

# FINANCIAL AUDIT

Commonwealth of Pennsylvania

Harrisburg, Pennsylvania

Liquor Control Board

State Stores Fund - Liquor License Fund  
Audit Report

For the Year Ended June 30, 2021

December 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**Background**

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**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 a number of 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 following:

- The operation of about 600 FW&GS stores across Pennsylvania, including 112 Premium Collection stores, 13 Licensee Service Centers, and an e-commerce fulfillment center.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**Background (Continued)**

- Licensure and regulation of about 16,500 retail and wholesale licensees and nearly 1,000 wineries, breweries, and distilleries in the Commonwealth, which requires annual processing of about 79,000 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 more than 1,600 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 goods, 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 percent liquor tax and 6 percent 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 \$2.91 billion for fiscal year 2020-2021, an increase of 13.7 percent from the previous fiscal year. As a result, PLCB operations generated \$415.8 million in liquor tax and \$163.9 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 \$9.6 million in local sales taxes to Philadelphia and Allegheny Counties. Additionally, the PLCB provided \$29.2 million to fund liquor control enforcement efforts, afforded \$5.3 million to support the Pennsylvania Department of Drug & Alcohol Programs, awarded \$2 million in grants supporting Pennsylvania's wine and beer industries, awarded alcohol education grants of \$1.4 million, and collected \$1.8 million in liquor license application fees for return to local municipalities.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**Background (Continued)**

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**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 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.



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

TIMOTHY L. DEFOOR  
AUDITOR GENERAL

### **Independent Auditor's Report**

The Honorable Tom Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Tim Holden  
Chairman  
Pennsylvania Liquor Control Board  
Harrisburg, PA 17124

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pennsylvania Liquor Control Board (PLCB) – State Stores Fund, which are comprised of the Statement of Net Position as of June 30, 2021, and the related Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows for the year then ended, and the related notes to the financial statements; and the PLCB – Liquor License Fund, which are comprised of the Balance Sheet as of June 30, 2021, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PLCB – State Stores Fund and Liquor License Fund as of June 30, 2021, and the results of the State Stores Fund's operations and its cash flows for the fiscal year then ended, and the Liquor License Fund's revenue and expenditure activity for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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, 2021, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note N to the financial statements, effective July 1, 2020 the PLCB adopted GASB Statement No. 87, *Leases*. The July 1, 2020 net position is not restated for the cumulative effect of applying GASB 87 because at that date the lease assets and liabilities were the same. Our opinion is not modified with respect to that matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-12; 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 40-43 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting

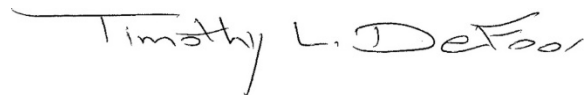
Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards 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*

The Background has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2021, 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 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 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.



Timothy L. DeFoor  
Auditor General  
December 7, 2021



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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**PLCB Management’s Discussion and Analysis**

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**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 United States 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 Statement of Net Position as of June 30, 2021; State Stores Fund Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2021; State Stores Fund Statement of Cash Flows for the fiscal year ended June 30, 2021; the Liquor License Fund Balance Sheet as of June 30, 2021; and the Liquor License Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the fiscal year ended June 30, 2021.

The State Stores Fund Statement of Net Position provides information about assets and liabilities and reflects the net financial position of the State Stores Fund at the end of the fiscal year. The Statement of Revenues, Expenses, and Changes in Net Position reports the operating revenue activity, expenses related to such activity, and operating transfers out for the fiscal year. The Statement of Cash Flows outlines the cash inflows and outflows relating to the operations for the fiscal year. The Liquor License Fund Balance Sheet provides information about assets and liabilities that reflect the position of the Liquor License Fund at the end of the fiscal year. The Statement of Revenues, Expenditures, and Changes in Fund Balance illustrates the revenue and expenditure activity for the 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.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**PLCB Management’s Discussion and Analysis (Continued)**

