

FINANCIAL AUDIT

Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

Liquor Control Board State Stores Fund - Liquor License Fund Audit Report

For the Years Ended June 30, 2024 and June 30, 2023

December 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

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PENNSYLVANIA LIQUOR CONTROL BOARD
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LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

Background

Introduction

The Pennsylvania Liquor Control Board (PLCB) is an entity of the Commonwealth of Pennsylvania (Commonwealth) authorized by law to regulate the sale and distribution of alcoholic beverages in the Commonwealth.

The mission of the PLCB is to responsibly sell wine and spirits as a retailer and wholesaler, regulate Pennsylvania’s alcohol industry, promote alcohol education and social responsibility, and maximize financial returns for the benefit of all Pennsylvanians.

History and Agency Overview

With the end of Prohibition in 1933, various laws regarding alcohol regulation were passed by the Pennsylvania General Assembly, including the Liquor Control Act and the Beverage License Law, which created the PLCB. The statutory authority for the PLCB is Act 21 of 1951, P.L. 90, as reenacted by Act 14 of 1987, P.L. 32.

Act 39 of 2016 liquor reforms changed more than 35 sections of the Liquor Code and added several new sections – the most sweeping changes to liquor laws in Pennsylvania since the end of Prohibition in 1933. Act 39 reforms allowed for the sale of wine to go by restaurant license holders, including grocery and convenience stores; eliminated proportional pricing according to a standard markup formula and authorized flexible pricing; sanctioned a customer relationship management program; eliminated restrictions on Sunday hours for Fine Wine & Good Spirits (FW&GS) stores; enabled the PLCB to auction expired restaurant licenses; authorized Pennsylvania Lottery sales in FW&GS stores; and expanded direct wine and beer shipment options for Pennsylvania residents. It also established grant programs for developing and promoting Pennsylvania’s wine and beer industries.

The PLCB is an independent administrative board governed by a board whose three members are appointed to staggered four-year terms by the Governor and confirmed by two-thirds of the state Senate.

The PLCB regulates the manufacture, importation, sale, distribution, and disposition of liquor, alcohol, and malt or brewed beverages in the Commonwealth. Key functions of the PLCB include:

- The operation of approximately 575 FW&GS stores, 13 licensee service centers, an e-commerce fulfillment center, and two distribution centers, which deliver wine and spirits to both FW&GS stores and nearly 950 licensees.

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Background (continued)

- Licensure and regulation of about 16,000 retail and wholesale licensees and 1,300 wineries, breweries, and distilleries in the Commonwealth, which requires annual processing of more than 86,000 applications for various license and permit authorities.
- Wholesale sales and distribution of wine and spirits to licensees for resale at retail, including distribution of wine to almost 1,800 licensees authorized to sell wine to go.
- Public education efforts regarding alcohol focusing on three key pillars: delivering no-use and zero-tolerance messages to those under the age of 21, encouraging responsible consumption for those over 21, and promoting responsible alcohol service and practices among licensees.

While enforcement of the Liquor Code is not the PLCB's responsibility, the PLCB funds the operations of the Pennsylvania State Police, Bureau of Liquor Control Enforcement, which is responsible for enforcing liquor laws and regulations throughout the Commonwealth.

The PLCB is primarily responsible for the accounting and reporting of the Liquor License Fund and the State Stores Fund. The Liquor License Fund is a special revenue fund that serves as a pass-through account for fees for hotel, restaurant, and club liquor and 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 Commonwealth's 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 wine and spirits, primarily through FW&GS stores and sales to licensees, as well as various other operating revenues including fees not credited to the Liquor License Fund. The State Stores Fund also covers the costs and expenses associated with operation and administration of all PLCB functions.

The 18% liquor tax and 6% state sales tax collected by the PLCB are transferred monthly to the General Fund. Local sales taxes collected are remitted timely and in full to Philadelphia and Allegheny counties.

The PLCB achieved gross annual sales of \$3.2 billion in fiscal year 2023-24, an increase of 0.9% over the previous fiscal year. As a result, PLCB operations generated \$448.8 million in liquor tax, \$177.4 million in state sales tax, and provided for additional transfers to the General Fund totaling \$185.1 million for the year. The PLCB also returned \$11.9 million in local sales taxes to Philadelphia and Allegheny counties. Additionally, the PLCB provided \$33 million to fund liquor control enforcement efforts, obligated \$4.8 million to support the Pennsylvania Department of Drug and Alcohol Programs, awarded \$2 million in grants supporting Pennsylvania's wine and beer industries, awarded alcohol education grants of \$1 million, and collected \$4.4 million in liquor license fees for return to local municipalities.

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Background (continued)

Key Facts

- State and local sales taxes applicable to PLCB sales are collected by the PLCB and fully remitted to the General Fund.
- The state liquor tax of 18% is included in the retail price of each item, excluding accessory items and non-alcoholic consumables, and is remitted by the PLCB to the General Fund.
- All revenues remaining after the payment of PLCB operating expenses and after the required appropriations are made to other entities and Commonwealth agencies are made available to be transferred to the General Fund.



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Darrell Clarke
Chairman
Pennsylvania Liquor Control Board
Harrisburg, PA 17124

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Pennsylvania Liquor Control Board (PLCB) – State Stores Fund, which comprise the Statements of Net Position as of June 30, 2024 and 2023, and the related Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows for the years then ended, and the related notes to the financial statements; and the PLCB – Liquor License Fund, which comprise the Balance Sheets as of June 30, 2024 and 2023, and the related Statements of Revenues, Expenditures, and Changes in Fund Balance for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PLCB – State Stores Fund and Liquor License Fund as of June 30, 2024 and 2023, and the results of the State Stores Fund's operations and its cash flows for the fiscal years then ended, and the Liquor License Fund's revenue and expenditure activity for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the

Financial Statements section of our report. We are required to be independent of the PLCB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note A, the financial statements present only the PLCB and do not purport to, and do not, present fairly the financial position of the Commonwealth of Pennsylvania as of June 30, 2024 and 2023, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PLCB's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8-12; and the schedules of pension amounts – PLCB's schedule of contributions and PLCB's schedule of proportionate share of the net pension liability, and schedules of postemployment benefits other than pensions (OPEB) amounts – PLCB's schedule of contributions and PLCB's schedule of allocated share of the net OPEB liability on pages 41-44 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

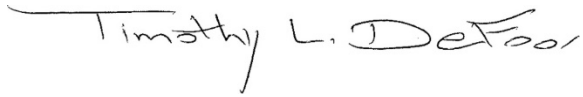
Management is responsible for the other information included in the report. The other information comprises the Background section but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued separately, our report dated December 12, 2024, on our consideration of PLCB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PLCB's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PLCB's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
December 12, 2024

PENNSYLVANIA LIQUOR CONTROL BOARD
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Management’s Discussion and Analysis

Management’s Responsibility for the Financial Statements

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

Discussion of Basic Financial Statements

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

The basic financial statements included in this audit report are the State Stores Fund Comparative Statements of Net Position as of June 30, 2024 and 2023; State Stores Fund Comparative Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2024 and 2023; State Stores Fund Comparative Statements of Cash Flows for the fiscal years ended June 30, 2024 and 2023; the Liquor License Fund Balance Sheets as of June 30, 2024 and 2023; and the Liquor License Fund Statements of Revenues, Expenditures, and Changes in Fund Balance for the fiscal years ended June 30, 2024 and 2023.

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

Although the liquor tax is incorporated into the retail price of alcohol products sold by the PLCB and is discussed herein as part of the sales analysis and transfers out, neither this tax nor state and local sales taxes are reflected as revenue in the basic financial statements.

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Management's Discussion and Analysis (Continued)

Executive Summary & Highlights

In 2020, the PLCB embarked on Project New Horizon, a multi-year effort to upgrade and replace its enterprise resource planning (ERP) platform. In January 2022, the PLCB implemented the first of four phases (Release 1) of its new cloud-based solution, which replaced its on premises Oracle financials platform (EBS) with Oracle cloud financials (CFIN). In July 2023, the PLCB completed the implementation of Release 2 which established a wholesale and retail infrastructure on the Oracle Cloud solution, added functionality to the Licensee Online Order Portal (LOOP), and improved FWGS.com e-commerce functionality. In September 2024, modifications were implemented to enable changes required by Acts 57 and 86 of 2024. Release 4, replacing retail inventory and point of sale systems with cloud solutions, was also initiated in September 2024, with deployment scheduled in fiscal year 2025-26.

