



FISCAL YEAR  
2012-13 ANNUAL REPORT



**pennsylvania**  
LIQUOR CONTROL BOARD

# PREMIUM COLLECTION



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MESSAGE FROM THE BOARD

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Dear Pennsylvania Residents,

Fiscal Year 2012-13 was a very strong year financially for the Pennsylvania Liquor Control Board (PLCB). The agency experienced sales growth of 4.5 percent at Fine Wine & Good Spirits stores, which resulted in record income of \$128 million. Those returns were the result of some important changes within the agency.

This annual report was created to detail some of those changes and their impact on our financial success. We believe it's important the public, as a PLCB stakeholder, has access to specific information regarding what we do, how we do it, and the products that are being sold. We hope you find the information inside these pages informative and useful.

As both a regulator and a retailer, the PLCB has been a unique part of state government for nearly 80 years. There has been much discussion recently about the future role of the agency. While that discussion continues, we are committed to operating the PLCB as effectively and profitably as we can in a socially responsible manner.

Our team has worked hard to improve the store experience, build relationships with consumers and ensure that we have the right products on our shelves at fair prices. We continue to look for ways to serve our consumers and licensees better. As the agency evolves, our overall philosophy remains consistent: providing the best service we can to the citizens of the commonwealth.

We hope you notice the difference.

Respectfully,



Joseph E. "Skip" Brion  
Chairman



Robert S. Marcus  
Board Member



## THE BOARD

The Liquor Control Board was created by state law on Nov. 29, 1933. The agency is governed by a three member board, appointed by the Governor and confirmed by two-thirds of the state Senate. Currently, the board includes:

### JOSEPH E. “SKIP” BRION – CHAIRMAN



Joseph E. “Skip” Brion was nominated to the Pennsylvania Liquor Control Board by Governor Tom Corbett on July 6, 2011, and was confirmed by unanimous vote of the Pennsylvania Senate on October 18, 2011.

Brion 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.

In addition to his law practice, Brion currently serves as secretary of the Delaware Valley Regional Finance Authority and a member of the DNB First Advisory Board.

Previously, Brion served as 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 the Southeastern Pennsylvania Transportation Authority and a former trustee of the Chester County Historical Society. He 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 and have two adult children, Kate and Scott.

### ROBERT S. MARCUS – BOARD MEMBER



Robert S. Marcus, a resident of Indiana, Pa., was nominated to the Pennsylvania Liquor Control Board by Governor Edward G. Rendell on June 1, 2007. He was unanimously confirmed by the state Senate on Nov. 14, 2007, and reconfirmed to serve a four-year term in October 2010.

Marcus, an attorney, is a partner in the Indiana law firm of Marcus & Mack, P.C., concentrating in personal injury law. He is the former owner and president of the McGregor Motor Co., a Dodge, Jeep and Chrysler dealership in Indiana, and a former board member of the Pennsylvania Automotive Association.

He is also chairman of the board of the Pittsburgh-based Think Through Learning, an online math tutoring system used in school districts around the country.

Marcus is active in numerous civic and professional associations around western Pennsylvania. He is a past president of the Indiana County Bar Association. He also served as chairman and treasurer of the Indiana County Chamber of Commerce, and was on the board of the Indiana County United Way, the Indiana County Development Corporation and the Foundation for Indiana University of Pennsylvania. Educated at Indiana area schools and the Valley Forge Military Academy, Marcus received his bachelor’s degree from Syracuse University and law degree from the University of San Diego.

He resides in Indiana with his wife, Maura, and daughter, Margaux.



## VISION AND MISSION

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### VISION STATEMENT

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

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### MISSION STATEMENT

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The PLCB 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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## EXECUTIVE TEAM

Director of Finance | August Hehemann

Director of Supply Chain | John Metzger

Director of Marketing and Merchandising | Jim Short

Director of Retail Operations | Dale Horst

Director of Administration | vacant

Director of Regulatory Affairs | Jerry Waters

Chief Information Officer | Mary Benner

Chief Counsel | Faith Diehl

Director of External Affairs | Stacy Kriedeman

Secretary of the Board | John Stark

# ORGANIZATIONAL STRUCTURE



In 2012-13, The Pennsylvania Liquor Control Board created a new vision to provide guidance to each of our 5,000 plus employees, a vision that better reflects our focus on improving the customer experience across the agency, both on the regulatory side and retail side. Ultimately, we want to be recognized as the best-in-class, state-owned wine and spirits retailer, distributor and regulator in the U.S. To attain that goal, there is still much work to be done. However, we were able to make some significant progress in the 2012-13 Fiscal Year.

Total revenue at Fine Wine & Good Spirits stores reached \$2.17 billion as compared to \$2.08 billion, a 4.5 percent year-over-year increase. As a result of strong sales and continued expense control, net income topped \$128 million, a 24 percent increase over the previous FY. The agency experienced growth in both wine and spirits sales with wine leading the way at 6 percent sales growth to spirits 3.7 percent increase.

The agency continued the expansion of the Fine Wine & Good Spirits store rebranding initiative. At the end of the fiscal year, there were 41 Fine Wine & Good Spirits retail outlets, ranging in size from 2,500 to 12,325 square feet. The new and refurbished stores create a warmer, more consumer-friendly atmosphere, which has resulted in impressive sales growth, particularly at the Premium Collection locations. In addition, the agency created a new position, retail wine specialist, to better assist consumers who have questions or need recommendations. The wine specialists also conduct wine tastings to provide another level of interaction with consumers. Most Premium Collection stores have at least one wine specialist on staff.

We have implemented new and innovative staff training to improve customer service, expand sales and meet financial objectives. For example, the agency kicked off a leadership development program for the district managers within Retail Operations. A class of 26 district managers participated in monthly workshops, courses, seminars and leadership experiences to reinforce and enhance skills in leadership, communication and financial acumen. The result was significant improvement in the areas of financial results, customer service, employee engagement and teamwork.

The agency updated its mobile application and expanded the use of social media to increase consumer engagement through the utilization of Facebook, Twitter, YouTube and Pinterest to share information on sales, store events and products.

The PLCB designed and implemented an innovative bailment inventory system (collaborative web browser-based) which moved ownership of warehouse inventory back to the vendors. While bailment has been used by all the other control states, Pennsylvania is by far the largest and the first state to use it for both wines and spirits. Currently, 85 percent of the inventory in our warehouses is in the bailment program, resulting in a working capital reduction of more than \$100 million and significant improvement to store and warehouse in-stock levels. Bailment also allowed the agency to pay back a \$110 million loan to the State Treasury that was in existence since 1968.

In addition, we implemented an upgrade of Oracle's Enterprise Resource Planning System, which is the operating system used to support the agency's business functions. It has allowed us to run the system more efficiently and collect specific data on individual stores, products and licensee sales.

In 2012-13, the PLCB processed more than 16,000 alcohol beverage licenses, including an increasing number of supermarkets applying for restaurant liquor licenses. Those licenses give supermarkets the ability to sell alcoholic beverages in a designated area within the store for on-premise consumption and a limited amount of malt or brewed beverages for carry-out.

Understanding the impact alcohol can have on our communities, the Office of Regulatory Affairs developed and launched the first online version of the Responsible Alcohol Management Program (RAMP) Owner/Manager Training. The training provides guidance to licensees on a variety of topics including house policies, liability concerns and the detection of altered, counterfeit or borrowed identification.

The PLCB also expanded the "Call the Shots" advertising campaign, which targets 21-29 year-olds who drink irresponsibly. Working with the Office of Regulatory Affairs' Bureau of Alcohol Education, an ad agency created a responsible consumption television advertisement titled "459 Friends" that aired during the holidays on cable channels catering to that age group. In addition, posters and coasters were placed in licensed establishments; and web, Pandora and Facebook ads, as well as radio spots, reminded those who consume alcohol to stay in control. Finally, to support alcohol education efforts at the local level, the agency awarded more than \$1 million to 66 organizations throughout the commonwealth to prevent underage drinking and irresponsible consumption.

During FY 2012-13, two laws were enacted that amended the Liquor Code.

ACT 116 OF 2012

OFF-PREMISE  
CATERING PERMIT

Act 116 created an “off-premises catering permit” for holders of restaurant licenses, hotel licenses, eating place retail dispenser licenses and breweries holding a brewery pub license. The permit allows the licensee to hold a “catered function” off its licensed premises and on otherwise unlicensed premises, subject to various conditions. Sales of alcohol at such catered functions are permitted and can be by the glass, open bottle or other container, for consumption on the catered premises; no sales for take-out are permitted. Act 116 modified existing provisions related to the use of such permits and imposed new restrictions.

NOISE STATUTE

Any licensee located in an area that is subject to an exemption from the Board’s noise regulation shall be exempt from compliance with section 493(34), which was amended in 2011 to make it unlawful for a licensee to use, inside or outside of the licensed premises, a loudspeaker or similar device such that the sound can be heard beyond the licensee’s property line.

SPECIAL OCCASION  
PERMIT

The Act amends the definition of “eligible entities,” which may apply for and acquire a Special Occasion Permit (“SOP”) from the Board. The amendment deletes references to specific classifications of the municipality or county in which the eligible entity is located (such as “in a township of the second class in a county of the fourth class,” etc.) for certain entities.

ALCOHOLIC CIDER

The definition of “alcoholic cider” was expanded to include products produced from any fruit, not only from apples. The definition of “malt or brewed beverages” includes alcoholic cider. Licensed breweries and licensed limited wineries may continue to produce and sell alcoholic cider in accordance with the provisions of the Liquor Code.

LICENSES IN  
WET-THEN-DRY  
COMMUNITIES

The Board may approve the renewal or transfer of a restaurant, hotel, eating place retail dispenser or distributor license in a location where two or more municipalities have merged and the resulting municipality prohibits the issuance of such licenses.

PERSONAL  
IMPORTATION OF  
LIQUOR BY MILITARY  
SERVICE PERSONNEL

Military service personnel may import up to one gallon of liquor per month, without payment of additional state taxes, so long as the liquor was purchased in a “package store,” which was clarified to mean an installation of the U.S. Armed Forces.

WINE KEGS

The Act allows the Board to sell in containers having a capacity of sixty liters or less. This provision gives the Board the authority to sell wine in keg-sized containers. Effective July 7, 2012, licensed limited wineries are authorized to sell wine in any size containers, including wine kegs, pursuant to a change in section 11.111(a)(3) of the Board’s Regulations.

ACT 149 OF 2012 signed on October 24, 2012, effective December 23, 2012

SKI RESORT  
LICENSES

The Board may now issue a retail license to a privately-owned ski resort without regard to the quota restrictions for retail licenses in any given county. However, the quota exception does not apply to the owner of a privately-owned ski resort who has, within three years prior to December 23, 2012, or at any time after December 23, 2012, sold or transferred a regularly-issued license that had been issued for such ski resort. A “ski resort” is defined as a resort where downhill skiing occurs, having a minimum of six ski trails, and an elevation of at least four hundred feet.

THE FOLLOWING REGULATIONS WERE AMENDED DURING FY 2012-2013:

Effective July 14, 2012,  
40 PA. CODE § 11.111

was amended to remove all container size restrictions applicable to licensed limited wineries, thereby permitting limited wineries to sell their wine in kegs and other containers larger than five liters in volume. In addition, the minimum container size requirement was also removed, consistent with the Board’s desire to allow limited wineries to sell in containers of any size, as the marketplace may demand.

