to organize, manage and secure information assets. The diversity of the organization requires a variety of tools to meet the needs of each business unit.

The OITS played a critical role in implementing the LOOP in fiscal year 2014-15, providing all technology support and development. The OITS focused on improved design of the portal, including updating the look and feel of the application to reflect current and popular features of retail applications, and a new dashboard and order templates. Also, enhanced reporting capabilities have been included to allow the licensee to better track order history.

The OITS has also embarked on complete upgrade of the PLCB licensing system. Computronix, Inc., a Software as a Service (SaaS) vendor, is providing a solution to replace systems that track current licensing and Alcohol Education programs. The project will be implemented in several phases beginning with brand registration in Fall 2015, followed by most of licensing activities in the first quarter of 2016, and the investigations and Alcohol Education pieces during Summer 2016. The new system will enhance electronic services to licensees for registration, renewals, amendments, etc., and will include a secure electronic payment system.

Additionally, the OITS migrated the PLCB internal intranet platform to SharePoint in fiscal year 2014-15. The agency continues to review Office 365, including Skype for Business, SharePoint Online and One Drive. Office 365 is a Microsoft product that allows the agency to leverage “the cloud” for data archive, data sharing and communication activities. Both SharePoint Online and on Premise offer opportunities to better manage and share information inside and outside of the PLCB.

The PLCB and the Department of Human Services built upon a shared service model that automated the provisioning of Oracle EBS and Oracle SIM role accesses for store employees during the onboarding process. In addition, the system enables managers to make location changes for selected employees, eliminating the past delays that existed in processing these requests.

OITS Security implemented enterprise-level security capabilities that provide additional layered defenses to assist in protecting confidential data. These tools were made available, at no cost to the PLCB, through the Governor’s Office of Administration. Additionally, in response to ongoing IT security threats, the PLCB initiated an IT Security Awareness training program that leverages existing systems and capabilities that combine human resource and learning management IT systems to assign mandatory computer-based training to employees and record training completion metrics. Agency employee awareness is the first defense for protecting sensitive customer and licensee data.



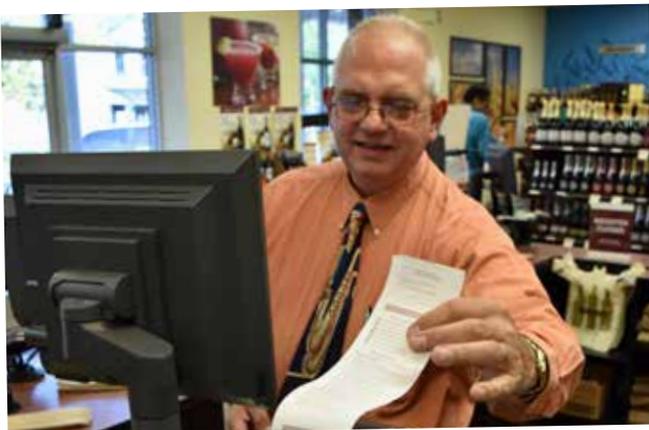
The Office of Information Technology Systems prepared throughout fiscal year 2014-15 for the implementation of a system-wide upgrade to the point of sale systems in all 600-plus Fine Wine & Good Spirits stores statewide.

Planning and support for automation of various processes and procedures for a point of sale (POS) upgrade was also a major accomplishment from the infrastructure teams.

Finally, a store network bandwidth study was conducted to more properly align network capabilities with actual business usage.

PARTNERING WITH STORE OPERATIONS

The PLCB desktop support team implemented 180 desktop computers in stores. The desktop computers provide access to critical security and other computer-based training. Users are also able request leave and perform other employee-related functions, saving time and paper.



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, 2014, THROUGH JUNE 30, 2015

| | | | |
|---------------------------------------|--|-------------------------------------|--|
| Renewals/Validations 19,363 | Transfers 974 | New Licenses 444 | Special Occasion Permits 2,533 |
| Special Wine Permits 2,305 | Criminal Record Checks 7,997 | Other Apps 7,629 | AP-SS-EHF Permits* 20,759 |
| Catering Permits 2,066 | Tavern Gaming Licenses 18 | Brand Registrations 2,745 | Total Applications 66,833 |

* Amusement Permit-Sunday Sales-Extended Hours Food

INVESTIGATIONS PROCESSED

| Type of Investigation | 2014 | 2013 | 2012 | 2011 |
|---------------------------------|--------------|--------------|--------------|--------------|
| New License | 247 | 229 | 240 | 199 |
| Renewal | 65 | 58 | 67 | 130 |
| Transfer – Place | 68 | 62 | 66 | 59 |
| Transfer – Person | 559 | 523 | 566 | 593 |
| Double Transfer Person-Place | 343 | 306 | 308 | 333 |
| Correction | 46 | 32 | 30 | 30 |
| Extension | 766 | 752 | 713 | 649 |
| Manager Change | 1,263 | 1,056 | 860 | 802 |
| Reinvestigation | 1,723 | 1,767 | 1,699 | 1,655 |
| Officer Change | 664 | 616 | 606 | 586 |
| Reissue Safekeeping | 407 | 389 | 374 | 326 |
| Special Occasion Permit | 50 | 42 | 45 | 38 |
| Limited Winery | 57 | 56 | 45 | 29 |
| Non-Compliance | 54 | 19 | 54 | 21 |
| Miscellaneous | 415 | 401 | 442 | 441 |
| Nuisance Bars | 192 | 298 | 215 | 251 |
| Total | 6,919 | 6,606 | 6,330 | 6,142 |

NUISANCE BARS

Under the provisions of the Liquor Code, the Pennsylvania Liquor Control Board established a Nuisance Bar Program to review the operational history of any licensed establishment that, by its actions, may have abused the licensed privilege. The Bureau of Licensing seeks information from the community, law enforcement agencies and government entities report 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

| | | | |
|------------|------------|------------|-----------|
| 2014 | 2013 | 2012 | 2011 |
| 171 | 112 | 137 | 79 |