In fiscal year 2023-24, the PLCB achieved record sales net of taxes of \$2.5 billion. This was an increase of \$31.5 million, or 1.3% over fiscal year 2022-23. The PLCB's net income for fiscal year 2023-24 was \$242.1 million, a \$18.7 million or 7.2% decrease from the prior year. The decrease in net income was substantially due to increases in payroll and benefits and unfavorable changes in the other post-employment benefits (OPEB), and pension actual actuarial valuation expense.

Other financial highlights include:

- Gross profit from sales of \$819.8 million increased \$55.6 million, or 7.3%. The gross profit percentage was 32.2%, an increase of 1.8% from the prior fiscal year.
- Operating income decreased \$24.5 million, or 8.5%, to \$264.1 million.
- Net cash flow from operating activities generated \$215.5 million (a decrease of \$244.2 million from the prior year), which was the primary source used to fund the \$185.1 million cash transfer to the General Fund, \$33 million to fund the Pennsylvania State Police's Liquor Code enforcement efforts and \$9.6 million (\$5.5 million from fiscal year 2022-23 obligation and \$4.1 million from the fiscal year 2023-24) in transfers to the Department of Drug and Alcohol Programs (DDAP).
- The \$87.3 million for capital and related financing expenditures includes cash outflows of \$70 million for reduction of right to use (RTU) liabilities and interest as required under Governmental Accounting Standards Board Statement (GASB) No. 87, *Leases*, and GASB No. 96, *Subscription-Based Information Technology Arrangements* and \$17.3 million for acquisition and construction of capital assets.

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Management's Discussion and Analysis (Continued)

- Year-end cash and investments decreased \$83.3 million (21.5%) to \$304.7 million. Net cash from operations, investment income cash receipt and an increase in cash deposits was reduced by the \$185.1 million general fund transfers, capital and related financing activities, Pennsylvania State Police (PSP) expenses, and DDAP transfers.
- Trade accounts payable decreased \$ 9.8 million (2.9%) to \$322.5 million.
- Net position improved \$52.1 million (6.5%), primarily due to decreases in non-current liabilities for pension and OPEBs offset by lower cash and investments.

Revenues and Costs

Sales

Sales and tax revenue in fiscal year 2023-24 totaled \$3.2 billion, an increase of \$29.7 million or 0.9% over fiscal year 2022-23. Excluding liquor and sales taxes, net sales of \$2.5 billion were up \$31.5 million or 1.3% over the prior year. By product category, spirit sales increased 0.9% and wine sales decreased 3.1%. Overall unit sales decreased 3.3%, with spirit unit sales increasing 0.1% and wine unit sales decreasing 7.5% from prior year.

The PLCB's saw it's mix of retail and licensee sales slightly shift versus prior year, with retail sales comprising 73.4% of spirit/wine sales and sales to licensees comprising 26.6%. In 2022-23, these amounts were 74.4% for retail and 25.6% for licensee sales.

The PLCB's 2023-24 gross profit margin increased 1.8% to 32.2%, as compared to 30.4% in the prior year, due to a more favorable mix of sales, lower inventory adjustments and a reduced level of product liquidations, which negatively impacted gross margin the prior year.

Operating Income & Expense

Operating income for the fiscal year ended June 30, 2024, was \$264.1 million, a decrease of \$24.5 million or 8.5% from prior year. The decrease attributable to a \$77.2 million increase in total operating expenses and \$2.9 million reduction in other operating revenue offset by an increase in gross profit from sales (\$55.6 million).

The increase in operating expenses was primarily due to an increase in personnel costs as well as increases in long term liabilities for OPEB. Valuation adjustments in long term pension and OPEB liabilities resulted in a \$24.4 million increase which includes \$9.8 million in pension and \$14.6 million in OPEB, partially offset by lower workers compensation (\$1.8 million). Personnel costs also increased by \$16.1 million or 7.2%. The increases included contractual pay raises, which resulted in increases in employee compensation for salaries, wages, and overtime. Benefit costs also increased \$5.6 million, or 12.2%.

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Management’s Discussion and Analysis (Continued)

Total other operational expenses/services, including depreciation, increased \$26.7 million or 11.8% over the prior year. This is largely due to Project New Horizon related expenses increasing \$10.5 million over the prior year, primarily attributed to an increase in Information Technology (IT) internally generated software and subscription amortization (\$7 million) due to the addition of \$34.8 million of Project New Horizon assets in fiscal year 2023-24, an increase in IT hardware due primarily to the refresh of wireless infrastructure and hardware (\$3.7million), other IT costs (\$0.5 million) and a reduction in data governance consulting services (\$0.7 million). Security guard service costs increased \$8.7 million due to higher costs for equipment and expanded security presence at the stores (\$1.9 million) and to expense the comprehensive security system cameras (\$6.8 million). Bad debt expense increased by \$5 million for the write-off of the looting and burglary claims from 2020 and other sales and inventory related adjustments increased \$0.8 million. Expenditures for advertising increased \$2.2 million. Costs associated with store and other rent costs increased \$2.9 million and were partially offset by lower utilities and building depreciation costs of \$0.5 million and \$0.3 million, respectively. Debit and credit cards services increased \$1 million or 2.3% over the prior year due to increased sales and card usage and higher interchange fees. Operating and maintenance supplies decreased \$3.4 million, with \$1 million from lower plastic bag costs. Charges for Commonwealth provided services decreased \$1.7 million, primarily due to decreases in human resources shared services (\$1.2 million), Auditor General services (\$0.8 million), Integrated Enterprise System services (\$0.7 million), and other services (\$0.4 million). These decreases were partially offset by increase in information technology shared services (\$0.5 million), and a \$0.7 million increase in real estate shared services and other services (\$0.2 million). There were also increases in various areas for telecommunication (\$0.8 million) and freight and postage costs (\$0.1 million).

Other operating revenues decreased \$2.9 million or 7.4% primarily due to:

- A net decrease of \$3.5 million in miscellaneous revenue largely due to a decrease in bailment penalties resulting from a reclassification of bailment penalties to sales starting in fiscal year 2023-24(\$2.7 million) and a decrease in lottery commissions (\$0.5 million). Enforcement fees decreased \$0.2 million due to a \$0.3 million decrease in liquor control act fines received in June 2024, compared to June 2023, offset by \$0.1 million increase in PSP liquor enforcement revenue. The PLCB also saw a net increase of \$0.8 million for license fees.

Non-operating revenues (and expenses) increased \$6.5 million or 144.1% primarily due to:

- Interest income from Pennsylvania Treasury Department Pool 99 investments increased \$7.2 million due to a higher Treasury Pool 99 investment yield in fiscal year 2023-24.

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Management’s Discussion and Analysis (Continued)

Transfers Out

The Bureau of Liquor Control Enforcement within the PSP received \$33.0 million in funding in fiscal year 2023-24, an increase of \$0.7 million (2.2%) over the previous year. A \$4.8 million DDAP liability was accrued in June 2024 for the fiscal year 2023-24 statutory obligation (2 percent of net income as mandated by 47 P.S. §8-802(c)), and \$185.1 million was transferred to the General Fund pursuant to 47 P.S. §8-802(f) and as determined annually by the Governor’s Office.

Other contributions to the General Fund during fiscal year 2023-24 generated by the PLCB’s operations – but not reflected as revenues, expenses, or cash flows in the State Stores Fund’s financial statements – included \$448.8 million in liquor tax and \$177.4 million in state sales tax, and \$11.9 million in local sales taxes, an overall 0.3% decrease.

License fees returnable to local municipalities from the Liquor License Fund totaled \$4.4 million for fiscal year 2023-24, compared to \$4.3 million in the prior year.

**PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND
COMPARATIVE STATEMENTS OF NET POSITION
(AMOUNTS IN THOUSANDS)**

<u>ASSETS</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Current assets:		
Cash	\$ 64,714	\$ 46,273
Temporary investments	240,010	341,784
Accounts and claims receivable, net	1,547	5,360
Due from other funds	43	28
Merchandise inventories	217,628	211,932
Operating supplies	704	896
Prepaid expenses	2,223	1,982
Total current assets	<u>\$ 526,869</u>	<u>\$ 608,255</u>
Noncurrent assets:		
Non-depreciable capital assets:		
Land	323	323
Depreciable capital assets:		
Building	10,837	10,923
Leasehold improvements	209	209
Machinery and equipment	45,085	56,167
Intangible – internally generated software	82,253	70,232
Intangible – right to use leases	452,422	394,614
Intangible – right to use IT subscriptions	20,835	16,554
Less: accumulated depreciation	(317,921)	(252,883)
Net depreciable capital assets	<u>\$ 293,720</u>	<u>\$ 295,816</u>
Total noncurrent capital assets – Note E	<u>\$ 294,043</u>	<u>\$ 296,139</u>
Total assets	<u>\$ 820,912</u>	<u>\$ 904,394</u>
Total deferred outflows of resources – Notes C, D	\$ 193,317	\$ 261,085
<u>LIABILITIES</u>		
Current liabilities:		
Trade accounts payable	\$ 322,484	\$ 332,285
Miscellaneous accounts payable	17,632	16,301
Accrued expenses	27,053	24,542
Self-Insurance – Note M	4,768	4,796
Due to other funds – Note F	15,874	75,786
Due to fiduciary funds – Note C	3,780	3,458
Due to other governments	1,114	979
Right to use liabilities – Note G	63,475	61,080
Total current liabilities	<u>\$ 456,180</u>	<u>\$ 519,227</u>

~ The notes to the financial statements are an integral part of this statement. ~

**PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND
COMPARATIVE STATEMENTS OF NET POSITION (Continued)
(AMOUNTS IN THOUSANDS)**

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Noncurrent liabilities:		
OPEB – Note D	317,406	416,014
Self-Insurance – Note M	42,230	43,296
Net pension liability – Note C	537,785	569,164
Compensated absences	26,266	24,485
Right to use liabilities – Note G	176,886	180,471
Total noncurrent liabilities	<u>\$ 1,100,573</u>	<u>\$ 1,233,430</u>
 Total liabilities	 <u>\$ 1,556,753</u>	 <u>\$ 1,752,657</u>
 Total deferred inflows of resources – Note C, D	 \$ 206,690	 \$ 214,179
 <u>NET POSITION</u>		
Investment in capital assets, Net of related debt	\$ 53,682	\$ 54,588
Deficit	<u>(802,896)</u>	<u>(855,945)</u>
 Total net position	 <u>\$ (749,214)</u>	 <u>\$ (801,357)</u>

~ The notes to the financial statements are an integral part of this statement. ~

**PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
(AMOUNTS IN THOUSANDS)**

	<u>Fiscal Year Ended</u> <u>June 30, 2024</u>	<u>Fiscal Year Ended</u> <u>June 30, 2023</u>
Sales net of taxes	\$ 2,545,114	\$ 2,513,588
Cost of goods sold	<u>(1,725,333)</u>	<u>(1,749,390)</u>
Gross profit from sales	<u>\$ 819,781</u>	<u>\$ 764,198</u>
Operating (expenses):		
Wholesale	(29,047)	(22,861)
Retail	(414,824)	(363,807)
E-commerce	(2,286)	(3,268)
Regulatory	(13,437)	(11,418)
Enterprise	(113,010)	(92,394)
Commonwealth-provided services	(19,541)	(21,219)
Total	<u>\$ (592,145)</u>	<u>\$ (514,967)</u>
Operating profit	<u>\$ 227,636</u>	<u>\$ 249,231</u>
Other operating revenues (expenses):		
Enforcement fines	1,327	1,557
License fees	32,764	31,918
Miscellaneous income	2,338	5,856
Total	<u>\$ 36,429</u>	<u>\$ 39,331</u>
Total operating income	<u>\$ 264,065</u>	<u>\$ 288,562</u>
Non-operating revenues (expenses):		
Interest income	11,023	4,479
Other	32	50
Total	<u>\$ 11,055</u>	<u>\$ 4,529</u>
Income before operating transfers	<u>\$ 275,120</u>	<u>\$ 293,091</u>
Operating transfers out:		
PSP enforcement – Note J	<u>(33,035)</u>	<u>(32,320)</u>
Income after enforcement/before other transfers	<u>\$ 242,085</u>	<u>\$ 260,771</u>
Other operating transfers:		
Transfers out:		
General Fund – Note H	(185,100)	(185,100)
Drug and alcohol programs – Note I	(4,842)	(5,215)
Total	<u>\$ (189,942)</u>	<u>\$ (190,315)</u>
Change in net position	<u>\$ 52,143</u>	<u>\$ 70,456</u>
Total net position – beginning (restated) – Note N	<u>\$ (801,357)</u>	<u>\$ (871,813)</u>
Total net position – ending	<u>\$ (749,214)</u>	<u>\$ (801,357)</u>

~ The notes to the financial statements are an integral part of this statement. ~

**PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)**

	<u>Fiscal Year Ended</u> <u>June 30, 2024</u>	<u>Fiscal Year Ended</u> <u>June 30, 2023</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,585,341	\$ 2,555,962
Payments to suppliers	(2,369,848)	(2,096,292)
Net cash provided by (used for) operating activities	<u>\$ 215,493</u>	<u>\$ 459,670</u>
Cash flows from noncapital financing activities:		
Operating transfers out	(227,708)	(222,444)
Net cash used for noncapital financing activities	<u>\$ (227,708)</u>	<u>\$ (222,444)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(17,299)	(24,611)
Proceeds from capital assets	15	46
Right to use lease principal	(64,855)	(61,147)
Right to use lease interest	(5,200)	(4,582)
Net cash used for capital and related financing activities	<u>\$ (87,339)</u>	<u>\$ (90,294)</u>
Cash flows from investing activities:		
Purchase of investments	(1,670,521)	(1,791,624)
Proceeds from sale and maturities of investments	1,772,295	1,648,194
Investment income	16,222	9,061
Net cash used in investing activities	<u>\$ 117,996</u>	<u>\$ (134,369)</u>
Net increase in cash	\$ 18,442	\$ 12,563
Cash – beginning of year	\$ 46,272	\$ 33,709
Cash – end of year	<u>\$ 64,714</u>	<u>\$ 46,272</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income	\$ 264,065	\$ 288,562
Depreciation	83,077	75,792
Change in assets and liabilities:		
Accounts receivable	3,841	3,071
Inventory	(5,505)	(3,181)
Due from other funds	(43)	(28)
Other operating net assets	(241)	(1,013)
Deferred outflows – pension related	67,768	(76,730)
Accounts payable and accrued liabilities	(14,640)	109,300
Due to other funds	(46,248)	64,138
Due to pension trust funds	131	88
Net pension liability	(31,379)	200,118
Due to other governments	76	(17)
Other postemployment benefit obligations	(98,608)	(16,141)
Self-insurance liabilities	(1,094)	706
Compensated absences	1,782	(2,381)
Deferred inflows – pension related	(7,489)	(182,614)
Total adjustments	<u>\$ (48,572)</u>	<u>\$ 171,108</u>
Net cash provided (used for) operating activities	<u>\$ 215,493</u>	<u>\$ 459,670</u>

~ The notes to the financial statements are an integral part of this statement. ~

**PENNSYLVANIA LIQUOR CONTROL BOARD
LIQUOR LICENSE FUND
BALANCE SHEETS
(AMOUNTS IN THOUSANDS)**

<u>ASSETS</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Current assets:		
Cash in transit	\$ 33	\$ 402
Investments – short term	<u>2,293</u>	<u>1,842</u>
Total assets	<u>\$ 2,326</u>	<u>\$ 2,244</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Current liabilities:		
License fees due to municipalities	\$ 2,326	\$ 2,244
Total current liabilities	<u>\$ 2,326</u>	<u>\$ 2,244</u>
Fund balance:		
Restricted	0	0
Total fund balance	<u>0</u>	<u>0</u>
Total liabilities and fund balance	<u>\$ 2,326</u>	<u>\$ 2,244</u>

~ The notes to the financial statements are an integral part of this statement. ~

**PENNSYLVANIA LIQUOR CONTROL BOARD
LIQUOR LICENSE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(AMOUNTS IN THOUSANDS)**