<b>State Stores Fund</b>				
Condensed, comparative, financial information (amounts in millions)				
<b>Description</b>	<b>2021</b>		<b>2020</b>	
Cash and investments	\$	346.5	\$	228.8
Inventory		216.0		226.5
Right to use leases		266.0		-
Other assets		31.0		38.7
<b>Total assets</b>		<b>859.5</b>		<b>493.8</b>
Total deferred outflows of resources		210.4		117.5
Accounts payable		344.6		268.8
Pension and OPEB liabilities		975.0		888.2
Right to use liabilities		269.7		-
Other liabilities		135.7		117.0
<b>Total liabilities</b>		<b>1,725.0</b>		<b>1,274.0</b>
Total deferred inflows of resources		356.2		423.0
<b>Total net position</b>	<b>\$</b>	<b>(1,011.3)</b>	<b>\$</b>	<b>(1,085.7)</b>
Total operating revenues: Gross sales	\$	2,907.2	\$	2,557.7
Taxes		(589.4)		(518)
Sales, net of taxes		2,317.8		2,039.3
Cost of goods sold		(1,574.4)		(1,386.6)
Operating expenses		(466.7)		(454.3)
Operating profit		276.7		198.5
Other revenues, (expenses)		17.4		41.0
Income before transfers		294.1		239.5
Transfers out		(219.6)		(220.1)
<b>Increase (decrease) in net position</b>	<b>\$</b>	<b>74.5</b>	<b>\$</b>	<b>19.4</b>

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**PLCB Management’s Discussion and Analysis (Continued)**

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**Executive Summary & Highlights**

With the COVID-19 public health crisis and subsequent restrictions that hampered sales from March through June of fiscal year 2019-20, the PLCB saw its first year-over-year sales decline in 26 years. However, with Fine Wine & Good Spirits (FW&GS) stores resuming normal operations for most of fiscal year 2020-21 and most bar and restaurant restrictions lifted late in the fiscal year, the PLCB experienced the largest annual sales growth in its history, \$278.5 million or 13.7% more than fiscal year 2019-20. Additionally, fiscal year 2020-21 sales were \$190.9 million or 9.0% higher than its previous record sales in fiscal year 2018-19. These sales resulted in net income for the fiscal year totaling a record \$264.9 million, which was \$56.1 million or 26.9% more than the previous fiscal year.

In addition to record sales growth, the following two changes significantly impacted PLCB’s financial statements and operating results for fiscal year 2020-21:

- 1) State Stores Fund - Effective July 1, 2020, the PLCB implemented the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Under GASB 87, certain operating leases previously expensed based on payment schedules are reported as assets with associated liabilities for future lease payments.
- 2) Liquor License Fund - On October 28, 2020, the Board authorized to waive most fees associated with renewing or validating retail licenses during 2021. The waiver applied for the licensing term that went into effect in 2021, even though those applications may have been filed in 2020.

Other financial highlights include:

- Gross profit from sales of \$743.5 million increased \$90.7 million or 13.9%. The gross profit percentage was 32.1%, up 0.1% from June 2020.
- Operating income increased \$65.4 million, or 27.9%, to \$300.0 million.
- Net cash flow from operating activities of \$396.2 million (an increase of \$225.9 million from the prior year) was used to fund the \$185.1 million cash transfer to the General Fund, \$29.2 million to fund the Pennsylvania State Police’s Liquor Code enforcement efforts, \$3.2 million in transfers to the Department of Drug & Alcohol Programs, and \$61.4 million for capital and related financing expenditures.
- The \$61.4 million for capital and related financing expenditures includes cash outflows of \$57.9 million for reduction of right to use (RTU) lease liabilities and interest as required under GASB 87.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**PLCB Management’s Discussion and Analysis (Continued)**

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- Year-end cash and investments increased by \$117.7 million (51.5%) to \$346.5 million.
- Net position improved by \$74.5 million, primarily due to the increased gross profit from sales.

## **Revenues and Costs**

### *Sales*

Sales and tax revenue in fiscal year 2020-21 totaled \$2.91 billion, an increase of \$349.5 million or 13.7% over fiscal year 2019-20. Excluding liquor and sales taxes, net sales of \$2.32 billion were up \$278.5 million or 13.7% over the prior year. By product category, spirit sales increased 22.1% and wine sales increased 2.9%. Overall unit sales increased 7.5% over fiscal year 2019-20.

The PLCB’s wholesale business (sales to licensees) continued to be significantly impacted by the COVID-19 public health crisis in fiscal year 2020-21, with spirits and wine sales to licensees down 19.9% for the year. With operational restrictions and limitations impacting bars and restaurants lifting late in the fiscal year, the PLCB’s sales to licensees returned to pre-pandemic levels in June 2021. Fiscal year sales to non-grocery licensees were down more than 50% through February, but ended the year down only 19%. Conversely, the PLCB’s sales to holders of wine expanded permits (including grocery stores, convenience stores and mass merchant retailers) were down more than 22% for fiscal year 2020-21, after growth of nearly 118% the previous year.