RETAIL LICENSES IN EFFECT AS OF DECEMBER 31, 2014

| COUNTY | 2010 POP | AREA SQ MI | RETAIL LIQUOR LICENSE TYPE | | | | | | | | | | RETAIL MALT BEVERAGE LICENSE TYPE | | | | | NUMBER OF LICENSES | | | | | |
|-------------|------------|------------|----------------------------|-------|-------|-----|----------------|-------------|---------|-------|-----------------------|-------------------|-----------------------------------|--------------|--------------|----------|-------|--------------------|-------------|--------------|-----------------------|--------------------|----------|
| | | | RESTAURANT | HOTEL | CLUB | OWR | AIR-PORT REST. | GOLF COURSE | | | CONT. CARE RETIREMENT | ECO-NOMIC DEVELOP | PER-FORM ARTS | PUBLIC VENUE | EATING PLACE | ECON DEV | HOTEL | CLUB | GOLF COURSE | | TOTAL RETAIL LICENSES | PER 3,000 SQ. MILE | PER POP. |
| | | | | | | | | MUNIC. | PRIVATE | R. C. | | | | | | | | | MUNIC. | PRIVATE EAT. | | | |
| STATE TOTAL | 12,702,379 | 44,966 | 10,012 | 1,222 | 2,928 | 13 | 45 | 33 | 219 | 34 | 30 | 19 | 47 | 87 | 492 | 1 | 0 | 26 | 5 | 5 | 15,218 | 3.59 | 0.34 |
| Adams | 101,407 | 526 | 53 | 18 | 16 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 2 | 6 | 0 | 0 | 1 | 0 | 0 | 102 | 3.02 | 0.19 |
| Allegheny | 1,223,348 | 728 | 1,518 | 95 | 296 | 1 | 9 | 2 | 10 | 1 | 4 | 0 | 8 | 17 | 26 | 0 | 0 | 2 | 1 | 0 | 1,990 | 4.88 | 2.73 |
| Armstrong | 68,941 | 652 | 67 | 7 | 27 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 107 | 4.66 | 0.16 |
| Beaver | 170,539 | 440 | 147 | 14 | 65 | 0 | 0 | 0 | 5 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 233 | 4.10 | 0.53 |
| Bedford | 49,762 | 1,018 | 21 | 10 | 15 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 50 | 3.01 | 0.05 |
| Berks | 411,442 | 862 | 277 | 46 | 116 | 1 | 1 | 1 | 7 | 1 | 3 | 0 | 1 | 3 | 7 | 0 | 0 | 2 | 0 | 0 | 466 | 3.40 | 0.54 |
| Blair | 127,089 | 530 | 87 | 14 | 31 | 0 | 0 | 0 | 3 | 1 | 0 | 0 | 1 | 3 | 15 | 0 | 0 | 1 | 0 | 0 | 156 | 3.68 | 0.29 |
| Braeford | 62,622 | 1,148 | 33 | 16 | 21 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 72 | 3.45 | 0.06 |
| Bucks | 625,249 | 614 | 330 | 58 | 47 | 0 | 0 | 3 | 6 | 1 | 3 | 1 | 2 | 0 | 11 | 0 | 0 | 0 | 1 | 1 | 463 | 2.22 | 0.75 |
| Butler | 183,862 | 794 | 105 | 14 | 25 | 0 | 1 | 1 | 6 | 0 | 1 | 0 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 156 | 2.55 | 0.20 |
| Cambria | 143,679 | 692 | 154 | 22 | 108 | 0 | 1 | 0 | 2 | 0 | 0 | 0 | 0 | 4 | 3 | 0 | 0 | 0 | 0 | 0 | 294 | 6.14 | 0.42 |
| Cameron | 5,085 | 401 | 9 | 1 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 16 | 9.44 | 0.04 |
| Carbon | 65,249 | 404 | 77 | 13 | 31 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 1 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 129 | 5.93 | 0.32 |
| Centre | 153,990 | 1,115 | 71 | 24 | 27 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 1 | 2 | 0 | 0 | 2 | 0 | 0 | 131 | 2.55 | 0.12 |
| Chester | 498,886 | 761 | 194 | 36 | 50 | 0 | 1 | 1 | 10 | 6 | 1 | 6 | 1 | 0 | 9 | 0 | 0 | 0 | 1 | 0 | 316 | 1.90 | 0.42 |
| Clarion | 39,988 | 597 | 36 | 9 | 12 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 59 | 4.43 | 0.10 |
| Clearfield | 81,642 | 1,139 | 73 | 8 | 38 | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 1 | 0 | 0 | 126 | 4.63 | 0.11 |
| Clinton | 39,238 | 899 | 30 | 10 | 14 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 6 | 0 | 0 | 0 | 0 | 0 | 63 | 4.82 | 0.07 |
| Columbia | 67,295 | 484 | 44 | 10 | 24 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 82 | 3.66 | 0.17 |
| Crawford | 88,765 | 1,012 | 84 | 7 | 31 | 0 | 0 | 0 | 5 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 128 | 4.33 | 0.13 |
| Cumberland | 235,406 | 555 | 78 | 22 | 30 | 0 | 0 | 1 | 5 | 0 | 1 | 2 | 0 | 0 | 8 | 0 | 0 | 0 | 0 | 0 | 147 | 1.87 | 0.26 |
| Dauphin | 268,100 | 518 | 206 | 32 | 67 | 0 | 1 | 2 | 6 | 0 | 0 | 0 | 0 | 8 | 10 | 0 | 0 | 0 | 0 | 1 | 333 | 3.73 | 0.64 |
| Delaware | 558,979 | 184 | 322 | 22 | 60 | 1 | 2 | 2 | 0 | 2 | 3 | 0 | 2 | 1 | 28 | 0 | 0 | 0 | 0 | 0 | 445 | 2.39 | 2.42 |
| Elk | 31,946 | 807 | 29 | 11 | 25 | 0 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 0 | 2 | 0 | 0 | 75 | 7.04 | 0.09 |
| Erie | 280,566 | 813 | 253 | 16 | 72 | 0 | 1 | 2 | 8 | 0 | 1 | 0 | 2 | 5 | 10 | 0 | 0 | 1 | 0 | 0 | 371 | 3.97 | 0.46 |
| Fayette | 136,606 | 802 | 174 | 14 | 68 | 0 | 0 | 0 | 2 | 1 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 263 | 5.78 | 0.33 |
| Forest | 7,716 | 419 | 9 | 3 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 5.44 | 0.03 |
| Franklin | 149,618 | 754 | 45 | 7 | 25 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 83 | 1.66 | 0.11 |
| Fulton | 14,845 | 435 | 2 | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 1 | 1 | 11 | 2.22 | 0.03 |
| Greene | 38,686 | 578 | 27 | 6 | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 51 | 3.95 | 0.09 |

WHOLESALE LICENSES IN EFFECT AS OF DECEMBER 31, 2014

| COUNTY | 2010 POP | AREA IN SQ MI | LICENSE TYPE | | TOTAL WHOLESAL LICENSES | NUMBER OF LICENSES | |
|-------------|------------|---------------|--------------|-----------------------|-------------------------|-----------------------|-----------------|
| | | | DISTRIBUTOR | IMPORTING DISTRIBUTOR | | PER 30,000 POPULATION | PER SQUARE MILE |
| STATE TOTAL | 12,702,379 | 44,966 | 1,086 | 168 | 1,254 | 2.96 | 0.03 |
| Adams | 101,407 | 526 | 6 | 0 | 6 | 1.78 | 0.01 |
| Allegheny | 1,223,348 | 728 | 126 | 16 | 142 | 3.48 | 0.20 |
| Armstrong | 68,941 | 652 | 8 | 1 | 9 | 3.92 | 0.01 |
| Beaver | 170,539 | 440 | 18 | 1 | 19 | 3.34 | 0.04 |
| Bedford | 49,762 | 1,018 | 4 | 1 | 5 | 3.01 | 0.00 |
| Berks | 411,442 | 862 | 38 | 5 | 43 | 3.14 | 0.05 |
| Blair | 127,089 | 530 | 12 | 3 | 15 | 3.54 | 0.03 |
| Bradford | 62,622 | 1,148 | 5 | 1 | 6 | 2.87 | 0.01 |
| Bucks | 625,249 | 614 | 25 | 2 | 27 | 1.30 | 0.04 |
| Butler | 183,862 | 794 | 21 | 2 | 23 | 3.75 | 0.03 |
| Cambria | 143,679 | 692 | 22 | 7 | 29 | 6.06 | 0.04 |
| Cameron | 5,085 | 401 | 1 | 0 | 1 | 5.90 | 0.00 |
| Carbon | 65,249 | 404 | 10 | 2 | 12 | 5.52 | 0.03 |
| Centre | 153,990 | 1,115 | 2 | 5 | 7 | 1.36 | 0.01 |
| Chester | 498,886 | 761 | 21 | 1 | 22 | 1.32 | 0.03 |
| Clarion | 39,988 | 597 | 4 | 2 | 6 | 4.50 | 0.01 |
| Clearfield | 81,642 | 1,139 | 7 | 5 | 12 | 4.41 | 0.01 |
| Clinton | 39,238 | 899 | 4 | 1 | 5 | 3.82 | 0.01 |
| Columbia | 67,295 | 484 | 7 | 2 | 9 | 4.01 | 0.02 |
| Crawford | 88,765 | 1,012 | 13 | 2 | 15 | 5.07 | 0.01 |
| Cumberland | 235,406 | 555 | 10 | 3 | 13 | 1.66 | 0.02 |
| Dauphin | 268,100 | 518 | 15 | 7 | 22 | 2.46 | 0.04 |
| Delaware | 558,979 | 184 | 51 | 2 | 53 | 2.84 | 0.29 |
| Elk | 31,946 | 807 | 4 | 3 | 7 | 6.57 | 0.01 |
| Erie | 280,566 | 813 | 38 | 4 | 42 | 4.49 | 0.05 |
| Fayette | 136,606 | 802 | 20 | 2 | 22 | 4.83 | 0.03 |
| Forest | 7,716 | 419 | 3 | 1 | 4 | 15.55 | 0.01 |
| Franklin | 149,618 | 754 | 7 | 1 | 8 | 1.60 | 0.01 |
| Fulton | 14,845 | 435 | 3 | 0 | 3 | 6.06 | 0.01 |
| Greene | 38,686 | 578 | 5 | 0 | 5 | 3.88 | 0.01 |