	Balance <u>June 30, 2024</u>	Balance <u>June 30, 2023</u>
<u>REVENUES</u>		
Liquor license application fees collected, net of refunds	\$ 4,413	\$ 4,261
Total revenues	<u>\$ 4,413</u>	<u>\$ 4,261</u>
<u>EXPENDITURES</u>		
Liquor license fees for return to municipalities	\$ 4,413	\$ 4,261
Total expenditures	<u>\$ 4,413</u>	<u>\$ 4,261</u>
Net change in fund balance	\$ 0	\$ 0
Fund balance – July 1	<u>\$ 0</u>	<u>\$ 0</u>
Fund balance – June 30	<u>\$ 0</u>	<u>\$ 0</u>

~ The notes to the financial statements are an integral part of this statement. ~

**PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023**

Notes to the Financial Statements (Dollar amounts in thousands)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Fund Accounting: The PLCB is primarily responsible for the accounting and reporting of the State Stores Fund and the Liquor License Fund. The State Stores Fund is an enterprise fund primarily used to account for wine and spirit sales and related operating expenses. The Liquor License Fund is a special revenue 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting: The State Stores Fund is reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations of this fund are included in the State Stores Fund Statement of Net Position. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. There may be rounding differences between amounts reported in the basic financial statements section and amounts reported in other sections of this report. Also, all dollar amounts in the financial statements and notes are stated in thousands unless otherwise indicated.

The Liquor License Fund, a special revenue fund, uses the modified accrual basis of accounting to report assets and liabilities.

Cash: Cash includes PLCB funds held by the State Treasurer, imprest balances held at financial institutions, and change used at the Fine Wine and Good Spirits (FW&GS) stores.

Temporary Investments: The PLCB participates in the Treasury Department’s Commonwealth Investment Program (CIP) with other Commonwealth agencies. Practically all individual funds which are part of the Commonwealth are participants in the CIP. The Treasury Department accounts for each participating fund’s equity (considered “shares”) in the CIP on a daily basis. “Share” balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments. The CIP is considered an internal investment pool. Temporary investments are reported at fair value.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents: No investments which could be defined as cash equivalents have been treated as such on the State Stores Fund Statement of Cash Flows. Therefore, only net changes in cash are displayed.

Inventories: Inventories are stated at weighted average cost. The PLCB utilizes a bailment inventory management program. PLCB enters into bailment agreements with certain suppliers that require the suppliers to continue to hold title to stock at PLCB warehouse facilities until it is withdrawn from bailment for shipment to FW&GS stores. 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.

The allowance for obsolete inventory was \$100 at June 30, 2024, and June 30, 2023. Management will regularly review, at least once annually, inventory quantities on hand and increase/decrease 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.

PLCB established an allowance for inventory shrinkage beginning fiscal year ended June 30, 2019. This reserve is based primarily on a sample of actual shrinkage results from previous physical inventories. Beginning fiscal year ended June 30, 2023, the PLCB established a budgeted shrink calculation. Changes in the estimated shrinkage reserve may be necessary based on the results of physical inventories. The allowance for inventory shrinkage was \$0 at June 30, 2024, and June 30, 2023.

Capital Assets: Capital assets (excluding intangible - right to use leases) are reported at cost in the State Stores Fund Statement of Net Position. Intangible – right to use leases are reported based on the present value of future lease payments over the contracted term of the lease. The cost of land is reported; for other types of capital assets, the following minimum per item dollar reporting thresholds are used (amounts in whole dollars):

Building	\$5,000
Leasehold improvements	\$5,000
Machinery and equipment	\$5,000
Intangible – internally generated software	\$5,000
Intangible – right to use leases	\$100,000

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (excluding land) are depreciated or amortized over the useful lives using the straight-line method. The following useful lives are being used:

Building	10-20 years
Leasehold improvements	3-15 years
Machinery and equipment	5-10 years
Intangible – internally generated software	5-10 years
Intangible – right to use leases	Lease Term

Leases: The PLCB routinely enters into transactions that include lease contracts related to stores, land, buildings, and machinery and equipment. For leases with a maximum possible term of 12 months or less at commencement, the PLCB recognizes expense based on the provisions of the lease contract. For all other leases, the PLCB recognizes a right to use lease liability and an intangible right to use lease asset. The lease term includes the non-cancellable period of the lease, plus any additional periods covered by either an option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Right to use lease assets are reported with capital assets, and the associated right to use lease liabilities are reported with current and non-current liabilities in the Statement of Net Position. The lease liability is measured at the present value of the lease payments using the Commonwealth of PA’s incremental borrowing rate. The Commonwealth’s incremental borrowing rate is based on the general obligation bonds’ weighted-average interest rate for a given year. If amendments or other certain circumstances occur that are expected to significantly affect the amount of the lease, the present value is re-measured and corresponding adjustments made.

Taxes: An 18 percent state liquor excise tax and a 6 percent state sales tax are collected and remitted monthly to the Department of Revenue for the General Fund. The PLCB also collects and remits a 1 percent local sales tax for Allegheny County and a 2 percent local sales tax for Philadelphia County. Taxes collected for the fiscal years ended June 30, 2024, and June 30, 2023, are as follows:

	Fiscal Year Ended <u>June 30, 2024</u>	Fiscal Year Ended <u>June 30, 2023</u>
Liquor Tax	\$ 448,755	\$ 450,755
State Sales Tax	177,386	177,567
Local Sales Tax	11,855	11,534
Total	<u>\$ 637,996</u>	<u>\$ 639,856</u>

Sales are reported net of these collected and remitted taxes in the financial statements.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences: Most employees earn annual leave, depending on length of credited service, from between 4.24 to 11.55 percent of regular hours paid. Generally, a maximum of 45 days may be carried forward at the end of each leave calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on an agreed upon percentage of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each leave calendar year. Most retiring employees that meet service, age, or disability requirements are paid in accordance with the following schedule:

Days Available at Retirement	Percentage Payment	Maximum Days Paid
0-100	30%	30
101-200	40%	80
201-300	50%	150
Over 300 (in last year of employment)	100% of days over 300	13

The accumulated annual and sick leave and related payroll benefits payable reported for the fiscal years ended June 30, 2024, and June 30, 2023, were \$31,646 (\$5,380 current and \$26,266 non-current) and \$30,228 (\$5,743 current and \$24,485 non-current). It is the PLCB’s policy to record the cost of annual and sick leave in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16. The expense and corresponding liability are reflected in the financial statements.

The following summary provides aggregated information reported for fiscal years ended June 30, 2024, and June 30, 2023, of the compensated absences liabilities to include the additions and reductions during the fiscal year then ended:

Fiscal Year Ended	Liability - Beginning Balance	Additions	Deductions	Liability - Ending Balance
June 30, 2024	\$ 30,228	\$ 23,143	\$ 21,725	\$ 31,646
June 30, 2023	\$ 33,167	\$ 20,518	\$ 23,457	\$ 30,228

Pension Costs and Liability: The PLCB participates in the State Employees’ Retirement System (SERS) cost-sharing, multiple-employer defined-benefit pension plan. The Commonwealth’s policy is to fund employer contributions to the SERS as required by the SERS Board, through statutory authority, or as required based on other applicable statutory requirements. As prescribed by GASB Statement No. 68, an actuarial valuation was prepared to value the SERS pension liability, deferred outflows of resources, and deferred inflows of resources at the actuarial present value of projected benefit payments related to periods of employee service.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the State Stores Fund Statement of Net Position, the PLCB reports its share of the net pension liability, deferred outflow of resources, and deferred inflow of resources. The changes in the net pension liability will be recognized in pension expense. Balances projected for the deferred outflow of resources and deferred inflow of resources will be amortized over a closed period matching the expected remaining service life of all employees or a closed period of five years.

Other Postemployment Benefit (OPEB) Costs and Liability: The PLCB participates in the Commonwealth’s single-employer defined benefit OPEB plan, the Retired Employees Health Program (REHP). The Commonwealth’s policy is to fund employer contributions to the REHP under contribution policies established by the Office of Administration and the Office of the Budget. As prescribed by GASB Statement No. 75, an actuarial valuation was prepared to value the OPEB liability, deferred outflow of resources, and deferred inflow of resources for the REHP at the actuarial present value of projected benefit payments related to periods of employee service.