The PLCB’s retail sales had tremendous growth (26.4%) in fiscal year 2020-21, with spirits sales up 32.0% and wine sales up 17.6%. However, with FW&GS stores open the entire year, the PLCB’s e-commerce sales dropped by 33.3%, after seeing a 436.9% increase for fiscal year 2019-20.

### *Operating Income & Expense*

Operating income for the fiscal year ended June 30, 2021, was \$300.0 million, up \$65.4 million or 27.9% from the \$234.6 million reported the prior year. The increase was mostly attributable to a \$90.7 million increase in gross profit from sales, which offset a \$12.4 million increase in operating expenses and a \$23.6 million decrease in other operating revenues.

The increase in operating expenses was primarily from service-related expenses, with consulting and information technology-related services increasing by \$5.5 million, security guard services by \$3.5 million, and banking services by \$2.1 million. Other expenses increased due to resumption of pre-COVID levels of activity, such as the \$4.2 million increase in advertising costs and the \$3.1

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**PLCB Management’s Discussion and Analysis (Continued)**

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million increase in debit/credit card fees. These were partially offset by a \$1.4 million decrease in Commonwealth-provided services, a \$1.5 million decrease in IT equipment purchases, and a \$0.8 million decrease in supplies costs.

Personnel expenses saw a net \$1.0 million decrease in expenses, with offsetting decreases and increases in several line items. Total pension costs decreased by \$16.2 million, and total OPEB costs decreased by \$6.0 million. Paid compensation for salaries, wages, overtime, and awards increased by \$8.0 million or 4.2%. Total worker compensation costs increased by \$13.3 million, primarily due a \$12.1 million increase in other component costs.

The \$23.6 million decrease in other operating revenues was due to several changes in fiscal year 2020-21, including:

- The PLCB’s waiver of most license renewal fees for calendar 2021 resulted in a \$7.2 million or 62.1% decrease in surcharge fees and a \$5.0 million or 56.7% decrease in permit fees.
- The aforementioned GASB 87 implementation added right to use lease interest (\$4.8 million expense) to other operating revenues.
- Interest income from PA Treasury Department Pool 99 investments decreased by \$4.4 million or 89.6% for fiscal year 2020-21 due to lower yields.
- A \$1.7 million loss was recognized for the remaining undepreciated cost of equipment determined to have no useful life following the closure of a Philadelphia area warehouse.
- These were partially offset by a \$2.7 million increase in wine expanded permit renewal fees.

***Transfers Out***

The Bureau of Liquor Control Enforcement within the Pennsylvania State Police received \$29.2 million in funding in fiscal year 2020-21, a decrease of \$1.6 million (5.0%) from the previous year. The Department of Drug & Alcohol Programs received \$5.3 million in fiscal year 2021-22, [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.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**PLCB Management’s Discussion and Analysis (Continued)**

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Other contributions to the General Fund during fiscal year 2020-21 generated by the PLCB’s operations – but not reflected as revenues, expenses, or cash flows in the State Stores Fund’s financial statements – included \$415.8 million in liquor tax and \$163.9 million in state sales tax, an overall 13.7% increase. Additionally, the PLCB remitted \$9.6 million in local sales taxes to Philadelphia and Allegheny Counties.

Licensing fees returnable to local municipalities from the Liquor License Fund totaled \$1.8 million for fiscal year 2020-21, compared to \$4.3 million in the prior year. The \$2.5 million decrease was due to the aforementioned waiving of many license fees for calendar year 2021.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**

**FINANCIAL STATEMENTS**

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

**ASSETS**

**June 30, 2021**

Current assets:

Cash	\$	28,210
Temporary investments		318,347
Accounts and claims receivable, net		6,615
Due from other funds		174
Merchandise inventories		216,042
Operating supplies		470
Prepaid expenses		92
Total current assets	\$	<u>569,950</u>

Noncurrent assets:

Non-depreciable capital assets:		
Land – Note E		323
Depreciable capital assets:		
Building – Note E		10,584
Leasehold improvements – Note E		209
Machinery and equipment – Note E		47,338
Intangibles – internally generated software – Note E		22,331
Intangibles – right to use leases – Note E		322,266
Less: accumulated depreciation – Note E		<u>(113,524)</u>
Net depreciable capital assets	\$	<u>289,204</u>
Total noncurrent capital assets	\$	<u>289,527</u>
Total assets	\$	<u>859,477</u>

Total deferred outflows of resources – Notes C, D \$ 210,419

**LIABILITIES**

Current liabilities:

Trade accounts payable	\$	328,954
Miscellaneous accounts payable		15,693
Accrued expenses		18,840
Self-insurance – Note M		6,299
Due to other funds – Note F		22,304
Due to fiduciary funds		2,628
Due to other governments		740
Right to use liabilities – Note G		52,835
Total current liabilities	\$	<u>448,293</u>

Noncurrent liabilities:

OPEB – Note D		512,371
Self-insurance – Note M		58,901
Net pension liability – Note C		462,619
Compensated absences		25,995
Right to use liabilities – Note G		216,839
Total noncurrent liabilities	\$	<u>1,276,725</u>

Total liabilities \$ 1,725,018



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

	<u>June 30, 2021</u>
Total deferred inflows of resources – Note C, D	\$ 356,168
 <b><u>NET POSITION</u></b>	
Investment in capital assets, Net of related debt	\$ 19,853
Deficit	<u>(1,031,141)</u>
Total net position	<u>\$ (1,011,288)</u>

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

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

	<u>Fiscal Year Ended</u> <u>June 30, 2021</u>
Sales net of taxes	\$ 2,317,843
Cost of goods sold	<u>(1,574,367)</u>
Gross profit from sales	\$ 743,476
Operating (expenses):	
Retail operations	(361,343)
Marketing and merchandising	(15,325)
Supply chain	(7,048)
Wholesale operations	(1,520)
Information technology services	(31,423)
Regulatory affairs	(15,869)
Administration	(9,360)
Finance	(2,577)
Board and secretary	(3,821)
Legal	(3,524)
Commonwealth-provided services	(14,933)
Total	<u>\$ (466,743)</u>
Operating profit	<u>\$ 276,733</u>
Other operating revenues (expenses):	
Enforcement fines	987
License fees	21,889
Miscellaneous income	3,157
Administrative law judge	(2,723)
Total	<u>\$ 23,310</u>
Total operating income	<u>\$ 300,043</u>
Non-operating revenues (expenses):	
Interest income	(4,278)
Other	(1,671)
Total	<u>\$ (5,949)</u>
Income before operating transfers	<u>\$ 294,094</u>
Operating transfers out:	
PSP enforcement – Note J	<u>(29,236)</u>
Income after enforcement/before other transfers	<u>\$ 264,858</u>
Other operating transfers:	
Transfers out:	
General Fund – Note H	(185,100)
Drug and alcohol programs – Note I	(5,297)
Total	<u>\$ (190,397)</u>
Change in net position	<u>\$ 74,461</u>
Total net position – beginning	<u>\$ (1,085,749)</u>
Total net position – ending	<u><u>\$ (1,011,288)</u></u>

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

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

	<u>Fiscal Year Ended</u> <u>June 30, 2021</u>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 2,344,703
Payments to suppliers	(1,948,487)
	<hr/>
Net cash provided by (used for) operating activities	\$ 396,216
<b>Cash flows from noncapital financing activities:</b>	
Operating transfers out	(217,501)
	<hr/>
Net cash used for noncapital financing activities	\$ (217,501)
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(3,523)
Proceeds from capital assets	14
Right to use lease principal	(53,132)
Right to use lease interest	(4,787)
	<hr/>
Net cash used for capital and related financing activities	\$ (61,428)
<b>Cash flows from investing activities:</b>	
Purchase of investments	(1,816,491)
Proceeds from sale and maturities of investments	1,680,263
Investment income	509
	<hr/>
Net cash used in investing activities	\$ (135,719)
Net increase (decrease) in cash	\$ (18,432)
Cash – beginning of year	46,642
	<hr/>
Cash – end of year	<u>\$ 28,210</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income	\$ 300,043
Depreciation	63,961
Change in assets and liabilities:	
Accounts receivable	611
Inventory	10,760
Due from other funds	215
Other operating net assets	1,298
Deferred outflows – pension related	(92,896)
Accounts payable and accrued liabilities	65,720
Due to other funds	13,821
Due to pension trust funds	3
Net pension liability	3,933
Due to other governments	9
Other postemployment benefit obligations	82,802
Self-insurance liabilities	11,609
Compensated absences	1,186
Deferred inflows – pension related	(66,859)
Total adjustments	<hr/> \$ 96,173
Net cash provided (used for) operating activities	<u>\$ 396,216</u>