Effective January 5, 2013  
40 PA. CODE §§ 15.24  
AND 15.61

were amended to make it more convenient for licensees of the Board to pay required fees or fines as they proceed through the enforcement process. Section 15.61 was amended to allow licensees to pay fines not only by treasurer’s check, cashier’s check or certified check, but also by a check drawn on the business or trust account of an attorney licensed in this commonwealth, money order, credit card, debit card, electronic funds transfer or other method approved by the Office of Administrative Law Judge. Parallel amendments were adopted for § 15.24 regarding the payment of fees for filing documents and obtaining copies from the Office of Administrative Law Judge.

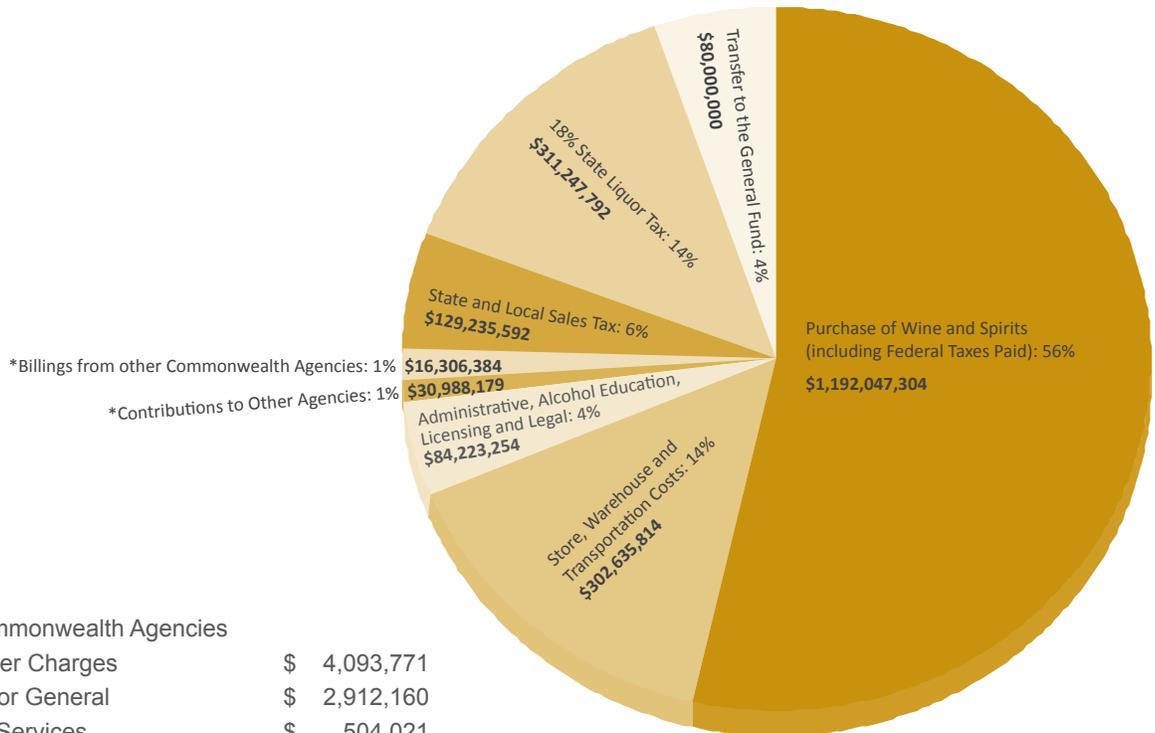
WHERE THE MONEY GOES

- Fine Wine & Good Spirits stores generated approximately \$2.2 billion in gross revenue
- PLCB returned more than \$512 million to the Pennsylvania Treasury
  - \$311,247,792 in liquor tax
  - \$121,092,901 in state sales tax
  - \$80,000,000 transfer to the General Fund
- \$23,984,381 in funding went to the Pennsylvania State Police for the enforcement of liquor laws.
- Approximately \$2.6 million was allocated for the Department of Drug and Alcohol Programs\* to educate and prevent problem alcohol use.
- \$4,436,479 in licensing fees was returned to local communities.
- In the last five years, the PLCB has provided:
  - Nearly \$2.5 billion to the Pennsylvania Treasury;
  - \$106.3 million to Pennsylvania State Police;
  - \$8.7 million to the Department of Drug and Alcohol Programs; and
  - \$22.5 million to local communities.

\*formerly Department of Health, Bureau of Drug and Alcohol Programs

DISTRIBUTION OF PROCEEDS

56%	Purchase of Wine and Spirits (including Federal Taxes Paid)	\$1,192,047,304
14%	Store, Warehouse and Transportation Costs	\$ 302,635,814
4%	Administrative, Alcohol Education, Licensing and Legal	\$ 84,223,254
1%	Billings from other Commonwealth Agencies*	\$ 16,306,384
1%	Contributions to Other Agencies*	\$ 30,988,179
6%	State and Local Sales Tax	\$ 129,235,592
14%	18% State Liquor Tax	\$ 311,247,792
4%	Transfer to the General Fund	\$ 80,000,000



\*Billings from Other Commonwealth Agencies

Consolidated Data Center Charges	\$ 4,093,771
Department of the Auditor General	\$ 2,912,160
Department of General Services	\$ 504,021
Office of Administration	\$ 2,437,789
Comptroller & Payroll	\$ 5,228,763
Treasury Department	\$ 216,180
Civil Service Commission	\$ 913,700
<b>Total</b>	<b>\$16,306,384</b>

\*Contributions to Other Agencies

License fees returned to local municipalities	\$ 4,436,479
State Police Liquor Enforcement	\$23,984,381
Dept. of Drug and Alcohol Program	\$ 2,567,319
<b>Total</b>	<b>\$30,988,179</b>

FINANCIAL HIGHLIGHTS - FIVE YEAR SUMMARY

PLCB SUMMARY FINANCIAL INFORMATION (IN 000 EXCEPT AS INDICATED)

	2012-2013*	2011-2012	2010-2011	2009-2010	2008-2009	CAGR**
Sales Net of Taxes	\$1,731,463	\$1,657,205	\$1,571,223	\$1,511,390	\$1,491,738	3.8%
Gross Profit	539,416	511,738	490,262	449,986	475,192	3.2%
Gross Margin	31.2%	30.9%	31.2%	29.8%	31.9%	
Operating Expenses	\$387,538	\$387,057	\$386,083	\$381,801	\$371,738	1.0%
Operating Income	152,350	124,991	103,757	68,185	103,454	10.2%
Transfers to State Police	23,984	21,738	20,308	20,085	20,178	4.4%
Drug & Alcohol Transfers	2,567	2,070	1,674	1,050	1,781	9.6%
Net Income	128,366	103,494	83,704	49,870	68,852	16.9%
Liquor Tax	\$311,248	\$298,144	\$281,746	\$271,015	\$266,332	4.0%
State Sales Tax	121,093	116,033	109,652	105,518	104,759	3.7%
Local Sales Tax	8,143	7,835	7,386	6,567	4,732	14.5%
License Fees Returned***	4,436	4,469	4,522	4,500	4,555	-0.7%
Number of Stores (not in 000)	604	609	621	620	619	
Average Sales per Store	\$2,867	\$2,721	\$2,530	\$2,438	\$2,410	
Operating Exp./Net Sales	22.4%	23.4%	24.6%	25.3%	24.9%	
Contributions/Net Sales	31.9%	32.0%	33.8%	34.0%	35.3%	
Return on Assets	35.8%	28.1%	23.8%	16.6%	22.5%	

\* Financial results for 2012-2013 are unaudited

\*\* CAGR - Compound Annual Growth Rate

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

PLCB RETAIL OPERATIONS 5 YEAR SALES, REVENUE, PROFIT AND WAGE SUMMARY (IN 000 EXCEPT AS INDICATED)

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	CAGR**
Sales Net of Taxes	\$1,731,463	\$1,657,205	\$1,571,223	\$1,511,390	\$1,491,738	3.8%
Gross Profit	\$539,416	\$511,738	\$490,262	\$449,986	\$475,192	3.2%
Combined Wage Expense	\$129,639	\$128,113	\$130,984	\$129,251	\$124,960	0.9%
Total All Other Expenses	\$162,870	\$161,470	\$158,267	\$157,274	\$131,369	5.5%
Income from Retail Operations	\$246,907	\$223,652	\$157,907	\$102,214	\$161,962	11.1%
Total Units Sold (not in 000)	155,528,209	150,894,901	138,832,314	133,432,786	126,408,947	5.3%
Avg Price Per Item	\$13.13	\$12.96	\$13.35	\$13.36	\$13.91	-1.4%
Wage As % of Gross Sales	6.35%	6.55%	7.07%	7.25%	7.11%	

RETAIL OPERATIONS

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 our retail locations and through FineWineAndGoodSpirits.com.

AS OF JUNE 30, 2012, THE AGENCY OPERATED 602 RETAIL FACILITIES:

<h1>518</h1> <p>Self Service Stores</p>	<h1>75</h1> <p>Premium Collection Stores</p>	<h1>9</h1> <p>Licensee Service Centers</p>	<h1>1</h1> <p>Internet Fulfillment Center</p>
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161 OF THESE STORES ARE OPEN ON SUNDAYS. (BY LAW, THE AGENCY IS ONLY ALLOWED TO HAVE 25 PERCENT OF STORES OPEN ON SUNDAY)

In April, Retail Operations, in conjunction with the Marketing department, rolled out the Fine Wine & Good Spirits brand elements to all wine and spirits stores throughout the state. Retail Operations is working to change external store signage to Fine Wine & Good Spirits.

Retail Operations completed 21 facility rebranding projects including nine new, enlarged replacement stores and six interior remodeled stores. There are two different types of refurbishments. Some retail locations, depending on size, will get new shelving, new flooring, a new color scheme and a center table where the office and register will be located. Other stores will get the same treatment with an expanded center table that includes a wine tasting bar. The agency plans to rebrand all 600+ stores in the coming years.

Retail Operations opened a new licensee service center in Northampton County and relocated the internet fulfillment center to this location.



Understanding the importance of preventing underage drinking, the PLCB takes the responsibility of monitoring the sale of wine and spirits very seriously. To ensure only those 21 and older are purchasing alcohol, store employees conducted 1,390,561 ID checks for age verification during the 2012 calendar year.

## MARKETING

The Office of Marketing and Merchandising aims to select and present the best wine and spirits products at Fine Wine & Good Spirits stores at competitive prices, while striving to build relationships with consumers through communications, advertising and social media outlets.

MARKETING

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

ADVERTISING

RADIO	TV	NEWSPAPER
45 stations 20,594 radio commercials	55 stations 6,181 TV commercials	12 publications

CHAIRMAN'S SELECTION ADVERTISING

A recent ad for Fine Wine & Good Spirits appeared as a free standing insert (FSI) in select newspapers. Products from the Chairman's Selection® program were featured.



During the week of the advertisement, dollar sales increased by almost 30 percent and units by nearly 21 percent as detailed in the graph below.