In the State Stores Fund Statement of Net Position, the PLCB reports its share of the net OPEB liability, deferred outflow of resources, and deferred inflow of resources. The changes in the net OPEB liability will be recognized in OPEB expense. Balances projected for the deferred outflow of resources and deferred inflow of resources will be amortized over a closed period matching the expected remaining service life of all employees or a closed period of five years.

New Accounting Pronouncement – Adopted: The PLCB adopted GASB Statement No. 96, *Subscription-Based Information Technology (IT) Arrangements*. Under GASB Statement No. 96, certain right-to-use IT subscriptions previously expensed are now reported as assets with associated liabilities for future subscription payments. See Note N for restatement information due to change in accounting principle.

NOTE B – DEPOSITS AND INVESTMENTS

The Treasury Department has the authority to manage, invest, and reinvest the moneys of all funds which are not legally authorized to be invested by a board, commission, or State officer. The Treasury Department manages and invests moneys of the Commonwealth through the Commonwealth Investment Program (CIP). The PLCB participates in the CIP’s Pool 99 investment pool. Pool 99 is designed to provide a high degree of liquidity and safety. Pool 99 is organized similarly to a money market fund, with an expectation of a stable net asset value per share. Treasury accounts for each participating fund’s equity, or shares, in the pool on a daily basis. Share balances of participating funds vary considerably during the fiscal year, based on the timing of cash receipts and disbursements. PLCB has reported the fair value of its shares as of June 30, 2024, and 2023, the fund’s fiscal years end. Shares in Pool 99 are reported as temporary investments.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

The CIP pools are considered internal investment pools of the Commonwealth of Pennsylvania and are subject to the requirements of GASB Statement No. 40. GASB Statement No. 40 requires state and local governments to make certain disclosures relating to investment risk, consisting of credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk, in addition to custodial credit risk and foreign currency risk on deposits. The Treasury Department has formally adopted written investment policies to address these investment risks and has disclosed those risks associated with its total pooled deposits and investments in the Commonwealth of Pennsylvania's June 30, 2024 basic financial statements.

PLCB's total deposit balance of \$66,192 and \$46,675 at fiscal years ended June 30, 2024, and June 30, 2023, respectively, was not exposed to either custodial credit risk or foreign currency risk.

As a participant in Treasury's CIP Pool 99, PLCB's investments are exposed to credit risk and interest rate risk mentioned above. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies (or NRSRAs) such as Moody's Investors Service. Treasury's CIP investment pools are not rated by an NRSRA. Interest rate risk is the risk that an investment's value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using option adjusted duration. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The average option adjusted duration of Treasury's CIP Pool 99 at fiscal year end June 30, 2024, is approximately 0.0035 years.

NOTE C – PENSION

General Information about the Pension Plan

Plan Description: To provide pension benefits for employees of state government and certain other organizations, the SERS administers a cost-sharing multiple-employer defined benefit retirement plan. The plan, covering substantially all Commonwealth employees, is a contributory defined benefit pension plan as established by Commonwealth laws. Membership in the SERS is mandatory for most PLCB (and other state) employees. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly.

The SERS issues stand-alone, audited financial statements which are publicly available at www.sers.pa.gov. Written requests for financial statements should be directed to the following address:

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

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE C – PENSION (continued)

Benefits Provided: Under the plan, for most employees hired prior to January 1, 2011, retirement benefits vest after 5 years of credited service. Generally, employees who retire at age 60 or, if under age 60, with 35 years of service are entitled to a normal (unreduced) annual retirement benefit. The general annual benefit is 2 percent of a Class A member's highest three-year average salary multiplied by years of service. This annual benefit is 2.5 percent for Class AA members. Act 120 of 2010 (Act 120), which preserved all benefits in place for then current members, mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2 percent of their final average salary instead of the previous 2.5 percent. The new vesting period changed from 5 to 10 years of credited service, and the option to withdraw lump sum accumulated employee contributions was eliminated. The new normal retirement age is 65 for most employees. Act 120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011. The general annual benefit for Class A-3 members is 2 percent of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5 percent.

Contributions: Section 5507 of the State Employees Retirement Code (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are the 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. The 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 the SERS funding valuation, expressed as a percentage of annual 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. Act 2017-5 includes a savings "plow-back" provision requiring that the annual savings achieved through SERS' benefit changes flow back into the Defined Benefit Plan through the employer contribution rate rather than to other non-pension obligations. Act 2019-105, signed into law in November 2019, allows eligible employers to enter into an agreement with the SERS Board to make a one-time lump sum payment of 75% to 100% of their respective unfunded accrued liability under the most recent funding valuation in effect at the time of agreement. Agreements under this act must be entered into by December 31, 2024, and the lump sum payments must be made by May 1, 2025. SERS records these lump sum payments as employer contributions when they are received, and they become part of the Defined Benefit Plan's general assets that are not segregated or invested separately for the account or benefit of the contributing employer. The PLCB's contributions to the SERS were \$64,914 and \$58,477 for the fiscal years ended June 30, 2024 and 2023, respectively.

Summary of Significant Accounting Policies: The SERS financial statements are prepared on the accrual basis of accounting. Investment purchases and sales are recorded as of the related trade date. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE C – PENSION (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The PLCB reported a liability of \$537,785 and \$569,164 for its proportionate share of the SERS net pension liability as of June 30, 2024 and 2023, respectively. The net pension liability attributed to participation in the SERS was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

PLCB’s proportion of the SERS net pension liability was based on a projection of the Commonwealth’s long-term share of contributions to the pension plan relative to the projected contributions of all participating SERS employers, actuarially determined. At December 31, 2023, PLCB’s reported proportionate share of the SERS net pension liability was 2.78 percent which was an increase of 0.07 percent from its proportion measured as of December 31, 2022.

For the fiscal years ended June 30, 2024 and 2023, PLCB recognized pension expense of \$73,493 and \$63,651, respectively, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year Ending June 30, 2024

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience.....	\$ 15,184	\$ 1,093
Change in assumptions.....	23,176	-
Differences between projected and actual investment earnings	42,253	-
Change in proportion.....	15,118	9,473
Differences in employer contributions and proportionate share	915	1,006
Contributions subsequent to measurement date.....	32,853	-
Total	\$ 129,499	\$ 11,572

Fiscal Year Ending June 30, 2023

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience.....	\$ 8,271	\$ 1,580
Change in assumptions.....	38,387	-
Differences between projected and actual investment earnings	77,310	-
Change in proportion.....	16,816	10,062
Differences in employer contributions and proportionate share	918	1,039
Contributions subsequent to measurement date.....	28,865	-
Total	\$ 170,567	\$ 12,681

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE C – PENSION (continued)

For the fiscal year ended June 30, 2024, the \$32,853 reported as deferred outflows of resources related to pensions resulting from PLCB’s contributions to the SERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal years ended June 30	Pension Expense
2025	\$ 26,406
2026	25,104
2027	39,125
2028	(5,837)
2029	277

Actuarial Assumptions: Every five years, the SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 19th *Investigation of Actuarial Experience* study covering the period 2015-2019 was released in July 2020. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). The assumptions from this study were effective with the December 31, 2020 valuation going forward unless changed by the SERS board. In June 2023, the SERS board approved to maintain the investment rate of return of 6.875 percent for 2023.

The SERS Board adopted the actuarial assumptions set forth in the 19th *Investigation of Actuarial Experience* at its July 2020 meeting. The study can be viewed at www.sers.pa.gov.

The actuary and SERS Board review the investment rate of return annually, in addition to the normal five-year experience study cycle, in recognition of changing market environments to ensure this assumption remains reasonable with each actuarial valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2023, measurement date:

Actuarial cost method	Entry age
Investment rate of return	6.875% net of expenses including inflation
Projected salary increases	Average of 4.55% with range of 3.30% to 6.95% including inflation

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE C – PENSION (continued)

Asset valuation method	Fair (market) value
Inflation	2.50%
Mortality rate	Projected PubG-2010 and PubNS-2010 Mortality Tables adjusted for actual plan experience and future improvement
Cost of living adjustments	None (ad hoc)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term real rate of return
Private equity	16.00 %	6.00 %
Real estate	7.00	4.80
U.S. equity	31.00	4.85
International developed markets equity	14.00	4.75
Emerging markets equity	5.00	4.95
Fixed income	22.00	1.75
Inflation protection (TIPS)	3.00	1.50
Cash	2.00	0.25
Total	100.00 %	

Discount Rate: The SERS discount rate used to measure the total pension liability was 6.875 percent for 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, the SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on the SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE C – PENSION (Continued)

Sensitivity of the PLCB’s proportionate share of the net pension liability to change in the discount rate: The following table presents the PLCB’s proportionate share of the SERS net pension liability using the discount rate of 6.875 percent, as well as what the PLCB’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.875 percent) or 1 percentage point higher (7.875 percent) than the current rate.