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

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

**ASSETS**

**June 30, 2021**

Current assets:

Cash in transit	\$	14
Investments – short term		403

Total assets	\$	<u>417</u>
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**LIABILITIES AND FUND BALANCE**

Current liabilities:

License fees due to municipalities	\$	403
License fees due to licensees		14

Total current liabilities	\$	<u>417</u>
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Fund balance:

Restricted		-
Total Fund Balance		<u>-</u>

Total liabilities and fund balance	\$	<u>417</u>
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~ The notes to the financial statements are an integral part of this statement. ~

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

	<b>Balance June 30, 2021</b>
<b><u>REVENUES</u></b>	
Liquor License Application Fees Collected, Net of Refunds	\$ 1,812
<b>Total Revenues</b>	<b>\$ 1,812</b>
<b><u>EXPENDITURES</u></b>	
Liquor License Fees for Return to Municipalities	\$ 1,812
<b>Total Expenditures</b>	<b>\$ 1,812</b>
Net Change in Fund Balance	\$ -
Fund Balance, July 1	-
<b>Fund Balance – June 30</b>	<b>\$ -</b>

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

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**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.

**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.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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, 2021. 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, 2020. This reserve is based primarily on a sample of actual shrinkage results from previous physical inventories. Changes in the estimated shrinkage reserve may be necessary based on the results of physical inventories. The allowance for inventory shrinkage was \$1,700 at June 30, 2021.

**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

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

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases:** The PLCB routinely enters into transactions that include contracts leases 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 year ended June 30, 2021 are as follows:

	<b>Fiscal Year Ended</b>	
	<b><u>June 30, 2021</u></b>	
Liquor Tax	\$	415,839
State Sales Tax		163,878
Local Sales Tax		9,643
Total	\$	<u>589,360</u>

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

**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:



**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

<u>Days Available at Retirement</u>	<u>Percentage Payment</u>	<u>Maximum Days Paid</u>
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 year ended June 30, 2021 was \$31,320 (\$5,324 current and \$25,996 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 year ended June 30, 2021 of the compensated absences liabilities to include the additions and reductions during the fiscal year then ended:

<u>Fiscal Year Ended</u>	<u>Liability - Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Liability - Ending Balance</u>
June 30, 2021	\$ 29,535	\$ 21,474	\$ 19,689	\$ 31,320

**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.

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

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 Pronouncements - Adopted:* The PLCB adopted GASB Statement No. 87, *Leases*. This Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. See Note N for restatement information, due to a 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 Commonwealth 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, 2021, the fund's fiscal year end. Shares in Pool 99 are reported as temporary investments.

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 custodial credit risk, concentrations of credit risk, credit risk, interest rate risk, and foreign currency risk. 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, 2021 Basic Financial Statements.

PLCB's total deposit balance of \$28,224 at fiscal year end June 30, 2021 was not exposed to either custodial credit risk or foreign currency risk.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**NOTE B – DEPOSITS AND INVESTMENTS (Continued)**

As a participant in Treasury’s CIP Pool 99, PLCB’s investments are exposed to credit risk and interest rate risk as 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 fixed income instruments susceptible to credit quality rating 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, 2021 is approximately 0.08 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](http://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

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**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 was \$54,545 for the fiscal year ended June 30, 2021.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE C – PENSION (Continued)**

*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.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* The PLCB reported a liability of \$462,619 for its proportionate share of the SERS net pension liability as of June 30, 2021. The net pension liability attributed to participation in the SERS was measured as of December 31, 2020, 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, 2020, PLCB’s reported proportionate share of the SERS net pension liability was 2.69 percent which was an increase of 0.17 percent from its proportion measured as of December 31, 2019.