Week End	Dollar Sales Amount	Units Sold	% Change Dollars (Week to Week)	% Change Units (Week to Week)
3/24/2013	\$790,910.46	67,924	7.86%	12.76%
3/31/2013	\$1,010,816.76	87,313	27.80%	28.55%
4/7/2013	\$863,524.68	71,861	-14.57%	-17.70%
4/14/2013	\$1,118,733.67	86,682	29.55%	20.62%
4/21/2013	\$1,181,444.48	91,769	5.61%	5.87%
4/28/2013	\$1,220,690.41	99,411	3.32%	8.33%
5/5/2013	\$1,233,229.98	102,504	1.03%	3.11%

SOCIAL MEDIA

TWITTER	FACEBOOK	PINTEREST
<p><b>2,500</b> followers</p> <p>estimated reach of the Twitter handle:</p> <p><b>13.7 million</b></p>	<p><b>88,000</b> estimated facebook followers</p> <p>Average daily reach: <b>112,667</b> people</p> <p>Average daily impressions: <b>319,817</b></p>	<p><b>506</b> pins</p> <p>Pins reach <b>161,632</b> people</p> <p>Pin impressions: <b>518,327</b></p>



FWGS  
WEBSITE

Total clicks from  
July 2012 - June 2013:  
**4,501,909**

MOBILE  
APPLICATION

Total mobile app downloads:  
**43,758**  
Droid: **14,692**  
iPhone: **29,066**



2013 Pittsburgh Wine Festival



2013 Hershey Wine Festival



2013 Philadelphia Wine Festival

2012-2013's

MOST POPULAR PLCB EVENTS:

PLCB MARKETING PROGRAMS

2013 PHILADELPHIA FLOWER SHOW Eight day event – 6,320 units sold .....	\$92,601
2013 PITTSBURGH WINE FESTIVAL One day event – 949 units sold.....	\$36,710
2013 HERSHEY WINE FESTIVAL One day event – 595 units sold.....	\$18,606

PLCB BOTTLE SIGNINGS

September 2012 DAN AYKROYD SIGNING OF CRYSTAL HEAD VODKA Store 2210 624 units .....	\$31,592
August 2013 TOBY KEITH SIGNING OF WILD SHOT MEZCAL Store 3901 454 units .....	\$18,128
November 2012 JOE MONTANA SIGNING OF AVIATION GIN Store 5140 449 units .....	\$12,568



Dan Aykroyd

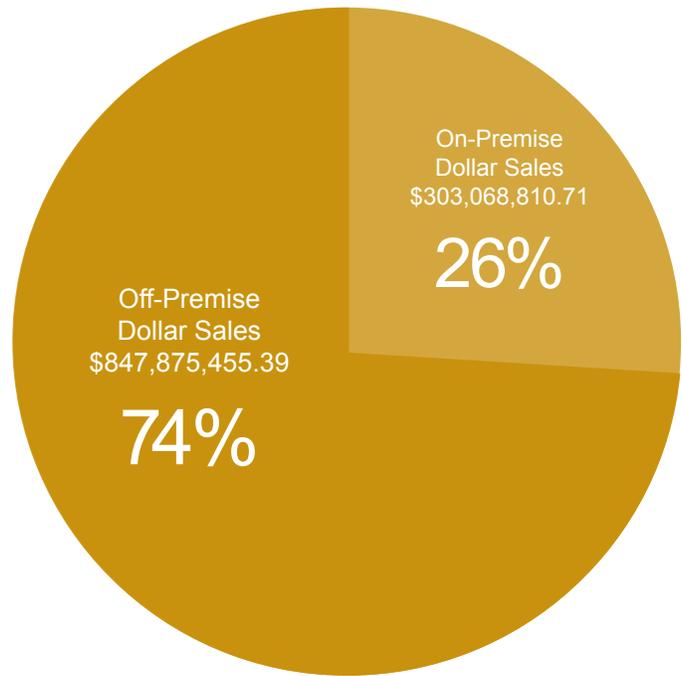


Toby Keith

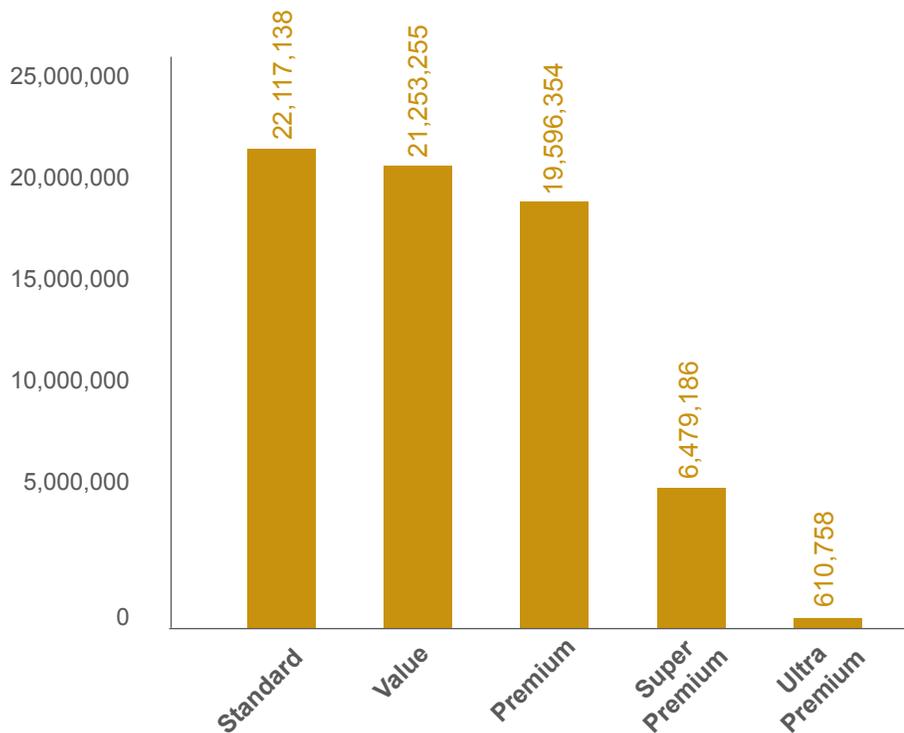


Joe Montana

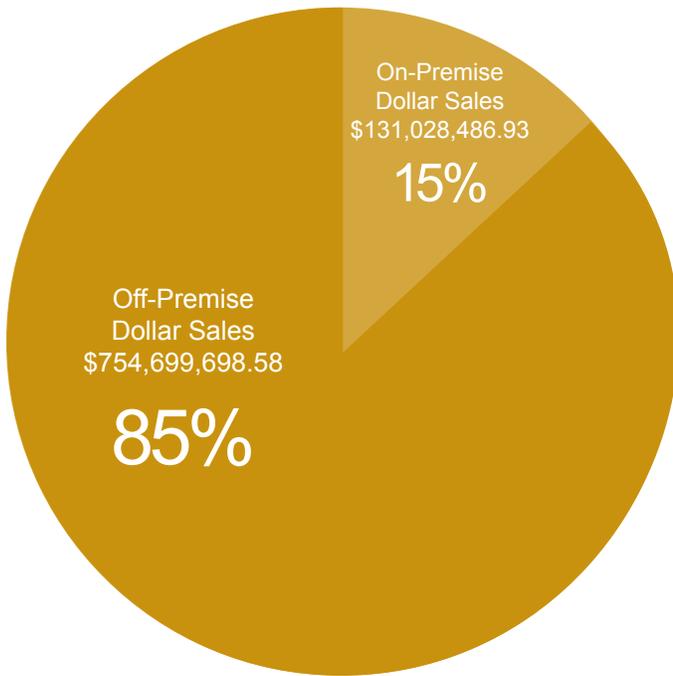
ON-PREMISE AND OFF-PREMISE\* DOLLAR SALES  
SPIRITS CATEGORY, RY 12-13



SPIRITS UNITS SOLD BY PRICE SEGMENT, RY 12 - 13

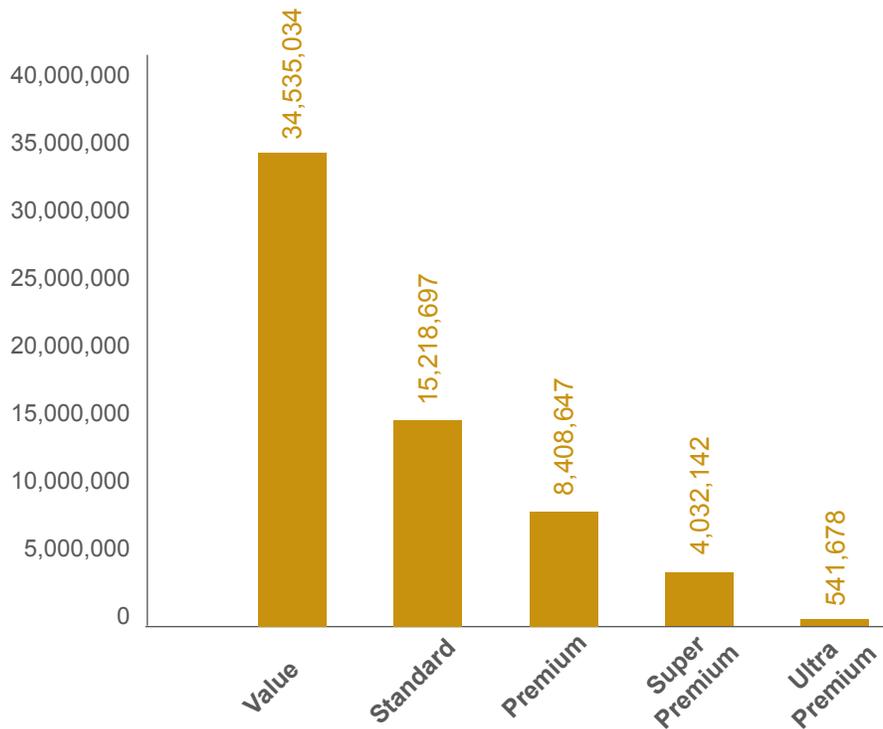


\* On-premise sales are those to licensees. The name is derived from the fact that beverage alcohol is consumed at the same place it is purchased. Off-premise is retail purchases made to shoppers to consume the product at home.



ON-PREMISE AND OFF-PREMISE\* DOLLAR SALES  
WINE CATEGORY, RY 12 -13

WINE UNITS SOLD BY PRICE SEGMENT, RY 12 - 13



\* On-premise 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-premise is retail purchases made to shoppers to consume the product at home.



## MARKETING

### TOP 15 MARKET CATEGORIES

MARKETING CATEGORY DETAIL	RY 2009 - 2010 Dollar Sales Amount	RY 2010 - 2011 Dollar Sales Amount	RY 2011 - 2012 Dollar Sales Amount	RY 2012 - 2013 Dollar Sales Amount
VODKA	\$237,113,065	\$241,335,958	\$253,372,672	\$254,863,618
VODKA - FLAVORED	\$65,764,960	\$92,344,374	\$110,268,983	\$111,081,173
BOURBON	\$86,187,711	\$91,411,374	\$99,723,535	\$106,409,039
RUM - SPICED	\$62,243,414	\$62,594,965	\$67,020,727	\$68,409,582
SHOOTERS - SCHNAPPS/LIQUEURS	\$75,614,362	\$68,260,901	\$68,488,850	\$67,477,962
US CHARDONNAY	\$56,131,294	\$59,687,606	\$62,760,922	\$65,367,020
CANADIAN WHISKY	\$56,125,943	\$55,613,357	\$57,678,018	\$57,695,213
RUM - UNFLAVORED	\$59,720,067	\$57,250,322	\$57,925,830	\$55,691,877
5L BOX WINE	\$41,294,543	\$45,765,315	\$49,498,604	\$55,385,880
US CABERNET	\$42,400,370	\$46,327,017	\$49,504,306	\$54,562,137
GIN	\$47,013,635	\$45,324,200	\$46,994,690	\$46,994,082
SCOTCH - BLENDS	\$38,299,825	\$37,426,561	\$39,180,006	\$39,961,003
ALTERNATIVE SIZE BOX WINE	\$18,652,136	\$25,064,640	\$26,403,391	\$32,937,665
RUM - FLAVORED	\$27,715,095	\$29,796,178	\$32,168,239	\$31,138,690
ITALIAN WHITE - P GRIGIO	\$25,686,624	\$25,876,885	\$28,696,032	\$28,728,565