	1% Decrease to 5.875%	Current discount rate 6.875%	1% Increase to 7.875%
PLCB's proportionate share of SERS net pension liability as of the 12/31/23 measurement date	\$ 705,749	\$ 537,785	\$ 395,944

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued SERS financial report.

Payables to the pension plan: At June 30, 2024, the PLCB reported an accounts payable for the employers’ share of retirement contributions to the SERS in the amount of \$4,024.

Additional pertinent information regarding the SERS, outside the scope of PLCB reporting, is published each year as part of the Commonwealth of Pennsylvania’s Basic Financial Statements included in its Annual Comprehensive Financial Report (ACFR).

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE D – OTHER POSTEMPLOYMENT BENEFITS

General Information about the Retired Employees Health Program Plan

Plan Description: The Commonwealth established and sponsors a Retired Employees Health Program (REHP) plan which provides postemployment benefits other than pensions (OPEB). This plan is administered by the Pennsylvania Employee Benefits Trust Fund, which acts as a third-party administrator and administers the REHP under an administrative agreement with the Commonwealth. The plan is a single employer defined benefit OPEB plan. The PLCB participates in the REHP, which provides a variety of healthcare benefits to eligible retirees. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and Secretary of Administration. The REHP plan does not have a governing board.

Benefits Provided: Benefit provisions included in the REHP plan are established and may be amended by the establishing sponsor. The REHP plan provides postemployment healthcare benefits to eligible employees. Employees who retire from the Commonwealth and meet one of the following eligibility criteria are eligible to receive REHP benefits:

- 25 or more years of service;
- 20 or more years of service and superannuation age – age 50 for Park Rangers, Capitol Police, and certain enforcement officers, or age 60 for all other employees (age 55 or 65 for employees subject to Act 120 of 2010); or
- Disability retirement – requires five years of service (no service requirements for enforcement officers).

Contributions: The REHP contribution requirements are contractually required and established by the Office of Administration and the Office of the Budget. The contribution rates are established as a set amount per current active REHP eligible employee per biweekly pay in order to fund the REHP plan.

During the fiscal year ended June 30, 2024, the contractually required contribution rate for the PLCB was \$275 for each current REHP eligible active employee per biweekly pay period. For employees who retired after June 30, 2005 and before July 1, 2007 the retiree contribution is set at 1% of employee's final annual salary. PLCB employees who retired on or after July 1, 2007 but before July 1, 2011 are currently required to pay retiree contributions of 3% of either their final annual salary or final average salary, whichever is less. PLCB employees who retired on or after July 1, 2011 are currently required to pay retiree contributions of 3% of their final average salary. Upon enrollment in Medicare, PLCB employees who are currently paying 3% will pay retiree contributions of 1.5% of either their final annual salary or final average salary, whichever applies.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The REHP funding rate needed to fund current year annuitant health care costs are established as part of the Commonwealth’s annual budgeting process. Any additional contributions to advance fund annuitant health care liabilities are determined annually by the Commonwealth. During the fiscal year ended June 30, 2023, advance funding of \$50,000 for REHP was contributed to the Other Postemployment Benefits Investment Pool, a pension (and other employee benefit) trust fund. The PLCB’s contribution to the REHP trust was \$19,002 and \$23,003 for the fiscal years ended June 30, 2024 and 2023.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB: At June 30, 2024 and 2023, the PLCB reported a liability of \$317,406 and \$416,014, respectively, for its proportionate share of the REHP’s net OPEB liability. The net OPEB liability for the REHP was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The PLCB’s allocation of the net OPEB liability was based on PLCB contributions to the plan relative to the total contributions to the plan over the measurement period. At June 30, 2023, the PLCB’s proportionate share was 4.08 percent.

For the fiscal years ended June 30, 2024 and 2023, the PLCB recognized OPEB expense of (\$55,176) and (\$69,776), respectively, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Fiscal year ended June 30, 2024:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience...	\$ 12,112	\$ 96,073
Change in assumptions.....	22,133	83,847
Differences between projected and actual investment earnings.....	308	-
Change in allocation and differences between employer contributions and allocated share.....	8,010	15,199
Contributions subsequent to measurement date.....	21,254	-
Total	\$ 63,817	\$ 195,119

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Fiscal year ended June 30, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience...	\$ 15,839	\$ 124,151
Change in assumptions.....	37,706	76,671
Differences between projected and actual investment earnings.....	1,718	-
Change in allocation and differences between employer contributions and allocated share.....	16,252	677
Contributions subsequent to measurement date.....	19,002	-
Total	\$ 90,517	\$ 201,499

The deferred outflow of contributions subsequent to the measurement date of \$21,254 will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Fiscal Years Ending June 30	OPEB Expense
2025	\$ 50,261
2026	29,360
2027	34,406
2028	23,955
2029	14,574
Thereafter	-

Actuarial Assumptions: The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
Asset valuation method	Market value
Investment rate of return	6.75%
Inflation	2.50%
Salary increases	2.80%

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Healthcare cost trend rates:

Medicare retiree	9.0% for 2023 decreasing to an ultimate rate of 3.9% for 2075 and later years
Non-Medicare retiree	8.9% for 2023 decreasing to an ultimate rate of 3.9% for 2075 and later years

Mortality rates were based on Pub-2010 General Healthy Retiree Headcount Weighted Mortality Tables, with rates set forward one year for females, and adjusted for mortality improvements using projection scale MP-2021. Disabled participants mortality rates were based on Pub-2010 Non-Safety Disabled Retiree Headcount Weighted Mortality Tables, with rates set forward two years for males and females and adjusted for mortality improvements using projection scale MP-2021.

The actuarial assumptions used in the June 30, 2023 valuation were based on the SERS experience study that covered the years 2015 through 2019. The approved recommendations from that study were used to determine the assumptions for this valuation, where applicable. The inflation assumption was selected by the SERS Board during a July 2020 meeting based on a review of actual plan experience and the prevalent economic outlook. Consistent with prior valuations, these demographic assumptions assume beginning of year decrements (retirement, withdrawal, death, disability, etc.). Cost of living adjustments (COLA) may be granted on an ad hoc basis; there were no COLAs granted during the measurement period.

The long-term expected rate of return on OPEB plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2024, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Domestic equity	42.0%	5.1%
International equity	22.0%	5.5%
Fixed income	22.0%	1.8%
Public REITS	4.0%	0.0%
Infrastructure	4.0%	5.0%
Real estate	4.0%	4.8%
Cash and Cash Equivalents	1.0%	1.0%
Private Equity	1.0%	8.4%
Total	100.0%	

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate: The discount rate used for the total OPEB liability reported at June 30, 2024 was 5.65 percent. This single discount rate was based on the 20-year Bond Buyer General Obligation Index municipal bond rate as of the measurement date of June 30, 2023. Since the REHP has insufficient assets to meet next year’s projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each fiscal year end assumed that employer contributions will be made based on the current funding policy for future years.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the PLCB, as well as what the PLCB’s net OPEB liability would be if it were calculated using discount rate that are one percentage point lower (4.65 percent) or one percentage point higher (6.65 percent) than the current discount rate.

	1% Decrease 4.65%	Current discount rate 5.65%	1% Increase 6.65%
PLCB's proportionate share of REHP net OPEB liability as of the 6/30/2023 measurement date	\$ 356,797	\$ 317,406	\$ 283,803

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability of the PLCB, as well as what the PLCB’s net OPEB liability would be if it were calculated using healthcare cost trend rates (Non-Medicare Benefits/Medicare Benefits) that are one percentage point lower (7.9 percent /8.0 percent decreasing to 2.9 percent) or one percentage point higher (9.9 percent /10.0 percent decreasing to 4.9 percent) than the current healthcare cost trend rates.