WHOLESALE LICENSES IN EFFECT AS OF DECEMBER 31, 2014

| 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 | 894 | 5 | 2 | 7 | 4.57 | 0.01 |
| Indiana | 88,880 | 825 | 5 | 4 | 9 | 3.04 | 0.01 |
| Jefferson | 45,200 | 652 | 6 | 2 | 8 | 5.31 | 0.01 |
| Juniata | 24,636 | 386 | 4 | 0 | 4 | 4.87 | 0.01 |
| Lackawanna | 214,437 | 454 | 23 | 6 | 29 | 4.06 | 0.06 |
| Lancaster | 519,445 | 946 | 28 | 6 | 34 | 1.96 | 0.04 |
| Lawrence | 91,108 | 367 | 10 | 1 | 11 | 3.62 | 0.03 |
| Lebanon | 133,568 | 363 | 12 | 0 | 12 | 2.70 | 0.03 |
| Lehigh | 349,497 | 348 | 28 | 7 | 35 | 3.00 | 0.10 |
| Luzerne | 320,918 | 886 | 34 | 5 | 39 | 3.65 | 0.04 |
| Lycoming | 116,111 | 1,215 | 12 | 1 | 13 | 3.36 | 0.01 |
| Mckean | 43,450 | 992 | 6 | 2 | 8 | 5.52 | 0.01 |
| Mercer | 116,638 | 670 | 13 | 1 | 14 | 3.60 | 0.02 |
| Mifflin | 46,682 | 431 | 2 | 2 | 4 | 2.57 | 0.01 |
| Monroe | 169,842 | 611 | 7 | 2 | 9 | 1.59 | 0.01 |
| Montgomery | 799,874 | 496 | 56 | 2 | 58 | 2.18 | 0.12 |
| Montour | 18,267 | 130 | 2 | 1 | 3 | 4.93 | 0.02 |
| Northampton | 297,735 | 376 | 25 | 3 | 28 | 2.82 | 0.07 |
| Northumberland | 94,528 | 453 | 13 | 3 | 16 | 5.08 | 0.04 |
| Perry | 45,969 | 551 | 5 | 0 | 5 | 3.26 | 0.01 |
| Philadelphia | 1,526,006 | 129 | 110 | 10 | 120 | 2.36 | 0.93 |
| Pike | 57,369 | 542 | 4 | 0 | 4 | 2.09 | 0.01 |
| Potter | 17,457 | 1,092 | 5 | 0 | 5 | 8.59 | 0.00 |
| Schulykill | 148,289 | 784 | 29 | 4 | 33 | 6.68 | 0.04 |
| Snyder | 39,702 | 327 | 5 | 0 | 5 | 3.78 | 0.02 |
| Somerset | 77,742 | 1,078 | 6 | 2 | 8 | 3.09 | 0.01 |
| Sullivan | 6,428 | 478 | 3 | 0 | 3 | 14.00 | 0.01 |
| Susquehanna | 43,356 | 833 | 5 | 0 | 5 | 3.46 | 0.01 |
| Tioga | 41,981 | 1,146 | 3 | 2 | 5 | 3.57 | 0.00 |
| Union | 44,947 | 318 | 5 | 0 | 5 | 3.34 | 0.02 |
| Venango | 54,984 | 678 | 3 | 2 | 5 | 2.73 | 0.01 |
| Warren | 41,815 | 905 | 5 | 0 | 5 | 3.59 | 0.01 |
| Washington | 207,820 | 857 | 19 | 3 | 22 | 3.18 | 0.03 |
| Wayne | 52,822 | 741 | 5 | 1 | 6 | 3.41 | 0.01 |
| Westmoreland | 365,169 | 1,024 | 43 | 7 | 50 | 4.11 | 0.05 |
| Wyoming | 28,276 | 398 | 5 | 0 | 5 | 5.30 | 0.01 |
| York | 434,972 | 909 | 25 | 5 | 30 | 2.07 | 0.03 |



About 850 students from 41 counties across the state participated in fiscal year 2014-15's Alcohol Education Poster Contest, using crayons, ink, colored pencils, paint and computer-generated imagery to create their posters. Entries were judged on presentation and message. Since the poster contest began in 1992, more than 30,000 entries have been submitted, and thousands more students have participated through projects in school classrooms.

EDUCATION & GRANTS MANAGEMENT DIVISION

In fiscal year 2014-15, the Education & Grants Management Division reached citizens in every Pennsylvania county. The Bureau of Alcohol Education:

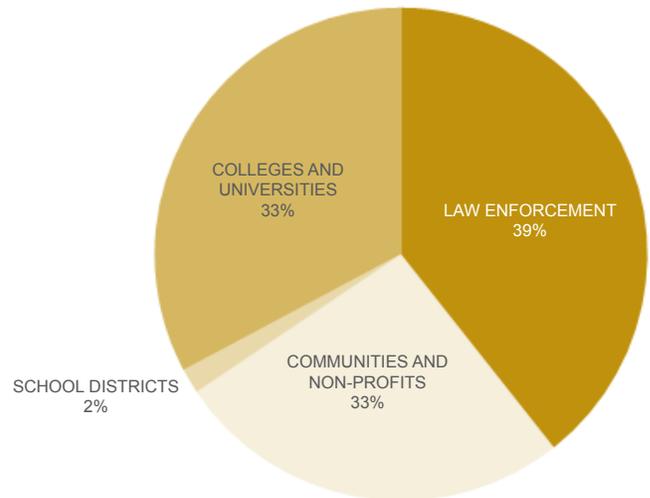
- Attended 158 events throughout the commonwealth.
- Distributed 542,561 educational materials.
- Hosted a conference for 226 prevention professionals from across the state.
- Held the 23rd annual Alcohol Education Poster Contest, which received more than 845 entries. Fifty winners received awards at a ceremony in the Capitol Rotunda.
- Worked with four institutions of higher education to develop a town-gown pilot project to encourage schools and communities to work together to address underage and dangerous drinking.
- Conducted 11 resident assistant trainings for colleges and universities to prepare them to be role models and to deal with situations involving alcohol that may arise.
- Participated in National Night Out celebrations in 15 communities.

GRANTS

Beginning in 2013, the Alcohol Education grants for reducing underage and dangerous drinking went to a two-year cycle. The total amount awarded for the 2013-15 grant cycle was \$2,140,976.76. In the second year of grant funding, \$1,071,314 was awarded.

Grantees are required to match the grant funds with at least 25 percent of their own money. For this grant year, they exceeded that minimum by 12 percent, contributing \$397,539 from their own budgets.

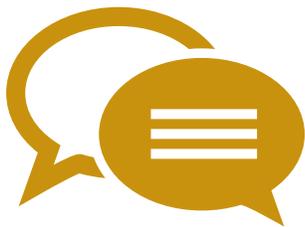
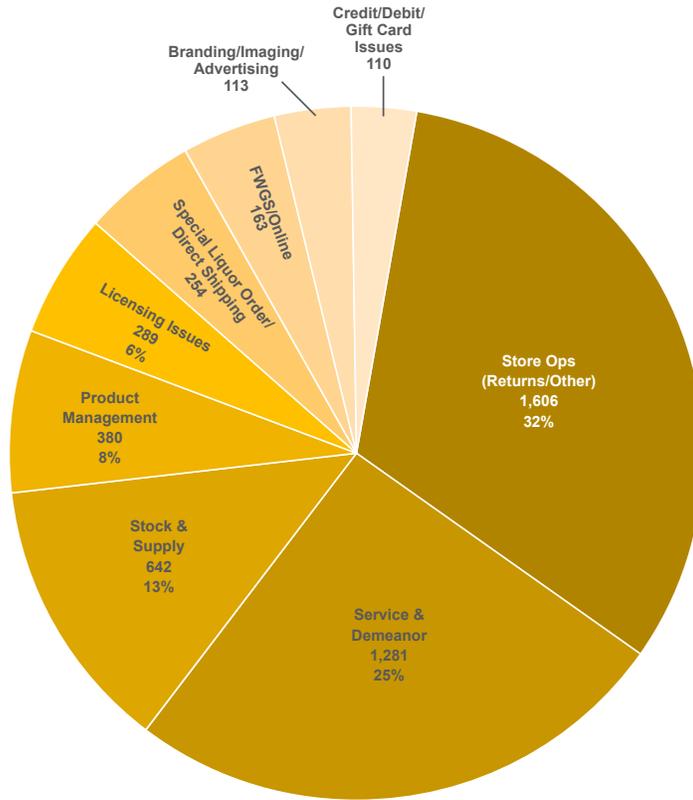
At the completion of first-year funding, grantees made 12,804,314 contacts with the public. Here are some of the ways people were reached:



| | |
|------------------------------|-------|
| Police and Campus Patrols | 1,049 |
| Public Service Announcements | 857 |
| Newspapers | 34 |
| Billboards | 21 |
| Online Programs | 12 |
| Good Neighbor Programs | 4 |



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

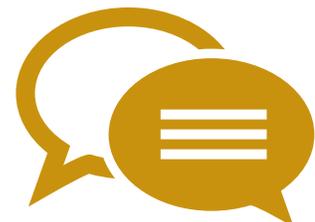


CUSTOMER COMMENT

"I love the new store located at Pines Plaza. Every time you come to purchase, the store is very clean, not one speck of dust. All the shelves are always stocked, all bottles facing in one direction. Most of all, who works there is great! Always professional and friendly."