### TOP 15 DOLLAR SALES

PRODUCT DETAIL	RY 2012 - 13 AVG Price	RY 2011 - 12 Dollar Sales Amount	RY 2012 - 13 Dollar Sales Amount	% Chg Dollar Sales Amount
JACK DANIEL'S BLACK LABEL WHISKEY - 750 ML	\$21.77	\$19,016,310.93	\$19,312,165.83	1.56%
CAPTAIN MORGAN ORIGINAL SPICED RUM - 1.75 L	\$28.24	\$19,410,910.85	\$18,648,891.09	-3.93%
CAPTAIN MORGAN ORIGINAL SPICED RUM - 750 ML	\$15.56	\$16,054,070.34	\$15,696,284.12	-2.23%
GREY GOOSE VODKA - 750 ML	\$28.27	\$15,576,350.78	\$14,104,459.14	-9.45%
JACK DANIEL'S BLACK LABEL WHISKEY - 1.75 L	\$41.47	\$13,116,630.35	\$13,579,015.43	3.53%
JÄGERMEISTER LIQUEUR - 750 ML	\$18.87	\$13,838,676.07	\$13,115,454.16	-5.23%
CROWN ROYAL CANADIAN WHISKY - 750 ML	\$24.67	\$11,331,777.01	\$11,288,159.27	-0.38%
ABSOLUT VODKA - 750 ML	\$18.42	\$10,792,100.32	\$10,895,084.75	0.95%
SMIRNOFF VODKA - 1.75 L	\$23.21	\$10,777,336.10	\$10,277,298.68	-4.64%
ABSOLUT VODKA - 1.75 L	\$31.77	\$9,725,438.40	\$9,454,008.67	-2.79%
JAMESON IRISH WHISKEY - 750 ML	\$23.89	\$8,080,096.59	\$9,320,037.76	15.35%
VLADIMIR VODKA - 1.75 L	\$11.76	\$8,734,241.75	\$8,826,369.48	1.05%
PATRON SILVER TEQUILA - 750 ML	\$46.31	\$8,193,704.87	\$8,296,126.60	1.25%
BACARDI SUPERIOR RUM - 1.75 L	\$23.40	\$7,881,453.87	\$8,267,230.58	4.89%
BACARDI SUPERIOR RUM - 750 ML	\$13.79	\$8,895,293.83	\$7,508,058.70	-15.60%

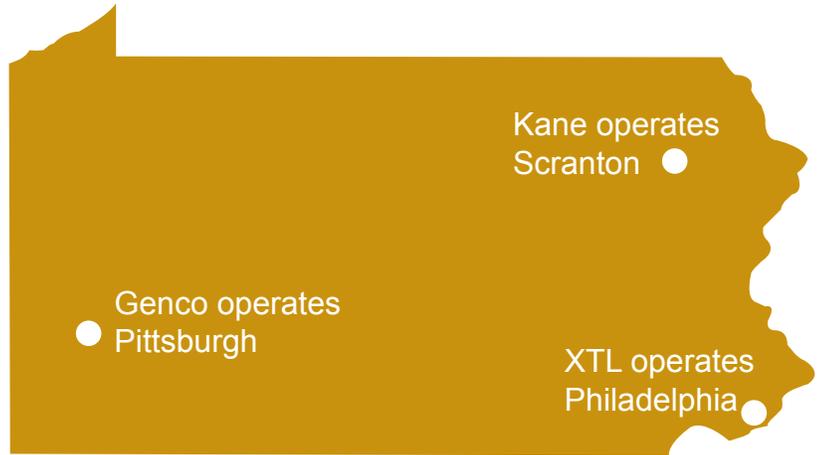
## SUPPLY CHAIN

The Bureau 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 the importation, processing of all excise taxes and customs duties, warehousing and transportation functions to get products from source to retail stores.

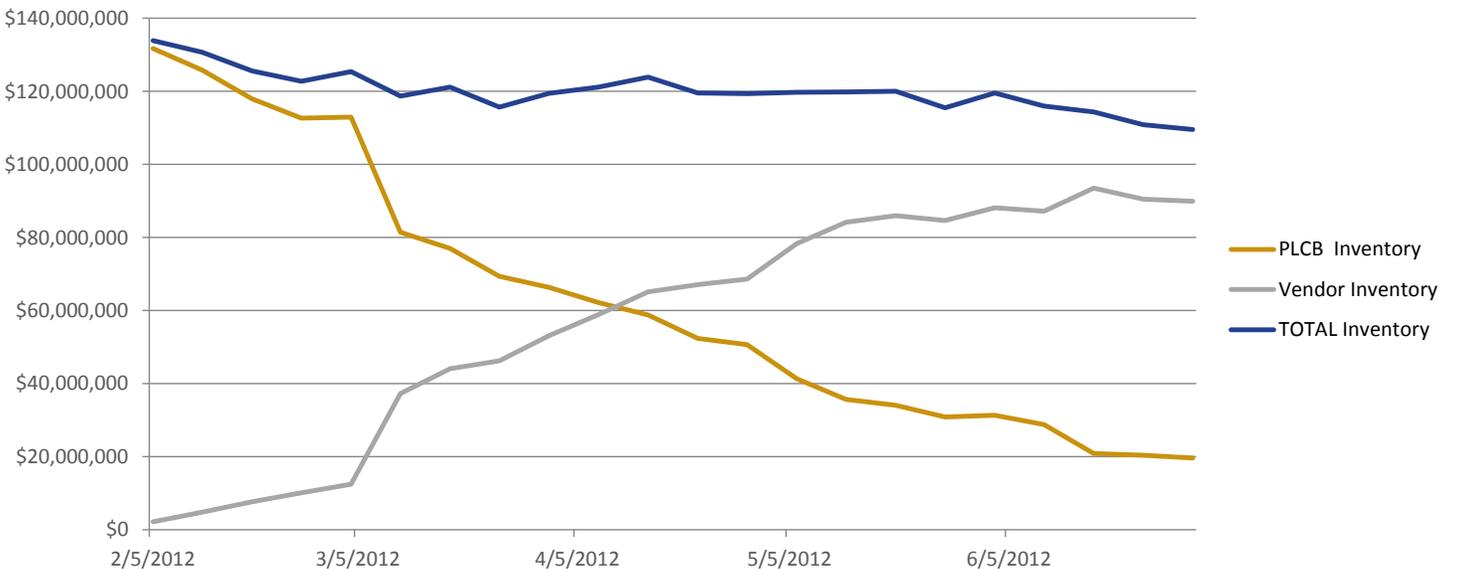
The PLCB utilizes three distribution centers in Philadelphia, Scranton and Pittsburgh totaling 813,000 sq. feet of warehouse space, the equivalent of 14.5 football fields. The warehouses are operated by three privately held companies.

In 2012-13, nearly 16 million cases were shipped from the distribution centers to Fine Wine & Good Spirits stores. If you put the cases end to end, it would stretch from Harrisburg to Berlin, Germany, a distance of 4,107 miles.

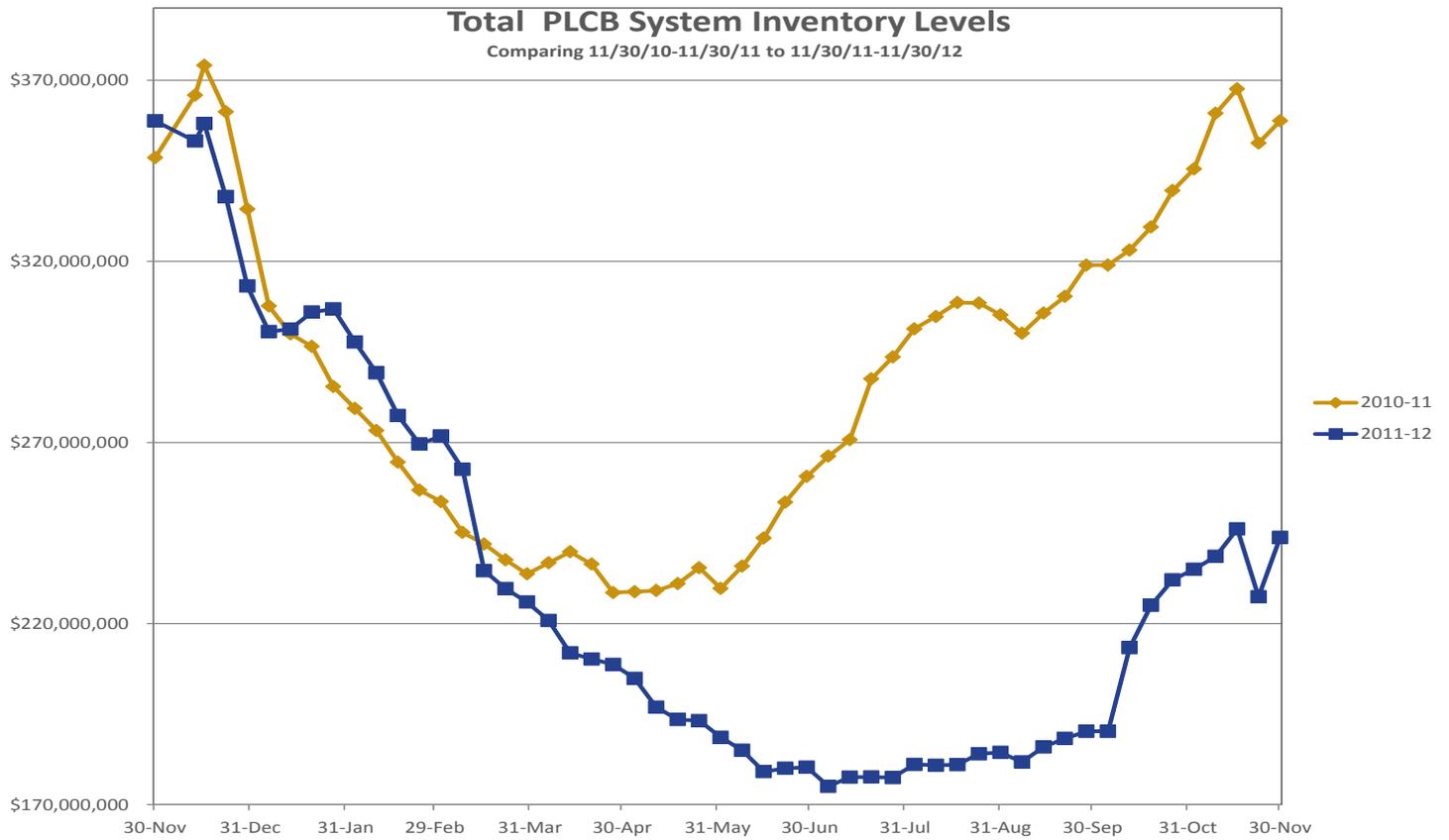
During the last fiscal year, the PLCB completed the conversion to a bailment system, which gave ownership of warehouse inventory back to the vendors. Currently, 85 percent of warehouse inventory is in the bailment program.