	1% Decrease 7.9% / 8.0% Decreasing to 2.9%	Current Health Trend Rate 8.9% / 9.0% Decreasing to 3.9%	1% Increase 9.9% / 10.0% Decreasing to 4.9%
PLCB’s proportionate share of REHP net OPEB liability as of the June 30, 2023 measurement date	\$ 276,490	\$ 317,405	\$ 366,813

OPEB plan fiduciary net position: Detailed information about the REHP OPEB plan’s fiduciary net position is available in the separately issued Commonwealth of Pennsylvania’s Annual Comprehensive Financial Report.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Payable to the OPEB plan: At June 30, 2024, the PLCB reported an accounts payable for the employer’s share of the retirees’ health contributions to the Office of Administration in the amount of \$1,440.

NOTE E – CAPITAL ASSETS

Changes in capital assets for the fiscal year ended June 30, 2024, and 2023 are as follows:

	Balance June 30, 2023	Additions	Retirements	Balance June 30, 2024
Non-depreciable capital assets:				
Land	\$ 323	\$ -	\$ -	\$ 323
Depreciable capital assets:				
Building	10,923	17	103	10,837
Leasehold improvements	209	-	-	209
Machinery and equipment	56,167	4,894	15,976	45,085
Intangibles – internally generated software	70,232	12,878	857	82,253
Intangibles – right to use leases	411,168	62,305	216	473,257
Total capital assets	<u>\$ 549,022</u>	<u>\$ 80,094</u>	<u>\$ 17,152</u>	<u>\$ 611,964</u>
Total capital assets, net excluding lease assets	<u>\$ 137,854</u>	<u>\$ 17,789</u>	<u>\$ 16,936</u>	<u>\$ 138,707</u>
	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023
Non-depreciable capital assets:				
Land	\$ 323	\$ -	\$ -	\$ 323
Depreciable capital assets:				
Building	10,763	160	-	10,923
Leasehold improvements	209	-	-	209
Machinery and equipment	48,581	8,680	1,094	56,167
Intangibles – internally generated software	54,994	15,770	532	70,232
Intangibles – right to use leases	363,584	61,022	13,438	411,168
Total capital assets	<u>\$ 478,454</u>	<u>\$ 85,632</u>	<u>\$ 15,064</u>	<u>\$ 549,022</u>
Total capital assets, net excluding lease assets	<u>\$ 114,870</u>	<u>\$ 24,610</u>	<u>\$ 1,626</u>	<u>\$ 137,854</u>

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE E – CAPITAL ASSETS (continued)

Changes in capital assets accumulated depreciation for the fiscal year ended June 30, 2024, and 2023, are as follows:

	Balance June 30, 2023	Additions	Retirements	Balance June 30, 2024
Building	\$ 9,502	\$ 236	\$ 22	\$ 9,716
Leasehold improvements	177	12	-	189
Machinery and equipment	40,571	2,576	15,976	27,171
Intangibles – internally generated software	23,617	13,931	857	36,691
Intangibles – right to use leases	179,016	65,138	-	244,154
Total accumulated depreciation	<u>\$ 252,883</u>	<u>\$ 81,893</u>	<u>\$ 16,855</u>	<u>\$ 317,921</u>
Total accumulated depreciation, net excluding lease assets	<u>\$ 73,867</u>	<u>\$ 16,755</u>	<u>\$ 16,855</u>	<u>\$ 73,767</u>

	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023
Building	\$ 8,962	\$ 540	-	\$ 9,502
Leasehold improvements	151	26	-	177
Machinery and equipment	39,236	2,430	1,095	40,571
Intangibles – internally generated software	16,573	7,576	532	23,617
Intangibles – right to use leases	114,438	66,201	1,623	179,016
Total accumulated depreciation	<u>\$ 179,360</u>	<u>\$ 76,773</u>	<u>\$ 3,250</u>	<u>\$ 252,883</u>
Total accumulated depreciation, net excluding lease assets	<u>\$ 64,922</u>	<u>\$ 10,572</u>	<u>\$ 1,627</u>	<u>\$ 73,867</u>

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE E – CAPITAL ASSETS (Continued)

Changes in lease assets for the fiscal year ended June 30, 2024, and 2023, are as follows:

	<u>Balance June 30, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2024</u>
Lease assets:				
RTU Buildings and Improvement	\$ 394,243	\$ 57,738	\$ -	\$ 451,981
RTU Machinery and Equipment	371	70	-	441
RTU IT Subscriptions	16,554	4,497	216	20,835
Lease assets, net	<u>\$ 411,168</u>	<u>\$ 62,305</u>	<u>\$ 216</u>	<u>\$ 473,257</u>
Less accumulated amortization for:				
RTU Buildings and Improvements	\$ 172,994	\$ 59,049	\$ -	\$ 232,043
RTU Machinery and Equipment	179	89	-	268
RTU IT Subscriptions	5,843	6,000	-	11,843
Lease assets accumulated depreciation, net	<u>\$ 179,016</u>	<u>\$ 65,138</u>	<u>\$ -</u>	<u>\$ 244,154</u>
Total lease assets, net	<u>\$ 232,152</u>	<u>\$ (2,833)</u>	<u>\$ 216</u>	<u>\$ 229,103</u>
	<u>Balance June 30, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2023</u>
Lease assets:				
RTU Buildings and Improvements	\$ 363,213	\$ 31,946	\$ 916	\$ 394,243
RTU Machinery and Equipment	371	-	-	371
RTU IT Subscriptions	-	29,076	12,522	16,554
Lease assets, net	<u>\$ 363,584</u>	<u>\$ 61,022</u>	<u>\$ 13,438</u>	<u>\$ 411,168</u>
Less accumulated amortization for:				
RTU Buildings and Improvements	\$ 114,333	\$ 59,321	\$ 660	\$ 172,994
RTU Machinery and Equipment	105	74	-	179
RTU IT Subscriptions	-	6,806	963	5,843
Lease assets accumulated depreciation, net	<u>\$ 114,438</u>	<u>\$ 66,201</u>	<u>\$ 1,623</u>	<u>\$ 179,016</u>
Total lease assets, net	<u>\$ 249,146</u>	<u>\$ (5,179)</u>	<u>\$ 11,815</u>	<u>\$ 232,152</u>

NOTE F – DUE TO OTHER FUNDS

At June 30, 2024 and 2023, a total of \$15,874 and \$75,786, respectively, was due to other funds. These totals were due to various funds.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE G – LEASE COMMITMENTS

As of June 30, 2024, the right to use lease liabilities principal and interest requirements to maturity are as follows:

<u>Fiscal year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 60,404	\$ 4,888	\$ 65,292
2026	52,226	3,656	55,882
2027	42,003	2,591	44,594
2028	33,819	1,700	35,519
2029	22,483	1,041	23,524
2030 - 2036	31,710	1,688	33,398
Total lease obligations	<u>\$ 242,645</u>	<u>\$ 15,564</u>	<u>\$ 258,209</u>

NOTE H – OPERATING TRANSFERS TO GENERAL FUND

The PLCB is subject to profit transfer requirements pursuant to Pennsylvania Statute Title 47, §8-802(f), determined annually by the Governor’s Office, whereby stipulated funds are transferred to help finance the General Fund.

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

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

The required transfer to the General Fund totaled \$185,100 in each of the fiscal years ended June 30, 2024 and 2023.

NOTE I – OPERATING TRANSFER FOR DRUG AND ALCOHOL PROGRAMS

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

The amount of the liabilities payable to the DDAP were \$4,842 and \$5,215 for the fiscal years ended June 30, 2024, and 2023, respectively.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE J – OPERATING TRANSFER FOR LIQUOR CONTROL ENFORCEMENT

The PLCB provides the funding for 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 transfers were \$33,035 and \$32,320 for the fiscal years ended June 30, 2024 and 2023, respectively.

NOTE K – CONTINGENCIES-LITIGATION

The PLCB is a defendant in various legal proceedings pertaining to matters normally incidental to routine operations. Currently, the PLCB is involved in legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible and may impair future revenue sources. Unfavorable outcome for the current legal proceeding could range from \$0 to \$60,000. The liability for this case has not been recorded as of June 30, 2024.