CUSTOMER COMMENT

"Our store has the most pleasant people that work there. The clerks are always willing to help, even made many attempts to get product I wanted. They go beyond call of the duty. Seems like they enjoy their job and taking care of customers. Store always clean and orderly. Thank you for your kindness."



ADMINISTRATION

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

DEMOGRAPHICS



AVG. AGE FOR STORE EMPLOYEES

44
years old

AVG. AGE FOR ADMINISTRATORS

48
years old

AVG. LENGTH OF SERVICE FOR STORE EMPLOYEES

7
years

AVG. LENGTH OF SERVICE FOR ADMINISTRATORS

14
years

AGENCY TURNOVER RATES

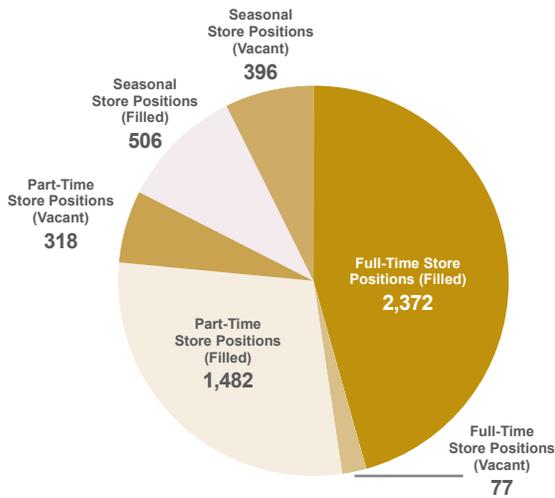
SALARIED EMPLOYEES:

9.1%

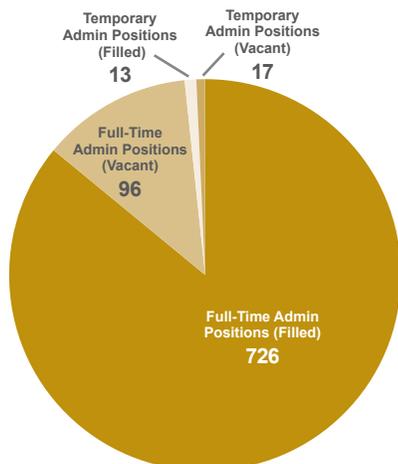
INTERMITTENT CLERKS:

39.5%

TOTAL STORE POSITIONS (ON JUNE 30, 2014)



TOTAL ADMINISTRATION POSITIONS



NEW HIRES & REHIRES



NEW HIRES & REHIRES-SEASONAL



HIRES FROM OTHER AGENCIES



INTERNAL PROMOTIONS



INTERNAL LATERAL/ TRANSFERS





In fiscal year 2014-15, the Bureau of Talent Management and Organizational Development provided training to agency staff and management. Subjects included a new curriculum for administrative supervisors and managers; basic, intermediate, advanced and master’s wine courses; and store operations training for full-time, part-time and seasonal clerks.

INSTRUCTOR-LED TRAINING

| | | |
|------------------------------|-----------------------------|------------------------------------|
| 47 courses offered | 423 sessions held | 4,623 total participants |
|------------------------------|-----------------------------|------------------------------------|

WEB-BASED TRAINING

| | |
|----------------------|------------------------------|
| 55 courses | 34,145 completions |
|----------------------|------------------------------|

TYPES OF TRAINING OFFERED

- | | |
|--|-----------------------------------|
| Human Resources Training | Masters Wine Course |
| Supervisory/Leadership Training | New Hire Training |
| Health & Safety Training | Seasonal New Hire Training |
| Microsoft Office Training | Code of Conduct Training |
| Basic Wine Course | Customer Service Training |
| Intermediate Wine Course | Wine Specialist Training |
| Advanced Wine Course | General Manager Training |

AGENCY OVERVIEW

The statutory authority for the PLCB is Act 21 of April 12, 1951, P.L. 90; as reenacted by Act 14 of June 29, 1987, P.L. 32. In conformance with the Pennsylvania Liquor Code, the Pennsylvania Liquor Control Board (PLCB) regulates the manufacture, possession, sale, consumption, importation, use, storage, transportation and delivery of liquor, alcohol and malt or brewed beverages in the commonwealth. Act 90 of 2013, which made changes to the Local Option Small Games of Chance Act, requires the PLCB, in conjunction with the state Gaming Control Board, to review tavern gaming applications and conduct background investigations to facilitate the issuance of tavern gaming licenses.

All package sales of wines and spirits in Pennsylvania, with the exception of wines sold by licensed limited wineries and distilleries, are made through the Fine Wine & Good Spirits stores operated by the PLCB. These include both retail sales to individual consumers and wholesale sales to licensed establishments where wines and spirits are sold by the drink. While malt and brewed beverages are not sold through the system, the PLCB does regulate those sales through the licensing of the distributors, restaurants, hotels, supermarkets and clubs that sell those beverages.

The PLCB, an independent administrative board, is comprised of three members who are appointed to staggered four-year terms by the Governor with the concurrence of two-thirds of the Senate. The Board is responsible for the management of the PLCB in the areas of directing the state-operated Fine Wine & Good Spirits stores and authorizing the licensing of establishments that manufacture or sell liquor and alcohol. While not mandated, the PLCB does provide for a comprehensive program of alcohol education aimed at promoting moderation and avoidance of abuse among legal consumers, and prevention of purchase and consumption by minors. The PLCB funds the operations of the Pennsylvania State Police Bureau of Liquor Control Enforcement, which is responsible for enforcing the laws and regulations governing the trafficking of alcoholic beverages throughout the commonwealth.

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

The State Stores Fund is an enterprise fund that serves as the general operating fund for the PLCB. This fund receives revenues from the sale of goods through Fine Wine & Good Spirits stores, fees not credited to the Liquor License Fund, fines and penalties for law violations by licensees and losses and damages recovered. Expenditures cover all costs associated with the operation and administration of all PLCB functions as outlined and prescribed by the Pennsylvania Liquor Code. In addition, the fund also provides monies to the Pennsylvania State Police for enforcement of the Liquor Code, the Department of Drug & Alcohol for alcohol abuse programs, the Department of the Auditor General for auditing

services and the Office of Comptroller Operations assigned to the PLCB. Annual profit transfers are made from this fund to the General Fund.

DISCUSSION OF BASIC FINANCIAL STATEMENTS

The State Stores Fund and the Liquor License Fund are accounted for on a fiscal year basis, comprised of 12 calendar months.

The accounts of the State Stores Fund are reported using the accrual basis of accounting. The accounts of the Liquor License Fund are reported using the accrual basis of accounting for recognizing assets and liabilities. The audit report consists of financial statements including the Statement of Net Position; Statement of Revenues, Expenses and Changes in Fund Net Position; and Statement of Cash Flows for the State Stores Fund for the fiscal years ended June 30, 2015, and June 30, 2014; and the Liquor License Fund Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position for the fiscal years ended June 30, 2015, and June 30, 2014.

The Statement of Net Position provides information about assets and liabilities and reflects the financial position at the fiscal year end. The Statement of Revenues, Expenses and Changes in Fund Net Position reports the operating revenue activity and the expenses related to such activity for the fiscal year. The Statement of Cash Flows outlines the cash inflows and outflows relating to the operations for the fiscal year. The Statement of Fiduciary Net Position provides information about assets and liabilities which reflect the position of the Liquor License Fund at the fiscal year end. The Statement of Changes in Fiduciary Net Position illustrates the net asset activities throughout the fiscal year for the Liquor License Fund. The financial statements also include Notes 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.

The financial statements represent only the Pennsylvania Liquor Control Board and do not present the financial position of the Commonwealth of Pennsylvania. The following is a discussion on the current-year results of operations for the State Stores Fund.

EXECUTIVE SUMMARY & HIGHLIGHTS

Fiscal year 2014-15 sales growth improved to 4.2 percent over the prior year, with increases attributable equally to wine and spirits sales. Growth was driven by focusing our limited advertising resources on high-impact media in targeted markets, expanding the number of stores carrying Chairman's Selection® products and providing an attractive mix of product discounts.

However, sales growth was more than offset at the bottom line by several year-end accounting valuation adjustments related to commonwealth benefit programs that significantly reduced PLCB net income. The impact of growing pension and benefit costs is a systemic problem facing all commonwealth agencies. The PLCB is unique in that we are a self-funded organization with an enterprise fund reporting this level of detail in our annual income and loss statements.