BAILMENT REPRESENTED A GREATER THAN \$100M PERMANENT REDUCTION IN WORKING CAPITAL FOR THE PLCB

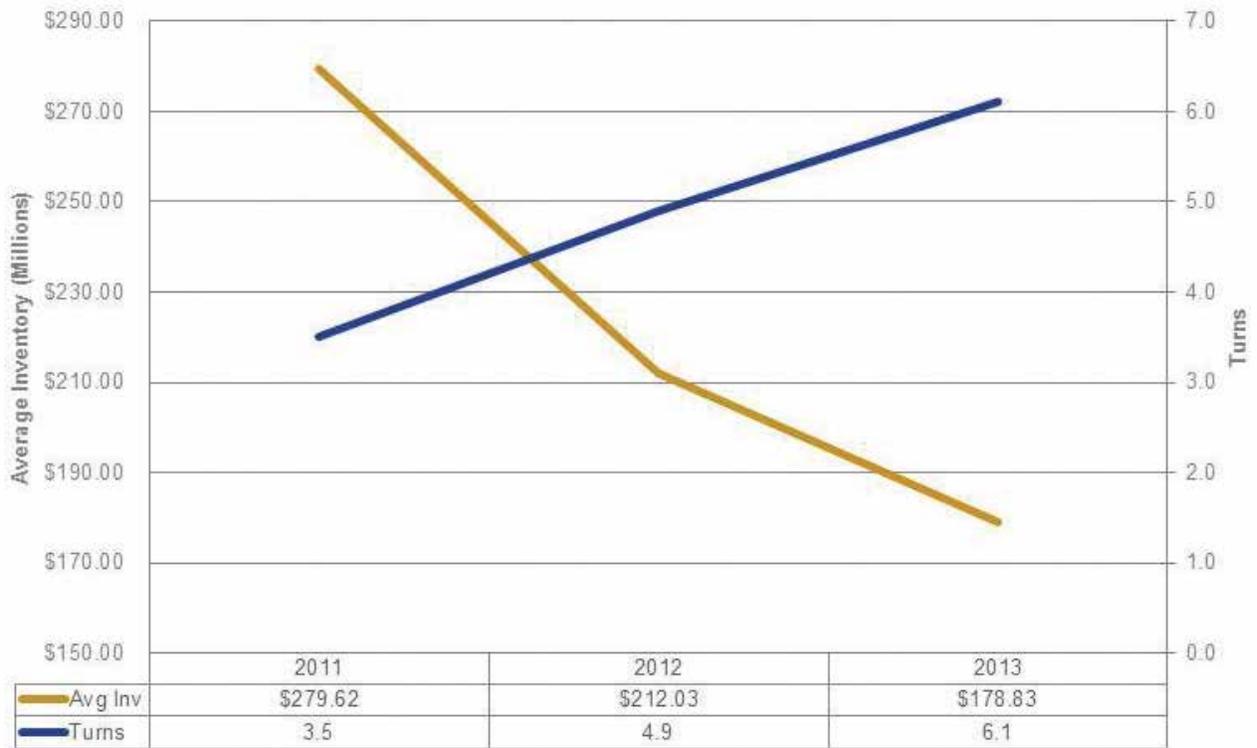


DURING THE FIRST SIX MONTHS OF 2012, THE PLCB DECREASED WORKING CAPITAL AND IMPROVED THE AGENCY'S CASH POSITION BY MORE THAN \$100 MILLION.



AS A RESULT OF BAILMENT, THE INVENTORY TURN RATE IN THE WAREHOUSE INCREASED, MEANING THE AGENCY IS WAREHOUSING PRODUCT FOR LESS TIME.

**Calendar Year Changes in Inventory & Inventory Turns**



## 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 consumer complaints, concerns and recommendations from wine and spirit consumers, licensees and the public.

REGULATORY AFFAIRS

TOTAL LICENSE APPLICATIONS AND PERMITS RECEIVED AND PROCESSED FOR FY JULY 1, 2012 THROUGH JUNE 30, 2013

Renewal/Validation <b>18,487</b>	Transfers <b>959</b>	New <b>622</b>	Special Occasion <b>2,409</b>
Spec Wine Permit <b>1,365</b>	Criminal Rec Check <b>3,834</b>	Other Apps <b>9</b>	Permits (AP-SS-EHF) <b>21,351</b>

Total applications  
**58,206**

INVESTIGATIONS PROCESSED

Type of Investigation	2012	2011	2010
New License	240	199	146
Renewal	67	130	79
Transfer - Place	66	59	69
Transfer - Person	566	593	595
Double Transfer Person-Place	308	333	317
Correction	30	30	34
Extension	713	649	690
Manager Change	860	802	801
Reinvestigation	1,699	1,655	1,844
Officer Change	606	586	575
Reissue Safekeeping	374	326	312
Special Occasion Permit	45	38	42
Limited Winery	45	29	48
Non Compliance	54	21	113
Miscellaneous	442	441	448
Nuisance Bars	215	251	257
<b>Total</b>	<b>6,330</b>	<b>6,142</b>	<b>6,370</b>

NUISANCE BAR

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 who, by its actions, may have abused the licensed privilege. The bureau of licensing seeks information from the community, law enforcement agencies and government entities to report 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

2010	2011	2012
<b>182</b>	<b>79</b>	<b>137</b>

LICENSING CONFERENCES

LICENSING SOUTHWESTERN  
CONFERENCE MAY 22, 2012

**220**  
ATTENDEES

LICENSING CENTRAL  
CONFERENCE JUNE 19, 2012

**661**  
ATTENDEES

RETAIL LICENSES IN EFFECT AS OF DECEMBER 31, 2012

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 SO. MILE			
								MUNIC.	R. C.								MUNIC.	PRIVATE			MUNIC.	PRIVATE	EAT.
STATE TOTAL	12,810,632	44,966	10,046	1,252	2,996	17	43	32	214	32	23	15	44	85	497	1	0	28	7	5	15,337	3.59	0.34
Adams	101,407	526	54	18	16	0	0	0	6	0	0	0	0	2	6	0	0	1	0	0	103	3.05	0.20
Allegheny	1,223,348	728	1,520	94	309	2	7	1	9	2	4	0	8	15	27	0	0	2	2	0	2,002	4.91	2.75
Armstrong	68,941	652	66	7	28	0	0	0	6	0	0	0	0	0	0	0	0	0	0	0	107	4.66	0.16
Beaver	170,539	440	151	12	68	0	0	0	5	1	0	0	1	0	1	0	0	0	0	0	239	4.20	0.54
Bedford	49,762	1,018	20	12	15	0	0	0	2	0	0	0	0	0	2	0	0	0	0	0	51	3.07	0.05
Berks	411,442	862	282	49	117	1	1	1	8	1	2	0	1	4	7	0	0	2	0	0	476	3.47	0.55
Blair	127,089	530	88	15	31	0	0	0	2	1	0	0	0	3	15	0	0	1	0	0	156	3.68	0.29
Bradford	62,622	1,148	34	14	22	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	72	3.45	0.06
Bucks	625,249	614	333	60	43	0	0	0	3	4	2	1	2	0	11	0	0	0	1	1	461	2.21	0.75
Butler	183,862	794	105	15	25	0	1	1	6	0	0	0	0	1	2	0	0	0	0	1	157	2.56	0.20
Cambria	143,679	692	157	27	113	0	0	0	2	0	0	0	0	4	3	0	0	0	0	0	306	6.39	0.44
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	78	14	34	0	0	0	4	0	0	0	1	0	2	0	0	0	0	0	133	6.12	0.33
Centre	153,990	1,115	69	25	28	0	1	0	1	0	2	0	1	1	2	0	0	2	0	0	132	2.57	0.12
Chester	498,886	761	193	35	48	0	1	1	11	6	0	5	0	0	9	0	0	0	1	0	310	1.86	0.41
Clarion	39,988	597	36	8	12	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	58	4.35	0.10
Clearfield	81,642	1,139	76	8	38	0	0	0	4	0	0	0	0	0	2	0	0	1	0	0	129	4.74	0.11
Clinton	39,238	899	29	10	15	0	0	0	1	0	0	0	0	1	6	0	0	0	0	0	63	4.82	0.07
Columbia	67,295	484	46	11	24	0	0	0	3	0	0	0	1	0	0	0	0	0	0	0	85	3.79	0.18
Crawford	88,765	1,012	87	9	30	0	0	0	5	0	0	1	0	0	0	0	0	0	0	0	132	4.46	0.13
Cumberland	235,406	555	77	22	30	0	0	0	1	6	1	1	1	0	8	0	0	0	0	0	147	1.87	0.26
Dauphin	268,100	518	207	32	71	0	1	2	7	0	0	0	0	9	12	0	0	0	1	1	342	3.83	0.66
Delaware	558,979	184	319	21	62	2	2	2	0	2	3	0	2	1	27	0	0	0	0	0	443	2.38	2.41
Elk	31,946	807	29	12	26	0	1	1	1	0	0	0	0	0	5	0	0	2	0	0	77	7.23	0.10
Eric	280,566	813	255	18	72	0	1	2	7	0	0	0	2	5	10	0	0	2	1	0	375	4.01	0.46
Fayette	136,606	802	169	14	70	0	0	0	2	0	0	0	0	0	5	0	0	0	0	0	260	5.71	0.32
Forest	7,716	419	9	2	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	13	5.05	0.03
Franklin	149,618	754	44	8	25	1	0	0	0	1	0	0	1	0	4	0	0	0	0	0	84	1.68	0.11
Fulton	14,845	435	2	3	3	0	0	0	0	0	0	0	0	0	2	0	0	0	0	1	11	2.22	0.03
Greene	38,686	578	28	6	20	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	54	4.19	0.09