NOTE L – BALANCE SHEET – LIQUOR LICENSE FUND

The Balance Sheet illustrates the net assets and liabilities at each fiscal year end for the Liquor License Fund activity as authorized by PA Statute Title 47, Article VIII, §801.

Deposits and investments include cash received from license application fees not received by the Treasury Department at the balance sheet date, and net short-term investments resulting from the purchase and sale of Treasury Department securities (see Note A, Temporary Investments).

Liabilities and fund balance include moneys received from license application fees not returned to municipalities at the balance sheet date.

NOTE M – SELF-INSURANCE LIABILITIES

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical payments (employee disability) for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee, and general torts. For property losses, the Commonwealth has a \$1 million retention with excess commercial insurance coverage up to \$1 billion per occurrence. There was no reduction in commercial insurance coverage during the fiscal year ended June 30, 2024. No settlements exceeded commercial insurance coverage during each of the past three fiscal years. The Commonwealth has established various administrative policies, which are intended to avoid or limit the aforementioned risks.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

NOTE M – SELF-INSURANCE LIABILITIES (continued)

PLCB participates in each Commonwealth self-insurance program and pays prescribed program amounts or rates throughout its fiscal year. These amounts, reported as current fiscal year expenses, finance a portion of cumulative, estimated self-insurance liabilities incurred, in amounts sufficient to fund ongoing program needs. These amounts do not finance all cumulative, estimated self-insurance liabilities incurred. Therefore, accrued liabilities for employee disability and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth's claim experience. Such claims are not discounted and do not include non-incremental claims adjustment expenses.

At June 30, 2024 and 2023, respectively, the State Stores Fund reported a \$46,998 liability (\$4,768 as current and \$42,230 as non-current) and \$48,092 liability (\$4,796 as current and \$43,296 as non-current) for employee disability claims.

The following summary provides aggregated information for the fiscal years ending June 30, 2024 and 2023, of the reported self-insurance liabilities to include the incurred claims and payments during the fiscal years then ended:

<u>Fiscal Year Ended</u>	<u>Liability – Beginning Balance</u>	<u>Incurred Claims</u>	<u>Payments</u>	<u>Liability – Ending Balance</u>
June 30, 2024	\$ 48,092	\$ 4,040	\$ 5,134	\$ 46,998
June 30, 2023	\$ 47,385	\$ 6,033	\$ 5,326	\$ 48,092

NOTE N – RESTATEMENT

Restatement Due to Change in Accounting Principle:

Presented below are the changes to the State Store Fund's Statement of Net Position as a result of implementing GASB 96. The State Stores Fund Net Position changed by a total of \$341,239.

Net Position, as previously reported, at June 30, 2022.....	<u>State Stores Fund</u> \$ (872,154)
Implementation of GASB 96:	
Intangible – right to use IT subscriptions.....	20,301
Right to use liabilities.....	(19,960)
Total Prior Period Adjustment.....	<u>341</u>
Net Position, as restated, at July 1, 2022.....	\$ (871,813)

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

Required Supplementary Information

Pension Schedules

Schedule of PLCB’s Contributions (Dollar amounts in thousands)

Last Ten Fiscal Years Ended June 30 ¹	Contractually Required Contribution ²	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	PLCB’s Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2024	59,041	59,041	-	224,313	26.32%
2023	55,248	55,248	-	203,053	27.21%
2022	53,910	53,910	-	183,586	29.36%
2021	53,577	53,577	-	185,755	28.84%
2020	52,986	52,986	-	180,355	29.38%
2019	52,235	52,235	-	174,048	30.01%
2018	48,227	48,227	-	171,016	28.20%
2017	40,348	40,348	-	162,310	24.86%
2016	33,752	33,752	-	166,701	20.25%
2015	27,044	27,044	-	162,037	16.69%

~ The notes to required supplementary information are an integral part of this schedule. ~

¹ The amounts presented for each fiscal year were determined as of 12/31.

² The contractually required contribution disclosed above is based on minimum floor rates or suppressed rates resulting from collars that are required based on statutory law. These rates are determined by SERS actuary during the annual funding valuation and include an adjustment to the “preliminary employer contribution rate” calculated before the minimum floor or collars are applied. These “final employer contribution rates” fall within the realm of an appropriate actuarially determined contribution calculation under actuarial standards of practice and temporarily defer a portion of the payments that work towards fully funding the plan.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

Required Supplementary Information (continued)

Pension Schedules

Schedule of PLCB's Proportionate Share of the Net Pension Liability (Dollar amounts in thousands)

Last Ten Fiscal Years Ended June 30 ¹	PLCB's proportion of the net pension liability	PLCB's proportionate share of the net pension liability	PLCB's covered- employee payroll	PLCB's proportionate share of the net pension liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2024	2.78%	537,785	224,313	239.75%	65.30%
2023	2.71%	569,164	203,053	280.30%	61.53%
2022	2.90%	369,046	183,586	201.02%	76.00%
2021 ²	2.69%	462,619	185,755	249.05%	67.03%
2020	2.52%	458,686	180,355	254.32%	63.11%
2019	2.55%	530,291	174,048	304.68%	56.39%
2018	2.55%	440,677	171,016	257.68%	62.97%
2017	2.48%	477,444	162,310	294.16%	57.80%
2016	2.47%	449,176	166,701	269.45%	58.90%
2015	2.44%	362,685	162,037	223.83%	64.80%

~ The notes to required supplementary information are an integral part of this schedule. ~

¹ The amounts presented for each fiscal year were determined a of 12/31.

² Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 19th Investigation of Actuarial Experience study for the period 2015 – 2019 was released in July 2020 and can be viewed at www.sers.pa.gov. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates).

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
LIQUOR LICENSE FUND – JUNE 30, 2024 and 2023

Required Supplementary Information (continued)

OPEB Schedules

Schedule of PLCB's Contributions (Dollar amounts in thousands)

Last Ten Fiscal Years Ended June 30 ⁽¹⁾	2024	2023	2022	2021	2020	2019
Contractually required contribution ⁽²⁾	11,328	9,961	11,691	19,402	20,615	29,490
Contributions in relation to the contractually required contribution	19,002	20,003	19,381	19,648	23,376	24,623
Contribution deficiency (excess)	(7,674)	(10,042)	(7,690)	(246)	1,239	(4,133)
PLCB's employee covered payroll	150,489	136,972	133,256	131,262	129,950	126,621
Contribution as a percentage of employee covered payroll	12.63%	14.60%	14.54%	14.97%	17.99%	19.45%

~ The notes to required supplementary information are an integral part of this schedule. ~

¹ PLCB adopted GASB 75 on a prospective basis for the fiscal year ended June 30, 2018; therefore, only six years are presented in the above schedule. The amounts presented were measured as of June 30th of the prior year.

² Contribution requirements for the REHP are determined annually by the Commonwealth based on projected cash flow requirements and a projected contribution toward pre-funding future cash outlays.

PENNSYLVANIA LIQUOR CONTROL BOARD
STATE STORES FUND – JUNE 30, 2024 and 2023
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Required Supplementary Information (continued)

Schedule of PLCB's Allocated Share of the Net OPEB Liability (Dollar amounts in thousands)

Last Ten Fiscal Years Ended June 30 ⁽¹⁾	2024	2023	2022	2021	2020	2019
PLCB's allocation of the net liability	4.08%	4.22%	4.22%	4.16%	4.12%	4.11%
PLCB's allocated share of the net OPEB liability	317,406	416,014	432,155	512,371	429,569	603,955
PLCB's employee covered payroll	150,489	136,972	133,256	131,262	129,950	126,621
PLCB's allocated share of the net OPEB liability as a percentage of its employee covered payroll	210.92%	303.72%	324.30%	390.34%	330.57%	476.98%
Plan fiduciary net position as a percentage of the total OPEB liability	8.81%	5.92%	6.12%	3.67%	3.74%	2.22%

~ The notes to required supplementary information are an integral part of this schedule. ~

¹ PLCB adopted GASB 75 on a prospective basis for the fiscal year ended June 30, 2018; therefore, only six years are presented in the above schedule. The amounts presented were measured as of June 30th of the prior year.

**COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA LIQUOR CONTROL BOARD
JUNE 30, 2024 and 2023
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