Changes in accounting principles and revisions by the commonwealth on how certain benefit expenses and liabilities are allocated among agencies were implemented that reduced net income by \$49.2 million. PLCB net income of \$83.6 million was \$40.1 million (32.4 percent) less than last year. Without these benefit adjustments, net income would have been \$132.8 million, 2.5 percent higher than the previous year.

We continued to invest in the business this year through store rebranding and refurbishment and information technology system upgrades and improvements. With the increased usage of credit and debit cards, we are improving our stores' point-of-sale (POS) system with the new embedded "chip and pin" smart-card technology, which is intended to prevent credit and debit card fraud. We embarked on key new initiatives benefitting licensees, which are detailed previously in this report. The PLCB also increased our education programs related to alcohol awareness and responsible consumption.

Highlights of the report include:

- Lower operating income of \$111.5 million represents a compound annual growth rate (CAGR) of 1.8 percent since fiscal year 2010-11. Operating income has been adversely affected by dramatic increases in benefits costs in excess of sales growth, specifically in the following categories: pension (105.6 percent), workers compensation (520.6 percent) and retiree healthcare (29.6 percent).
- Positive operating cash flow of \$139.1 million enabled the PLCB to pay the 2014-15 profit transfer in January 2015.
- Year-end cash and investments increased \$20.7 million to \$261.9 million due to positive cash flow from operations.
- Trade payables were reduced by \$6.2 million to \$253.1 million.
- PLCB ended fiscal year 2014-15 with a total of \$497.3 million in current assets including \$230.1 million in merchandise inventory. Inventory grew from the prior year by \$23.5 million to accommodate increased customer demand in the luxury wine segment and to offer expanded choice in the premium brands.
- After payment of all expenses, including inter-agency transfers, transfers to the General Fund and transfers for the Department of Drug & Alcohol Programs, PLCB's net assets increased by \$1.9 million. However, due to first-year recognition of the PLCB's net pension liability of \$362.7 million, overall net position reflects a deficit of \$238.7 million for fiscal year 2014-15.

REVENUES AND COSTS

Sales

Sales and tax revenue in fiscal year 2014-15 totaled \$2.34 billion, an increase of \$94.8 million or 4.2 percent over fiscal year 2013-14.

Sales growth was evenly balanced with spirits and wine increasing by 4.1 percent and 4.3 percent, respectively. Wine sales increases were driven by the luxury segment, which grew 9.7 percent. Since introduction in 2010, The Chairman's Selection program has been a tremendous success for the PLCB. In the last five years, Chairman's Selection wine sales have grown at a compound rate of 7.8 percent. We have also offered more optimal selections and a more attractive mix of discounts. Additionally, 28 Fine Wine & Good Spirits stores were rebranded during the year, five new stores were opened and seven closed.

Within the PLCB's customer base, retail sales, or sales to individual consumers, grew 4.7 percent while sales to licensees increased by 2.5 percent. Retail sales for the year totaled 79 percent of total sales. On a volume basis, spirit unit sales grew 2.6 percent and wine unit sales grew 1.7 percent, while spirit gallon sales increased 2.3 percent and wine gallon sales increased 1.1 percent. Debit/credit card purchases represented approximately 62 percent of sales, up from 60 percent last year. Average sale per debit and credit card transaction was \$30.44 and \$53.81, respectively, versus \$30.11 and \$54.01 the prior year.

Sales growth was attained by offering consumers a broader selection of product offerings with a more attractive mix of discounts. We let consumers know about those discounts by focusing our limited advertising resources on high-impact media in targeted markets while also growing our social media presence to communicate directly with consumers. We remain committed to opening rebranded Fine Wine & Good Spirits stores in highly visible and convenient locations, expanding the number of stores carrying Chairman's Selection products by 18. Sales growth was positively impacted by the recently initiated Chairman's Advantage program, which introduced lower-priced premium products to consumers. Further, the agency has continued to focus on staff training to improve customer service by providing wine information, recommendations and guidance for customers needing assistance.

Gross Margin

Gross margin increased to 31.2 percent in fiscal year 2014-15 from 31.1 percent last year. The increase is due in part to increases in the volume of vendor promotion allowances, and the PLCB buy-ins in advance of vendor price increases.

Operating Income

Operating income for the year ended June 30, 2015, was \$111.5 million, \$36.8 million or 24.8 percent less than \$148.3 million reported last year. The decline is solely attributable to year-end adjustments that increased the costs for participation in commonwealth-negotiated benefit programs for pensions, other post-employment benefits and worker's compensation.

Day-to-day operational expenses excluding pension, workers' compensation and post-employment benefits adjustments grew by 5.3 percent in the most recently completed fiscal year. Operational expense growth included long-term

investments to the business such as store rebrands, upgrades to point-of-sale technology and development of new online licensee systems facilitating wine and spirits orders and registration.

Pension

For 2014-15 the PLCB recorded pension expense of \$47.7 million, a \$24.5 million (105.6 percent) increase from \$23.2 million in the prior year.

PLCB employees are members of the State Employees' Retirement System (SERS). SERS is the administrator of a cost-sharing, multiple-employer, defined-benefit retirement plan established to provide pension benefits for commonwealth employees. Membership in the SERS is mandatory for PLCB employees.

As required for reporting in accordance with Generally Accepted Accounting Principles (GAAP), the commonwealth adopted Government Accounting Standards Board (GASB) Statement #68 for fiscal year 2014-15, which establishes standards for recognizing expenses, deferred inflows and outflows of resources and requires the PLCB to record on its balance sheet its share of the commonwealth's unfunded pension liability. SERS' actuary determined the PLCB share of the unfunded liability to be \$331 million at the start of the year and \$362.7 million at year's end. The addition of the pension liability to the PLCB balance sheet reduced the net asset position from \$77.2 million last year to a deficit of \$238.7 million at June 30, 2015. Moreover, under GASB #68 the annual changes in the pension liability, deferred inflows and deferred outflows will be charged to net income each year. In 2014-15, the change in pension accounting rules resulted in an overall year-end adjustment that reduced net income by \$16.8 million.

Worker's Compensation

PLCB worker's compensation expenses grew in fiscal year 2014-15 to \$27.2 million, a \$22.8 million (520.6 percent) increase over \$4.4 million recorded the prior year. The PLCB's share of the commonwealth's liability increased by \$19.4 million (63.3 percent) to \$49.9 million.

In 2014, the commonwealth made the following changes to the accounting for worker's compensation:

- An experience-based contribution process for determining current worker's compensation expense by agency was adopted. This resulted in a doubling of the current expense allocation to the PLCB from the prior method employed by the commonwealth wherein total workers compensation expense was allocated based on payroll.
- The commonwealth's new insurance examiner determined that the commonwealth as a whole had been underfunding its liability, which resulted in a \$161 million increase in the commonwealth liability to \$861 million.
- The commonwealth increased the allocation of the \$861 million commonwealth liability to the PLCB by more than 1.4 percent. This change was implemented after the examiner's report was issued to be consistent with the change to

experience-based allocations of current expense. Adjustment to the worker's compensation estimates resulted in a \$19.4 million increase in 2014-15 PLCB expense.

Retiree Medical, or Other Post-Employment Benefit Costs (OPEB)

PLCB OPEB expenses charged to 2014-15 to \$40.5 million, a \$9.2 million (29.6 percent) increase over \$31.3 million recorded last year. PLCB's share of the commonwealth's \$19.4 billion liability increased by \$13 million (20.5 percent) to \$76.7 million.

PLCB employees are eligible for retiree medical benefits when length of service and other requirements are met. The OPEB portion of the obligation is a measure of the future healthcare cost for active and retired employees. Similar to the pension benefit obligation, the final determination of expense is dependent upon actuarial review and reporting is done in accordance with GAAP. The commonwealth reported an increase in the OPEB obligation of \$341 million, the PLCB share of which totaled \$13 million.

Increases in these three benefit expenses and related liabilities are primarily attributable to these long-term obligations not being adequately funded by the commonwealth for some time. Moreover, the complex nature of various actuarial and economic estimates that go into the final liability determinations will continue to result in significant adjustments not determined until two to three months after the close of a fiscal year. The scope, volatility and timing of the valuations will make it extremely difficult to forecast results and make decisions with respect to pricing and business investments.