B-1

RETAIL LICENSES IN EFFECT AS OF DECEMBER 31, 2012

COUNTY	2010 POP	AREA SQ MI	RETAIL LIQUOR LICENSE TYPE											RETAIL MALT BEVERAGE LICENSE TYPE				NUMBER OF LICENSES			
			RESTAU- RANT	HOTEL	CLUB	OWR	AIR- PORT REST.	GOLF COURSE		CONT. CARE RETIRE- MENT	ECO- NOMIC DEVEL- OP	PER- FORM ARTS	PUBLIC VENUE	EATING PLACE	ECON DEV	HOTEL CLUB	MUNIC.	PRIVATE EAT.	TOTAL RETAIL LICENSES	PER 3,000 SQ. MILE	
								PRIVATE R.	C.												
Huntingdon	45,913	894	18	6	12	0	0	0	0	0	0	0	0	0	0	0	0	0	44	2.88	0.05
Indiana	88,880	825	70	8	25	0	0	0	0	0	0	0	0	0	0	0	0	0	107	3.61	0.13
Jefferson	45,200	652	33	7	19	0	1	0	0	0	0	0	0	0	0	0	0	0	69	4.58	0.11
Juniata	24,636	386	7	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	10	1.22	0.03
Lackawanna	214,437	454	356	25	55	1	0	0	0	0	0	0	0	0	0	0	0	0	467	6.53	1.03
Lancaster	519,445	946	218	41	64	1	1	1	2	5	1	1	0	0	0	0	0	0	347	2.00	0.37
Lawrence	91,108	367	60	1	27	1	0	0	0	2	1	0	0	0	0	0	0	0	98	3.23	0.27
Lebanon	133,568	363	64	9	36	0	0	0	0	4	0	0	0	0	0	0	0	0	118	2.65	0.33
Lehigh	349,497	348	180	46	72	1	1	1	1	4	2	0	0	0	0	0	0	0	339	2.91	0.97
Luzerne	320,918	886	546	21	101	1	2	1	1	3	0	0	0	0	0	0	0	0	697	6.52	0.79
Lycoming	116,111	1,215	102	20	32	0	1	1	0	0	0	0	0	0	0	0	0	0	165	4.26	0.14
Mckean	43,450	992	44	16	18	0	1	0	0	2	0	0	0	0	0	0	0	0	84	5.80	0.08
Mercer	116,638	670	95	10	38	0	0	0	0	7	1	0	0	0	0	0	0	0	151	3.88	0.23
Mifflin	46,682	431	24	4	12	0	0	0	0	0	0	0	0	0	0	0	0	0	44	2.83	0.10
Monroe	169,842	611	119	56	18	1	0	0	0	2	4	1	0	0	0	0	0	0	214	3.78	0.35
Montgomery	799,874	496	404	82	111	1	0	0	0	4	22	2	6	0	0	0	0	0	659	2.47	1.33
Montour	18,267	130	12	2	8	0	0	0	0	1	0	0	0	0	0	0	0	0	26	4.27	0.20
Northampton	297,735	376	184	43	94	0	0	0	0	1	6	0	1	0	0	0	0	0	341	3.44	0.91
Northumberland	94,528	453	91	6	68	0	0	0	0	0	1	0	0	0	0	0	0	0	173	5.49	0.38
Perry	45,969	551	22	2	11	0	0	0	0	0	0	0	0	0	0	0	0	0	36	2.35	0.07
Philadelphia	1,526,006	129	1,471	49	161	3	17	2	0	0	0	0	1	22	125	0	0	0	1,861	3.66	14.43
Pike	57,369	542	45	13	8	0	0	0	0	1	0	0	0	0	0	0	0	0	71	3.71	0.13
Potter	17,457	1,092	18	6	7	0	0	0	0	0	0	0	0	0	0	0	0	0	31	5.33	0.03
Schuylkill	148,289	784	217	17	93	0	0	0	0	0	2	0	0	0	0	0	0	0	332	6.72	0.42
Snyder	39,702	327	17	4	10	0	0	0	0	0	0	0	0	0	0	0	0	0	33	2.49	0.10
Somerset	77,742	1,078	66	19	35	0	0	0	0	0	0	0	0	0	0	0	0	0	125	4.82	0.12
Sullivan	6,428	478	9	6	4	0	0	0	0	0	0	0	0	0	0	0	0	0	19	8.87	0.04
Susquehanna	43,356	833	40	8	7	0	0	0	0	0	1	1	0	0	0	0	0	0	57	3.94	0.07
Tioga	41,981	1,146	28	11	13	0	0	0	0	1	1	1	0	0	0	0	0	0	55	3.93	0.05
Union	44,947	318	14	6	8	0	0	0	0	0	0	0	0	0	0	0	0	0	29	1.94	0.09
Venango	54,984	678	35	2	12	0	1	0	0	0	2	0	0	0	0	0	0	0	55	3.00	0.08
Warren	41,815	905	41	10	13	0	0	0	0	0	0	0	0	0	0	0	0	0	68	4.88	0.08
Washington	207,820	857	216	26	119	0	0	0	0	0	3	2	0	0	0	0	0	0	369	5.33	0.43
Wayne	52,822	741	57	18	6	0	0	0	0	0	2	1	0	0	0	0	0	0	88	5.00	0.12
Westmoreland	365,169	1,024	363	33	217	0	2	1	13	1	0	0	0	12	0	0	0	0	643	5.28	0.63
Wyoming	28,276	398	24	6	3	0	0	0	0	0	1	0	0	0	0	0	0	0	36	3.82	0.09
York	434,972	909	164	31	55	1	0	0	0	0	11	1	0	12	1	0	0	0	282	1.94	0.31

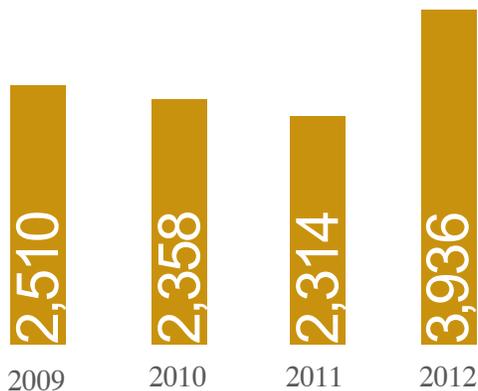
**Responsible  
Alcohol  
Management  
Program  
RAMP**

RAMP was created by the Pennsylvania Liquor Control Board to help licensees and their employees serve alcohol responsibly. RAMP offers practical advice to many licensees including restaurants, hotels, clubs, and distributors. In order to achieve RAMP certification, a licensee must complete 5 components: owner/manager training, server/seller training, new employee orientation, signage and affidavit request for RAMP certification.

# OF INDIVIDUALS RAMP CERTIFIED



RAMP OWNER/MANAGER TRAINEES



OWNER/MANAGER TRAINING

The owner/manager training is the only training offered and conducted by the PLCB. The free training is for license owners and Board-approved managers. Many topics are discussed, such as liability concerns, minors and the creation of house policies.

GRANTS

Since 1999, the Board has awarded alcohol education grants to colleges and universities, schools, communities groups and law enforcement agencies in an effort to reduce underage and dangerous drinking.

YEAR	GRANTS AWARDED	GRANT AMOUNT TOTALS
2009-10	72	\$734,452.32
2010-11	72	\$903,522.37
2011-12	77	\$1,038,490.45
2012-13	66	\$1,011,039.18

TOTAL GRANT AMOUNT AWARDED  
FROM 2009-2013

**\$3,687,504.32**

ALCOHOL EDUCATION CONFERENCE

The PLCB holds an annual conference to share best practices, trends and resources for groups working to prevent underage and irresponsible consumption.

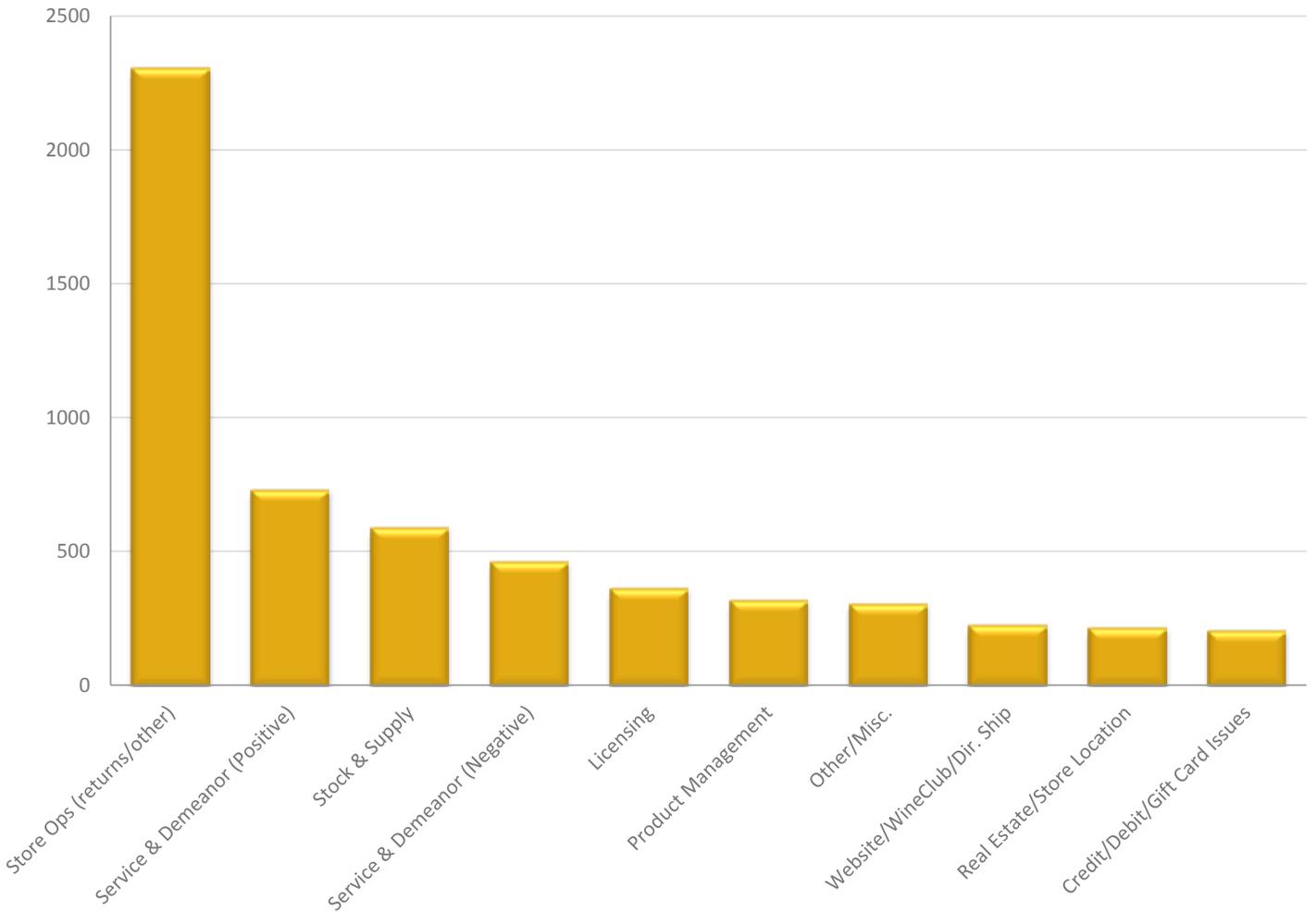
YEAR	# OF ATTENDEES
2009	289
2010	248
2011	292
2012	240
2013	257