The following table presents the five-year growth in the expense and related liability for these benefit items.

| PLCB Benefits Information | in (000) | | | | | | CAGR * |
|----------------------------------|------------|------------|-----------|-----------|-----------|-------|--------|
| | 2014-2015 | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | | |
| Pension - Expense | \$ 47,708 | \$ 23,199 | \$ 16,233 | \$ 10,998 | \$ 6,992 | 61.6% | |
| % increase over prev. year | 105.6% | 42.9% | 47.6% | 57.3% | 35.7% | | |
| Pension - Liability | \$ 362,685 | \$ 330,977 | - | - | - | 9.6% | |
| % increase over prev. year | 9.6% | | | | | | |
| Workers Comp. - Expense | \$ 27,226 | \$ 4,387 | \$ 5,462 | \$ 5,295 | \$ 7,100 | 39.9% | |
| % increase over prev. year | 520.6% | -19.7% | 3.2% | -25.4% | -30.2% | | |
| Workers Comp. - Liability | \$ 49,926 | \$ 30,565 | \$ 30,918 | \$ 30,517 | \$ 29,928 | 13.6% | |
| % increase over prev. year | 63.3% | -1.1% | 1.3% | 2.0% | 13.0% | | |
| OPEB - Expense | \$ 40,518 | \$ 31,271 | \$ 33,100 | \$ 29,858 | \$ 27,646 | 10.0% | |
| % increase over prev. year | 29.6% | -5.5% | 10.9% | 8.0% | -35.2% | | |
| OPEB - Liability | \$ 76,653 | \$ 63,630 | \$ 57,379 | \$ 46,147 | \$ 36,024 | 20.8% | |
| % increase over prev. year | 20.5% | 10.9% | 24.3% | 28.1% | 44.0% | | |

* CAGR - Compound Annual Growth Rate

A portion of the decline in income is also attributable to higher operating expenses associated with growth of our business. Credit/debit card fees increased by \$2.2 million, or 9.6 percent, primarily due to increase in overall sales volume and customers increasing usage of cards versus cash. Information technology expenses increased by \$1.6 million, or 9.9 percent. These increases paid for Oracle software and support and new initiatives including LOOP, direct-shipping to licensees, PLCB+ and point-of-sale upgrades. The commonwealth's decision to migrate information technology servers to Ashburn, VA, also increased expenses. Store leases increased by \$1.4 million, or 3.2 percent, due to store build-outs associated with store rebranding and refurbishment efforts. Advertising expenses increased by \$1.2 million, or 21.9 percent, primarily for alcohol education and awareness programs.

Operating Transfers Out

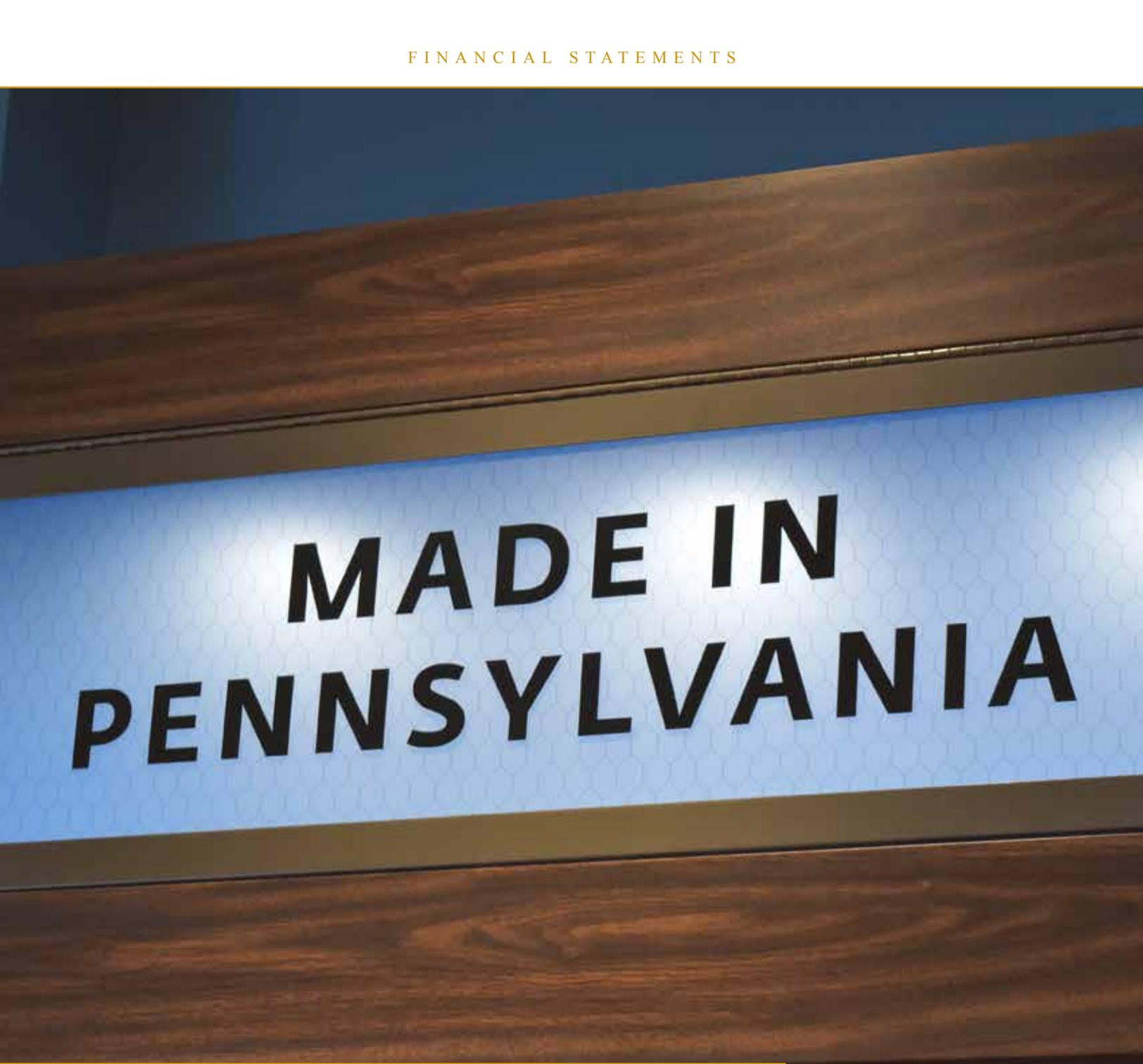
The Bureau of Liquor Control Enforcement within the Pennsylvania State Police received \$25.7 million in funding in fiscal year 2014-15, an increase of \$800,000, or 3.1 percent, over the previous year. Over the last five years, PLCB transfers to Pennsylvania State Police have grown at a compound rate of 6.1 percent, while enforcement fines marginally increased by 1.8 percent. Transfers to the Department of Drug & Alcohol Programs, which are statutorily set at 2 percent of profits each year, decreased to \$1.7 million from \$2.5 million the prior year. As directed by the Governor's Budget Office, \$80 million in profit was transferred to the General Fund in January 2015. In fiscal year 2014-15, the PLCB generated \$544.6 million in contributions to the Pennsylvania Treasury, returned \$4.5 million in license fees to local municipalities and collected and remitted \$8.5 million in local sales tax to Philadelphia and Allegheny counties.

PLCB Summary Financial Information

| | in (000) | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------|
| | 2014-2015 | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | CAGR * |
| Sales Net of Taxes | \$ 1,862,270 | \$ 1,786,502 | \$ 1,731,463 | \$ 1,657,205 | \$ 1,571,223 | 4.3% |
| Gross Profit | 581,130 | 555,835 | 539,416 | 511,738 | 490,262 | 4.3% |
| Gross Margin | 31.2% | 31.1% | 31.2% | 30.9% | 31.2% | |
| Operating Expenses | \$ 469,610 | \$ 407,789 | \$ 387,535 | \$ 387,057 | \$ 386,083 | 5.0% |
| Operating Income | 111,520 | 148,308 | 151,850 | 124,991 | 103,757 | 1.8% |
| Transfers to State Police | 25,726 | 24,958 | 23,984 | 21,738 | 20,308 | 6.1% |
| Drug & Alcohol Transfers | 1,672 | 2,474 | 2,567 | 2,070 | 1,674 | 0.0% |
| Net Income | 83,598 | 123,683 | 128,366 | 103,494 | 83,704 | 0.0% |
| Liquor Tax | \$ 334,414 | \$ 320,912 | \$ 311,248 | \$ 298,144 | \$ 281,746 | 4.4% |
| State Sales Tax | 130,193 | 124,880 | 121,093 | 116,033 | 109,652 | 4.4% |
| Local Sales Tax | 8,493 | 8,270 | 8,143 | 7,835 | 7,386 | 3.6% |
| License Fees Returned ** | 4,466 | 4,522 | 4,436 | 4,469 | 4,522 | -0.3% |
| Number of Stores (not in 000) | 603 | 606 | 605 | 608 | 610 | |
| Average Sales per Store | \$ 3,088 | \$ 2,948 | \$ 2,862 | \$ 2,726 | \$ 2,576 | |
| Operating Exp./ Net Sales | 25.2% | 22.8% | 22.4% | 23.4% | 24.6% | |
| Contributions/ Net Sales | 31.4% | 31.7% | 31.9% | 32.0% | 33.8% | |
| Return on Assets | 20.5% | 30.5% | 35.8% | 28.1% | 23.8% | |

* CAGR - Compound Annual Growth Rate

**As provided by statute, a portion of license fees are returned to municipalities. Rates have not increased since 1991.



MADE IN PENNSYLVANIA

As part of its rebranding program, the PLCB is placing Made in Pennsylvania sections in prominent places in Fine Wine & Good Spirits stores. These sections highlight products from Pennsylvania's wineries and distilleries.



October 27, 2015

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, 2015 and June 30, 2014, and the balance sheet for the Liquor License Fund as of June 30, 2015 and June 30, 2014, and the related State Stores Fund comparative statements of revenues, expenses, and changes in fund net position for the period ended June 30, 2015 and June 30, 2014, in accordance with standards established by the American Institute of Certified Public Accountants.

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

As described in Note 8 to the financial statements, the State Stores Fund adopted the provisions of GASB Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions. As discussed in Note 9 to the financial statements, the State Stores Fund has restated the fiscal year ended June 30, 2015 beginning net position to account for pension expense in accordance with GASB 68. Fiscal year ending June 30, 2014, amounts are not restated because all necessary GASB 68 actuarial data is not available.

A handwritten signature in black ink that reads 'Anna Maria Kiehl'.

Anna Maria Kiehl, CPA
State Comptroller

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

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|-------------------------|-----------------------|
| Assets: | | |
| Current Assets: | | |
| Cash | \$ 20,209,922 | \$ 30,962,295 |
| Investments-Short Term | 241,702,180 | 210,266,352 |
| Accounts and Claims Receivable (Net) | 1,333,108 | 1,076,297 |
| Inventory - Merchandise (Net) | 230,093,160 | 206,547,618 |
| Inventory - Operating Supplies | 201,448 | 239,272 |
| Prepaid Expenses | <u>3,766,222</u> | <u>3,299,358</u> |
| Total Current Assets | <u>497,306,040</u> | <u>452,391,192</u> |
| Fixed Assets: | | |
| Land | 322,973 | 322,973 |
| Buildings | 19,557,620 | 19,557,620 |
| Leasehold Improvements | 757,962 | 2,478,307 |
| Machinery and Equipment | 44,477,826 | 38,200,697 |
| Computer Software - Internally Generated | <u>29,639,452</u> | <u>52,924,520</u> |
| Total Fixed Assets | 94,755,833 | 113,484,118 |
| Less: Accumulated Depreciation/Amortization | <u>57,727,927</u> | <u>78,427,700</u> |
| Net Fixed Assets | <u>37,027,906</u> | <u>35,056,418</u> |
| Total Assets | <u>\$ 534,333,946</u> | <u>\$ 487,447,610</u> |
| Total Deferred Outflows - Pension (Note 8)*** | 31,038,537 | - |
| <u>Liabilities and Net Position</u> | | |
| Liabilities: | | |
| Current Liabilities: | | |
| Trade Accounts Payable | \$ 253,125,319 | \$ 259,333,270 |
| Other Accounts Payable | 12,338,533 | 9,985,418 |
| Accrued Payroll-Related Expenses | 44,221,759 | 42,287,324 |
| Workers' Compensation Liability (Note 5) | 7,816,604 | 4,596,804 |
| Due to Other Funds | <u>2,128,444</u> | <u>4,458,138</u> |
| Total Current Liabilities | <u>319,630,659</u> | <u>320,660,954</u> |
| Noncurrent Liabilities: | | |
| Other Accounts Payable - OPEB (Note 4) | 76,652,554 | 63,629,717 |
| Workers' Compensation Liability (Note 5) | 42,109,251 | 25,967,904 |
| Net Pension Liability (Note 8)*** | 362,685,050 | - |
| Total Noncurrent Liabilities | <u>481,446,855</u> | <u>89,597,621</u> |
| Total Liabilities | <u>801,077,514</u> | <u>410,258,575</u> |
| Total Deferred Inflows - Pension (Note 8)*** | 3,002,223 | - |
| Net Position: | | |
| Invested in Capital Assets, net of related debt | 37,027,906 | 35,056,418 |
| Unrestricted*** | <u>(275,735,160)</u> | <u>42,132,617</u> |
| Total Net Position | <u>\$ (238,707,254)</u> | <u>\$ 77,189,035</u> |

***Effective July 1, 2014, the PLCB implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. This standard established new standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. The State Stores Fund Net Position changed by a total of \$(317,822,168) as a result of implementing GASB 68.

**Commonwealth of Pennsylvania
 Pennsylvania Liquor Control Board
 Liquor License Fund
 Balance Sheet
 As of June 30, 2015
 (Unaudited)**

| | <u>June 2015</u> | <u>June 2014</u> |
|---------------------------------|-------------------------|-------------------------|
| Assets: | | |
| Cash in Transit | \$ 80,050 | \$ 61,900 |
| Investments - Short Term | <u>2,274,832</u> | <u>2,351,311</u> |
| Total Assets | <u>\$ 2,354,882</u> | <u>\$ 2,413,211</u> |
| Liabilities: | | |
| License Fees due Municipalities | \$ 2,352,832 | \$ 2,411,161 |
| Other Liabilities | <u>2,050</u> | <u>2,050</u> |
| Total Liabilities | <u>\$ 2,354,882</u> | <u>\$ 2,413,211</u> |

See Accountant's Compilation Report
 The accompanying notes are an integral part of these 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, 2015 and June 30, 2014
(Unaudited)**

| | 2014-15 | 2013-14 |
|--|-------------------------|----------------------|
| Sales Net of Taxes | \$ 1,862,269,904 | \$ 1,786,501,686 |
| Cost of Goods Sold | 1,281,139,778 | 1,230,666,757 |
| Gross Revenue from Sales | 581,130,126 | 555,834,929 |
| Operating Expenses: | | |
| Purchasing, Storage & Transportation | 18,432,810 | 16,227,858 |
| Stores' Operations & Supervision | 365,489,234 | 311,381,039 |
| Central Administrative Support | 69,683,255 | 62,668,851 |
| Comptroller Operations | 4,713,987 | 4,864,094 |
| Commonwealth-Provided Services (Note 2) | 11,290,527 | 12,733,971 |
| Total | 469,609,813 | 407,875,813 |
| Operating Income | 111,520,313 | 147,959,116 |
| Nonoperating Revenues (Expenses): | | |
| Enforcement Fines | 1,975,832 | 1,766,657 |
| Interest Income | 429,542 | 419,817 |
| License Fees | 12,315,087 | 12,050,182 |
| Miscellaneous Income | 3,694,696 | 3,048,474 |
| Administrative Law Judge | (2,543,018) | (2,314,564) |
| Legal | (3,570,359) | (3,246,800) |
| Licensing & Investigations | (14,497,769) | (11,041,736) |
| Total | (2,195,989) | 682,029 |
| Income Before Operating Transfers | 109,324,324 | 148,641,144 |
| Operating Transfers Out: | | |
| PSP Enforcement (Note 3) | 25,726,488 | 24,958,572 |
| Income After Enforcement/Before Other Transfers | 83,597,836 | 123,682,573 |
| Other Operating Transfers Out: | | |
| General Fund Appropriations (Note 3) | 80,000,000 | 80,000,000 |
| Drug and Alcohol Programs (Note 3) | 1,671,957 | 2,473,651 |
| Total | 81,671,957 | 82,473,651 |
| Change in Net Position | 1,925,879 | 41,208,921 |
| Total Net Position - Beginning, 2014-15 | | 35,980,113 |
| Restated (Note 9) | (240,633,133) | |
| Total Net Position - Ending | \$ (238,707,254) | \$ 77,189,035 |