TOTAL NUMBER OF CONFERENCE  
ATTENDEES FROM 2009-2013

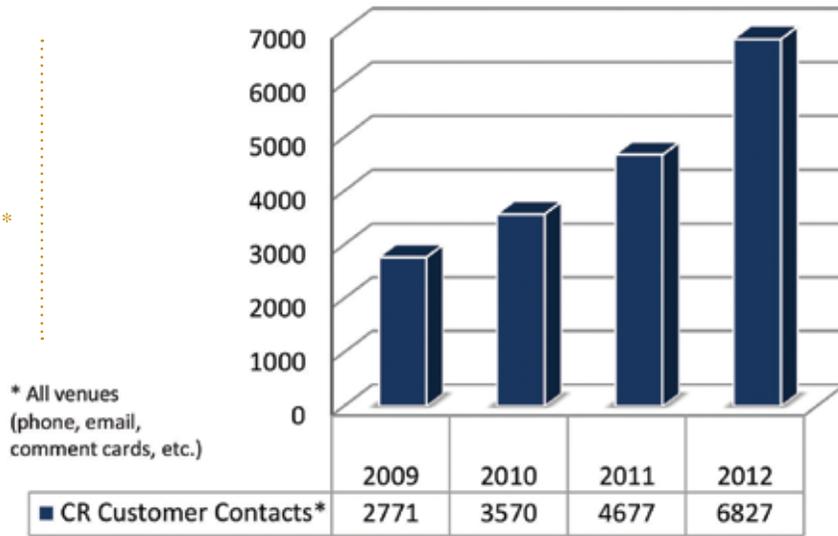
**1,326**

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

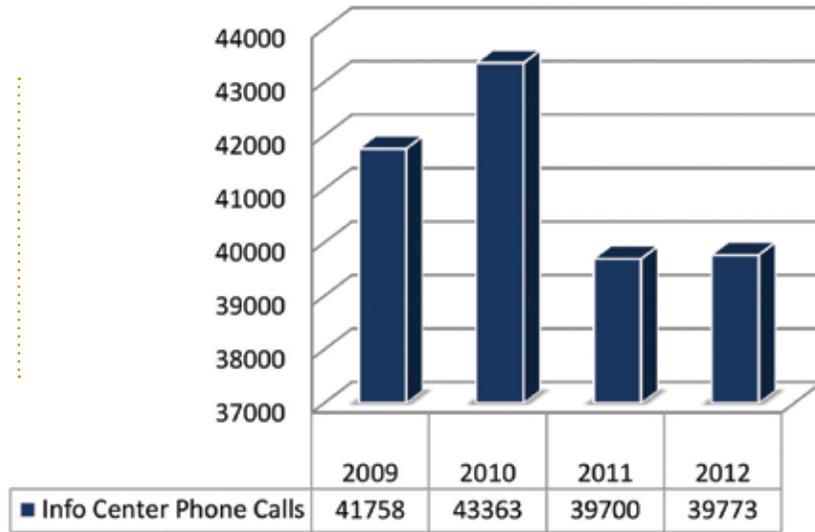
TOPICS OF CONCERNS/INTERESTS



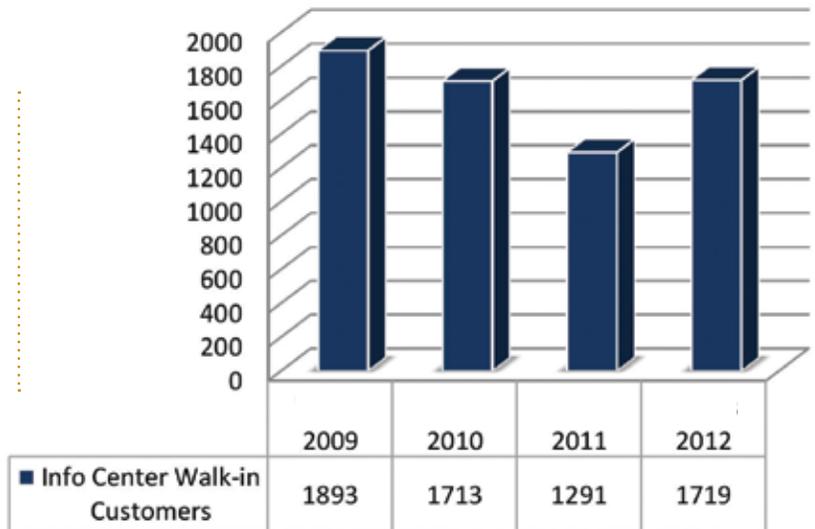
TOTAL CONSUMER RELATIONS CUSTOMER CONTACTS\*



LICENSING INFORMATION CENTER PHONE CALLS



LICENSING INFORMATION CENTER WALK-IN CUSTOMERS



## WORKFORCE AND DEVELOPMENT

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

WHITE MALE



WHITE FEMALE



AVERAGE AGE FOR STORES

44 years old

AVERAGE AGE FOR ADMINISTRATION

48 years old

MINORITY MALE



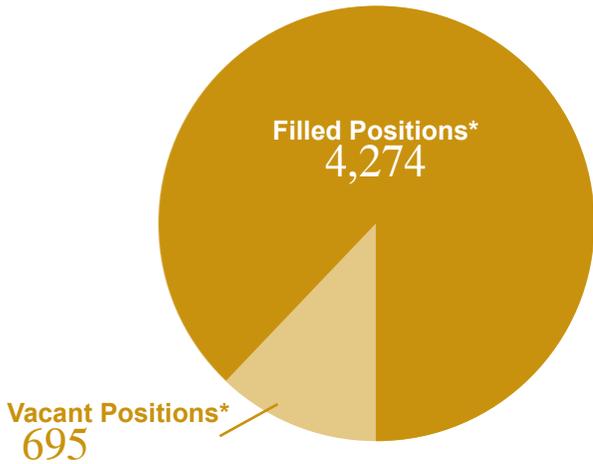
MINORITY FEMALE



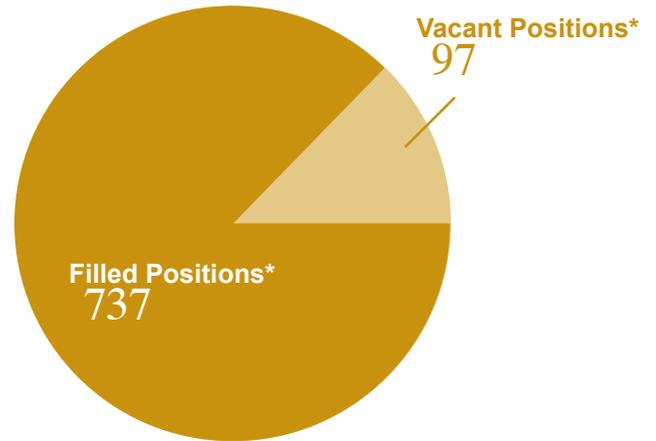
average length of service for stores 7 years

average length of service for administration 13 years

TOTAL STORE POSITIONS



TOTAL ADMINISTRATION POSITIONS



\* including seasonal positions

Workers' Compensation Cost Reduction

For the second fiscal year in a row the PLCB has reduced workers' compensation costs. In FY 2011-2012 the PLCB paid \$4,846,735 while in FY 2012-2013 the agency paid \$4,499,117 – a \$347,618 or 7.17 percent reduction.

While the overall agency injury rate only decreased slightly between the two fiscal years, it was the 23.35 percent reduction in lifting injuries during FY 2012-2013 that generated the bulk of the savings.

This reduction is due in large part to the ongoing effort between the bureau of human resources' safety unit and Retail Operations, which involves educational efforts, on-site store inspections and careful analysis of injury activity.



### AGENCY OVERVIEW

The statutory authority for the Liquor Control Board 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 regulates the manufacture, possession, sale, consumption, importation, use, storage, transportation and delivery of liquor, alcohol and malt or brewed beverages in the commonwealth. All package sales of wines and spirits in Pennsylvania, with the exception of those sold by licensed limited wineries and distilleries, are made through the Fine Wine & Good Spirits stores operated by the Liquor Control Board. 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 Board does regulate those sales through the licensing of the distributors, restaurants, hotels, supermarkets and clubs, which sell those beverages.

The PLCB, an independent administrative board, is comprised of three members who are appointed by the Governor with the concurrence of two-thirds of the Senate to staggered four-year terms. The Board is responsible for the management of the PLCB in the areas of directing the state-operated wine and spirits stores and authorizing the licensing of establishments that manufacture or sell liquor and alcohol. While not mandated, the Board does provide for a comprehensive program of alcohol education aimed at promoting responsible consumption 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 primarily responsible for the accounting and reporting of the Liquor License Fund and the State Stores Fund. The Liquor License Fund is an agency fund which 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, which serves as the general operating fund for the Liquor Control Board. 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 Law, the Department of Drug & Alcohol Programs 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.

## EXECUTIVE SUMMARY

The PLCB ended fiscal year 2012-13 with moderate growth in sales and gross margin. We attained that growth 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 continue to open new rebranded Fine Wine & Good Spirits stores which offer consumers a much warmer, more inviting environment to shop. In all of our new and remodeled Fine Wine & Good Spirits stores, we have utilized end caps to feature sale items and Chairman's Selections® products and we expanded the number of stores carrying Chairman's Selection products as well. Further, the agency has continued to focus on staff training to improve customer service by providing wine information and recommendations for consumers needing assistance. For instance, we added at least one wine specialist to most of Premium Collection stores to answer consumer wine pairing questions, provide product knowledge and help to educate other staff members. As a result, the average price per bottle is up and so is the basket size.

Despite commonwealth negotiated increases in salary and benefit costs, operating expenses were basically flat when compared to the prior year. Sales and margin growth coupled with operating expense controls enabled the agency to deliver the best year in its 79 year history.

## REVENUES AND COSTS

### Sales

Sales and tax revenue in fiscal year 2012-13 totaled \$2.172 billion, an increase of \$92.7 million or 4.5% over fiscal year 2011-12. Sales growth was driven by a 5.7% increase in wine sales, particularly in the Chairman's Selection product line and by offering consumers a broader selection of product offerings with a more attractive mix of discounts. PLCB has trained store staff to improve customer service by providing wine information and by assisting consumers with their purchases. The Chairman's Selection® program has been a tremendous success for the PLCB. Since 2006, PLCB wine sales have grown at a compounded rate of 6%, almost twice the national growth rate. Spirit sales increased a more modest 3.2% for the year. The sales increase was due mainly to pass through of vendor price increases (PLCB fixed mark-up did not change) as spirit unit sales were up only 0.1%. The agency's advertising approach featured a year round presence with media spots focused on the consumer.

Within the PLCB's customer base, retail sales grew 5.1%, while licensee sales increased by 1.4%, as retail sales have grown to 78% of total stock sales. On a volume basis, wine units comprise an increasing proportion of our volume – 51.8% versus 51.5% last year. Gallonage growth versus last year for wine was up 2.3% compared to 0.8% growth for

spirits. Debit/credit card purchases represented 58.4% of sales up from 56.0% last year. Average sale per debit and credit card transaction was \$30.07 and \$53.24, respectively.

### **Gross Margin**

Gross margin increased to 31.2% in 2012-13 from 30.9% last year. The increase is due in part to increases in the volume of vendor promotion allowances, and PLCB buy-ins in advance of vendor price increases. Gross margin also benefitted by a slight sales mix shift in spirits to lower priced products which, because of the bottle charge component of the mark-up formula, carry higher net gross margin than more expensive brands.

### **Operating Income**

PLCB has controlled all aspects of operating expense as demonstrated by the 0.1% increase from last year. For the year ended June 30, 2013, PLCB was able to leverage the sales and margin growth and expense control into a 21.7% increase in operating income - \$152.4 million vs. \$125.0 million last year. Since 2008-09, PLCB has grown its operating income by a compounded 9.9% without the benefit of retail product mark-up increases.

PLCB operating expenses including Comptroller expenses increased to \$387.5 million versus \$387.1 million last year and decreased as a percent of sales to 22.4% of sales from 23.4% in 2011-12. Part of the favorable comparison is attributable to a \$2.5 million inventory write-off included in expense last year. Personnel costs which are two-thirds of PLCB operating expenses, decreased slightly due to reduced overtime and to a one-time credit to correct for prior years' overcharges to the agency for part-time employee benefit costs. The correction more than offset benefit increases for pensions as well as higher current and retiree health care costs. Other major operating expenses include \$27.2 million of IT related expenses, up 6.7 % from last year and credit card service fees of \$21.5 million, up 1.2 % due to higher card usage, partially offset by lower rates. Store rent of \$40.4 million increased 4.3% from last year reflecting store build-outs associated with store re-branding and refurbishment efforts.

### **Operating Transfers Out**

Pennsylvania State Police received \$24.0 million, an increase of \$2.2 million or 10.3% from the previous year to fund the operations of its Bureau of Liquor Control Enforcement. Transfers to the Department of Drug & Alcohol Programs increased to \$2.6 million, \$0.5 million or 24.0% more than last year. As directed by the Governor's Budget Office, \$80 million was transferred to the General Fund and a \$110 million working capital loan from state Treasury was paid by PLCB and not renewed. Excluding the loan repayment and after covering all expenses, the LCB generated \$512.3 million in contribution to the state Treasury, \$4.4 million in license fees were returned to local municipalities, and \$8.1 million in local sales tax was collected and fully remitted to Philadelphia and Allegheny counties.



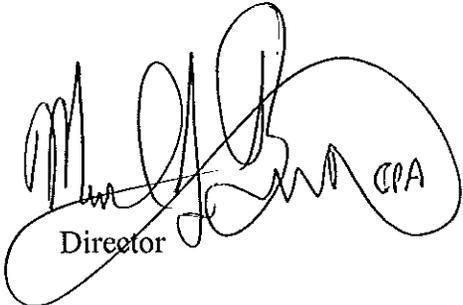


COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE BUDGET  
COMPTROLLER OPERATIONS  
555 Walnut Street, 9<sup>th</sup> Floor  
Harrisburg, PA 17101-1925

Members of the  
Pennsylvania Liquor Control Board  
Harrisburg, Pennsylvania

We have compiled the accompanying comparative statement of net assets for the State Stores Fund as of June 30, 2013 and June 30, 2012, and the balance sheet for the Liquor License Fund as of June 30, 2013 and June 30, 2012 and the related State Stores Fund comparative statements of revenues, expenses, and changes in fund net assets for the period ended June 30, 2013 and June 30, 2012, 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.