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
Adjusted Statement of Income
EXCLUDING Pension, OPEB, and Workers' Compensation
Accounting Valuation Expenses from Net Income
For The Twelve Months Ending June 30, 2015 and June 30, 2014
(Unaudited)

| | FY 2014-15 | FY 2013-14 | FY 14 vs FY 13 | |
|---|----------------------|-----------------------|------------------------|---------------|
| | Actual | Actual | Variance | |
| | | | \$ | % |
| Sales Net of Taxes | \$ 1,862,269,904 | \$ 1,786,501,686 | \$ 75,768,218 | 4.2% |
| Less Cost of Sales | 1,281,139,778 | 1,230,666,757 | 50,473,021 | 4.1% |
| Gross Income from Sales | 581,130,126 | 555,834,929 | 25,295,197 | 4.6% |
| Gross Margin | 31.2% | 31.1% | | |
| <u>Less Operating Expenses:</u> | | | | |
| Purchase, Storage & Transportation | 18,432,810 | 16,227,858 | 2,204,952 | 13.6% |
| Stores' Operation and Supervision | 365,489,234 | 311,381,039 | 54,108,195 | 17.4% |
| Central Administrative Support | 69,683,255 | 62,668,851 | 7,014,404 | 11.2% |
| Comptroller Operations | 4,713,987 | 4,864,094 | (150,107) | -3.1% |
| Commonwealth -Provided Services | 11,290,527 | 12,733,971 | (1,443,444) | -11.3% |
| Total Operating Expenses | 469,609,813 | 407,875,813 | 61,734,000 | 15.1% |
| Gross Operating Income | 111,520,313 | 147,959,116 | (36,438,803) | -24.6% |
| Operating Margin | 6.0% | 8.3% | | |
| <u>Less Nonoperating Revenues (Expenses):</u> | | | | |
| Enforcement Fines | 1,975,832 | 1,766,657 | 209,175 | 11.8% |
| Interest Income | 429,542 | 419,817 | 9,725 | 2.3% |
| License Fees | 12,315,087 | 12,050,182 | 264,905 | 2.2% |
| Miscellaneous Income | 3,694,696 | 3,048,474 | 646,222 | 21.2% |
| Administrative Law Judge | (2,543,018) | (2,314,564) | (228,454) | 9.9% |
| Legal | (3,570,359) | (3,246,800) | (323,559) | 10.0% |
| Licensing & Investigations | (14,497,769) | (11,041,736) | (3,456,033) | 31.3% |
| Total Nonoperating Revenues (Expenses) | (2,195,989) | 682,029 | (2,878,019) | -422.0% |
| Income Before Operating Transfers | 109,324,324 | 148,641,144 | (39,316,822) | -26.5% |
| <u>Operating Transfers Out:</u> | | | | |
| PSP Enforcement: | 25,726,488 | 24,958,572 | 767,916 | 3.1% |
| Net Income | \$ 83,597,836 | \$ 123,682,573 | \$ (40,084,738) | -32.4% |
| Net Margin | 4.5% | 6.9% | | |
| Accounting Valuation Expenses | 49,210,551 | 5,897,175 | 43,313,376 | 734.5% |
| Adjusted Net Income | \$ 132,808,387 | \$ 129,579,748 | \$ 3,228,639 | 2.5% |

**Commonwealth of Pennsylvania
 Pennsylvania Liquor Control Board
 State Stores Fund
 Statement of Cash Flows
 For the Period July 1, 2014 to June 30, 2015
 (Unaudited)**

| | |
|--|------------------------------|
| Cash Flows From Operating Activities: | |
| Receipts from customers | \$ 1,879,998,708 |
| Payments to suppliers | (1,740,864,572) |
| Net Cash Provided by (Used for) Operating Activities | <u>139,134,136</u> |
| Cash Flows From Noncapital Financing Activities: | |
| PSP expenses | (25,726,487) |
| General Fund Transfer | (81,671,957) |
| Net Cash Used For Noncapital Financing Activities | <u>(107,398,444)</u> |
| Cash Flows From Capital and Related Financing Activities: | |
| Acquisition and construction of capital assets | (11,505,148) |
| Disposition of capital assets | 23,370 |
| Net Cash Used For Capital and Related Financing Activities | <u>(11,481,778)</u> |
| Cash Flows From Investing Activities: | |
| Purchase of investments | (1,415,178,268) |
| Proceeds from sale and maturities of investments | 1,383,742,439 |
| Investment income | 429,542 |
| Net Cash Used in Investing Activities | <u>(31,006,287)</u> |
| Net Decrease in Cash | (10,752,373) |
| Cash - July 1, 2014 | 30,962,295 |
| Cash - June 30, 2015 | <u>\$ 20,209,922</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | |
| Operating Income | 108,894,782 |
| Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation | 9,510,290 |
| Accounts Receivable | (256,811) |
| Inventory | (23,507,718) |
| Prepaid expenses | (466,864) |
| Deferred Outflows - Pension Related | (17,883,870) |
| Accounts Payable and accrued liabilities | 30,463,583 |
| Due to other funds | (2,329,694) |
| Net Pension Liability | 31,708,215 |
| Deferred Inflows - Pension Related | 3,002,223 |
| Total Adjustments | <u>30,239,354</u> |
| Net Cash Provided By (Used For) Operating Activities: | <u>\$ 139,134,136</u> |

See Accountant's Compilation Report
 The accompanying notes are an integral part of these statements.
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COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES AND LIQUOR LICENSE FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

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 \$151,295.56 at June 30, 2015 and \$0 at June 30, 2014.

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, 2015 and June 30, 2014 was \$25,115,309 and \$24,641,085 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, 2014 to June 30, 2015 are as follows:

| | |
|-----------------|------------------|
| Liquor Tax | \$334,413,695 |
| State Sales Tax | 130,193,126 |
| Local Sales Tax | <u>8,493,412</u> |
| Total | \$473,100,233 |

2. COMMONWEALTH-PROVIDED SERVICES

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

| | |
|---------------------------------------|-----------------------------|
| Auditor General Services | \$ 1,384,704 |
| Consolidated Data Services | 4,054,677 |
| Treasury Department Services | 176,750 |
| Civil Service Commission Services | 980,672 |
| Payroll Operations Services | 331,003 |
| Drug and Alcohol Program Expenses | - |
| OA Office | |
| Classification & Pay Services | 272,061 |
| Strategic Services/SEAP | 166,759 |
| IES -Contracted Main services | 1,540,922 |
| OA Telecommunication charges | 358,791 |
| Dept of General services | |
| Real Estate & Shared Services Accrual | 1,138,816 |
| Employee Self & Tort Insurance | 101,589 |
| Warehouse and Distribution Services | 202,075 |
| Capital Complex Services | 581,710 |
| | <u>\$ 11,290,527</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 Drug and Alcohol for administering 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, 2015 and 2014 was not fully funded. The PLCB's allocated OPEB liability was \$76.65M as of June 30, 2015 and \$63.63M as of June 30, 2014.

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 \$49.93M as of June 30, 2015 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, 2015, were as follows (expressed in thousands):

| <u>Year Ending June</u> | <u>Real Estate</u> |
|---------------------------------|--------------------|
| 2016 | \$35,214 |
| 2017 | 28,795 |
| 2018 | 23,278 |
| 2019 | 18,333 |
| 2020 | <u>13,452</u> |
| Total Minimum Lease Payments | <u>\$119,072</u> |

Rental expense for all operating leases for the period ending June 30, 2015, amounted to \$44.90M.

8. PENSION LIABILITY

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. Written requests for SERS financial statements should be directed to the following address:

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

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

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

Section 5507 of the SERC (Pa C.S. §5507) requires the Commonwealth, including the PLCB, whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the SERS board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2013/2014 was 4.5% and will remain at that rate until no longer needed. The PLCB's contributions to the SERS were \$30,881,097.03 and \$23,198,698.39 for the years ended June 30, 2015 and 2014, 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 year ended June 30, 2015, the PLCB recognized pension expense of \$47,707,665.

| | FYE June 30, 2015 |
|---|------------------------------------|
| Employer Contributions | 30,881,097 |
| Change in Net Pension Liability | 31,708,215 |
| Change in Deferred Outflows | |
| Contributions Subsequent to Measurement Date | (2,202,415) |
| Difference between Projected and Actual Investment Earnings | (10,479,149) |
| Change in Proportion | (2,728,913) |
| Difference Between Employer Contributions and Proportionate Share | (504,488) |
| Difference between Expected and Actual Experience | (1,968,905) |
| Total Change in Deferred Outflows | (17,883,870) |
| Change in Deferred Inflows | |
| Change in Proportion | 2,699,912 |
| Difference Between Employer Contributions and Proportionate Share | 302,311 |
| Total Change in Deferred Inflows | 3,002,223 |
| Total Pension Expense | 47,707,665 |

9. RESTATEMENT

Restatement Due to Change in Accounting Principle:

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

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

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

Fiscal year ending June 30, 2014 amounts are not restated because all of the GASB 68 actuarial data is not available.



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.state.pa.us.