Director CPA

July 24, 2013

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b>Assets:</b>		
Current Assets:		
Cash	\$ 18,406,904	\$ 32,024,630
Investments-Short Term	160,551,983	163,539,020
Accounts and Claims Receivable (Net)	1,060,825	17,543,086
Inventory - Merchandise	197,826,813	175,902,668
Inventory - Operating Supplies	799,263	936,827
Prepaid Expenses	<u>2,781,873</u>	<u>2,451,971</u>
Total Current Assets	<u>381,427,661</u>	<u>392,398,202</u>
Fixed Assets:		
Land	322,973	322,973
Buildings	19,620,370	19,738,569
Leasehold Improvements	2,911,837	3,096,809
Machinery and Equipment	36,543,314	37,125,676
Computer Software - Internally Generated	<u>62,281,915</u>	<u>57,035,414</u>
	121,680,409	117,319,441
Less: Accumulated Depreciation/Amortization	<u>77,268,156</u>	<u>64,194,397</u>
Total Fixed Assets	<u>44,412,253</u>	<u>53,125,044</u>
Total Assets	<u>\$ 425,839,914</u>	<u>\$ 445,523,246</u>

**Liabilities and Fund Equity**

<b>Liabilities:</b>		
Trade Accounts Payable	\$ 239,797,992	\$ 213,773,579
Other Accounts Payable	18,807,505	11,646,969
Other Accounts Payable - OPEB (Note 4)	57,378,883	46,146,688
Accrued Payroll-Related Expenses	39,652,481	38,936,392
Workers' Compensation Liability (Note 5)	30,918,369	30,517,411
Due to Other Funds	3,304,571	4,320,732
Advances From the General Fund	<u>-</u>	<u>110,000,000</u>
Total Liabilities	389,859,801	455,341,771
<b>Net Assets:</b>		
Invested in Capital Assets, net of related debt	44,412,253	53,125,044
Unrestricted	<u>(8,432,140)</u>	<u>(62,943,569)</u>
Total Net Assets	<u>\$ 35,980,113</u>	<u>\$ (9,818,525)</u>

FINANCIAL STATEMENTS

Commonwealth of Pennsylvania  
 Pennsylvania Liquor Control Board  
 Liquor License Fund  
 Balance Sheet  
 (Unaudited)

	<u>June 2013</u>	<u>June 2012</u>
<b>Assets:</b>		
Cash in Transit	\$ 69,380	116,775
Investments - Short Term	<u>2,292,055</u>	<u>2,265,396</u>
 Total Assets	 <u>\$ 2,361,435</u>	 <u>\$ 2,382,171</u>
 <b>Liabilities:</b>		
License Fees due Municipalities	\$ 2,359,385	\$ 2,380,121
Other Liabilities	<u>2,050</u>	<u>2,050</u>
 Total Liabilities	 <u>\$ 2,361,435</u>	 <u>\$ 2,382,171</u>

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

Commonwealth of Pennsylvania  
 Pennsylvania Liquor Control Board  
 State Stores Fund  
 Comparative Statements of Revenues, Expenses, and Changes in Net Assets  
 For The Twelve Months Ending June 30, 2013 and June 30, 2012  
 (Unaudited)

	June 2012-13	June 2011-12
Sales Net of Taxes	\$ 1,731,463,014	\$ 1,657,205,175
Cost of Goods Sold	<u>1,192,047,304</u>	<u>1,145,466,732</u>
<b>Gross Revenue from Sales</b>	<b>539,415,710</b>	<b>511,738,443</b>
Operating Expenses:		
Purchasing, Storage & Transportation	16,286,801	17,125,296
Stores' Operations & Supervision (Note 7)	286,349,013	284,111,215
Central Administrative Support	68,595,789	69,366,143
Comptroller Operations	4,889,463	5,318,143
Commonwealth-Provided Services (Note 2)	<u>11,416,921</u>	<u>11,144,337</u>
Total	<u>387,537,987</u>	<u>387,065,134</u>
<b>Operating Income</b>	<b>151,877,723</b>	<b>124,673,309</b>
Nonoperating Revenues (Expenses):		
Enforcement Fines	1,346,662	1,492,458
Interest Income	503,060	249,489
License Fees	11,901,883	11,528,776
Miscellaneous Income	2,348,475	2,800,855
Administrative Law Judge	(2,121,724)	(2,086,323)
Legal	(2,723,331)	(2,948,360)
Licensing & Investigations	<u>(10,782,410)</u>	<u>(10,478,384)</u>
Total	<u>472,615</u>	<u>558,511</u>
<b>Income Before Operating Transfers</b>	<b>152,350,338</b>	<b>125,231,821</b>
Operating Transfers Out:		
PSP Enforcement (Note 3)	<u>23,984,381</u>	<u>21,737,286</u>
<b>Income After Enforcement/Before Other Transfers</b>	<b>128,365,957</b>	<b>103,494,535</b>
Other Operating Transfers Out:		
General Fund Appropriations (Note 3)	80,000,000	80,000,000
Drug and Alcohol Programs (Note 3)	2,567,319	2,069,891
Total	<u>82,567,319</u>	<u>82,069,891</u>
<b>Change in Net Assets</b>	<b>45,798,638</b>	<b>21,424,644</b>
Total Net Assets - Beginning	<u>(9,818,525)</u>	<u>(31,243,169)</u>
Total Net Assets - Ending	<u><b>\$ 35,980,113</b></u>	<u><b>\$ (9,818,525)</b></u>

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

**Commonwealth of Pennsylvania**  
**Pennsylvania Liquor Control Board**  
**State Stores Fund**  
**Comparative Statements of Revenues, Expenses, and Changes in Net Assets**  
**For The Month Ending June 30 2013 and June 30, 2012**  
**(Unaudited)**

	June 2012-13	June 2011-12
Sales Net of Taxes	\$ 138,754,169	\$ 140,110,032
Cost of Goods Sold	95,208,617	97,596,911
<b>Gross Revenue from Sales</b>	<b>43,545,552</b>	<b>42,513,121</b>
Operating Expenses:		
Purchasing, Storage & Transportation	1,198,328	569,467
Stores' Operations & Supervision (Note 7)	25,055,923	15,529,653
Central Administrative Support	6,046,015	6,359,022
Comptroller Operations	356,935	843,443
Commonwealth-Provided Services (Note 2)	940,746	860,036
Total	33,597,947	24,161,620
<b>Operating Income</b>	<b>9,947,605</b>	<b>18,351,501</b>
Nonoperating Revenues (Expenses):		
Enforcement Fines	169,184	99,785
Interest Income	36,468	38,639
License Fees	869,085	854,024
Miscellaneous Income	256,686	324,557
Administrative Law Judge	(163,268)	(194,317)
Legal	(234,054)	(228,674)
Licensing & Investigations	(929,413)	(860,440)
Total	4,688	33,574
<b>Income Before Operating Transfers</b>	<b>9,952,293</b>	<b>18,385,075</b>
Operating Transfers Out:		
PSP Enforcement (Note 3)	1,830,929	1,613,343
<b>Income After Enforcement/Before Other Transfers</b>	<b>8,121,364</b>	<b>16,771,732</b>
Other Operating Transfers Out:		
General Fund Appropriations (Note 3)	80,000,000	40,000,000
Drug and Alcohol Programs (Note 3)	2,567,319	2,069,891
Total	82,567,319	42,069,891
<b>Change in Net Assets</b>	<b>(74,445,955)</b>	<b>(25,298,159)</b>
Total Net Assets - Beginning	110,426,068	15,479,634
Total Net Assets - Ending	<b>\$ 35,980,113</b>	<b>\$ (9,818,525)</b>

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

Commonwealth of Pennsylvania  
 Pennsylvania Liquor Control Board  
 State Stores Fund  
 Statement of Cash Flows  
 For the Period July 1, 2012 to June 30, 2013  
 (Unaudited)

<b>Cash Flows From Operating Activities:</b>	
Receipts from customers	\$ 1,763,542,295
Payments to suppliers	(1,667,385,627)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>96,156,668</u>
<b>Cash Flows From Noncapital Financing Activities:</b>	
Operating transfers out	(106,551,700)
<b>Net Cash Used For Noncapital Financing Activities</b>	<u>(106,551,700)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(6,715,470)
Disposition of capital assets	2,679
<b>Net Cash Used For Capital and Related Financing Activities</b>	<u>(6,712,791)</u>
<b>Cash Flows From Investing Activities:</b>	
Purchase of investments	(1,381,077,925)
Proceeds from sale and maturities of investments	1,384,064,962
Investment income	503,060
<b>Net Cash Used in Investing Activities</b>	<u>3,490,097</u>
<b>Net Decrease in Cash</b>	<b>(13,617,726)</b>
Cash - July 1, 2012	32,024,630
<b>Cash - June 30, 2013</b>	<u><u>\$ 18,406,904</u></u>
<b>Reconciliation of Operating Income (Loss) to Net</b>	
<b>Cash Provided by (Used for) Operating Activities:</b>	
<b>Operating Income</b>	<b>151,847,278</b>
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation (depr exp)	15,425,582
Accounts Receivable	16,482,261
Inventory	(21,786,581)
Other op. net assets	(329,902)
Accounts Payable and accrued liabilities	(64,465,809)
Due to other funds	(1,016,161)
<b>Total Adjustments</b>	<u><b>(55,690,610)</b></u>
<b>Net Cash Provided By (Used For) Operating Activities:</b>	<u><u><b>\$ 96,156,668</b></u></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, 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies employed by the Pennsylvania Liquor Control Board (PLCB) in the preparation of the accompanying financial statements are as follows:

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

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

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

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

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

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

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

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

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

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

The accumulated annual and sick leave and related payroll benefits reported for fiscal years ended June 30, 2013 and June 30, 2012 was \$24,656,514 and \$24,383,400 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, 2012 to June 30, 2013 are as follows:

Liquor Tax	\$311,247,792
State Sales Tax	121,092,901
Local Sales Tax	<u>8,142,691</u>
Total	\$440,483,384

2. COMMONWEALTH-PROVIDED SERVICES

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

Consolidated Data Center Charges	\$4,093,771
Department of the Auditor General	2,912,160
Department of General Services	504,021
State Civil Service Commission	913,700
Office of Administration:	
Bureau of Personnel	256,119
Integrated Enterprise System	1,703,884
Other	477,786
Office of the Budget:	
Payroll	339,300
Treasury Department	<u>216,180</u>
	<u>\$11,416,921</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, 2013 and 2012 was not fully funded. The PLCB's allocated OPEB liability was \$57.38M as of June 30, 2013 and \$46.15M as of June 30, 2012.

5. SELF INSURANCE LIABILITY

The Commonwealth of Pennsylvania is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability) for employees injured on the job. The Self Insurance liability is calculated actuarially on an annual basis and is included in the financial statements. In addition to the amounts paid during the fiscal year, the State Stores Fund is liable for \$30.92M as of June 30, 2013 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, 2013, were as follows (expressed in thousands):

<u>Year Ending June</u>	<u>Real Estate</u>
2014	\$32,862
2015	24,770
2016	16,710
2017	9,648
2018	<u>5,370</u>
Total Minimum Lease Payments	<u>\$89,360</u>

Rental expense for all operating leases for the period ending June 30, 2013, amounted to \$41.77M.