For the fiscal year ended June 30, 2021, PLCB recognized pension expense of \$45,052, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Fiscal Year Ending June 30, 2021**

	<b>Deferred Outflows Of Resources</b>	<b>Deferred Inflows Of Resources</b>
Differences between expected and actual experience.....	\$ 4,344	\$ 519
Change in assumptions.....	51,441	-
Differences between projected and actual investment earnings	-	59,190
Change in proportion.....	15,840	10,139
Differences in employer contributions and proportionate share	799	772
Contributions subsequent to measurement date.....	27,196	-
Total	<u>\$ 99,620</u>	<u>\$ 70,620</u>

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE C – PENSION (Continued)**

For the fiscal year ended June 30, 2021, the \$27,196 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, 2022. 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
2022	\$ (1,756)
2023	8,271
2024	(10,482)
2025	3,537
2026	2,234

**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 19<sup>th</sup> *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 study recommended decreasing the investment rate of return and inflation assumptions to 7.00 percent and 2.5 percent, respectively, for 2020 from 7.125 percent and 2.6 percent, respectively, for 2019.

The SERS Board adopted the actuarial assumptions set forth in the 19<sup>th</sup> *Investigation of Actuarial Experience* at its July 2020 meeting. The study can be viewed at [www.sers.pa.gov](http://www.sers.pa.gov).

In addition to the five-year experience study, the SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation. Based on this work, the SERS Board approved, at its July 2020 meeting, a reduction in the assumed investment rate of return from 7.125 percent to 7.00 percent effective with the December 31, 2020 actuarial valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2020, measurement date:

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**NOTE C – PENSION (Continued)**

Actuarial cost method	Entry age
Investment rate of return	7.00% net of expenses including inflation
Projected salary increases	Average of 4.60% with range of 3.30% to 6.95% including inflation
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:

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE C – PENSION (Continued)**

Asset class	Target allocation	Long-term real rate of return
Private equity	14.00 %	6.25 %
Private credit	4.00	4.25
Real estate	8.00	5.60
U.S. equity	25.00	4.90
International developed markets equity	13.00	4.75
Emerging markets equity	4.00	5.00
Fixed income - core	22.00	1.50
Fixed income - opportunistic	4.00	3.00
Inflation protection (TIPS)	4.00	1.50
Cash	2.00	0.25
Total	100.00 %	

**Discount Rate:** The SERS discount rate used to measure the total pension liability was reduced to 7.00 percent in 2020 from 7.125 percent in 2019. 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.

**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



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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Commonwealth's Executive Board and Secretary of Administration. The REHP plan does not have a governing board. The REHP plan does not issue a stand-alone financial report nor is it included in the financial statements of a public employee retirement system.

**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);
- 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.

PLCB began fiscal year ending June 30, 2021, with a contractually required contribution rate of \$230 for each current REHP eligible active employee per biweekly pay period. The rate was reduced to \$0 effective pay period ending January 29, 2021. 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.

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, 2021, 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 for the fiscal year ended June 30, 2021 was \$19,648.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

*OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB:* At June 30, 2021, the PLCB reported a liability of \$512,371 for its proportionate share of the REHP’s net OPEB liability. The net OPEB liability for the REHP was measured as of June 30, 2020, 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, 2020, the PLCB’s proportionate share was 4.16 percent.

For the fiscal year ended June 30, 2021, the PLCB recognized OPEB expense of (\$52,728), and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Fiscal year ended June 30, 2021:**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience..	\$ 444	\$ 245,842
Change in assumptions.....	66,473	39,706
Differences between projected and actual investment earnings.....	182	-
Change in allocation and differences between employer contributions and allocated share.....	24,319	-
Contributions subsequent to measurement date.....	19,381	-
Total	\$ 110,799	\$ 285,548

The deferred outflow of contributions subsequent to the measurement date of \$19,381 will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

<b>Fiscal Years Ending June 30</b>	<b>OPEB Expense</b>
2022	\$ 74,145
2023	69,371
2024	48,276
2025	11,823
2026	(9,485)
Thereafter	-

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

*Actuarial Assumptions:* The total OPEB liability in the June 30, 2020 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	5.00%
Inflation	2.60%
Salary increases	2.90%

Healthcare cost trend rates:

Medicare retiree	6.1% for 2020 decreasing to an ultimate rate of 4.1% for 2075 and later years
Non-Medicare retiree	6.6% for 2020 decreasing to an ultimate rate of 4.1% for 2075 and later years

Mortality rates were based on the RP-2000 Male and Female Combined Health Mortality Tables projected (using Projection Scale AA) to 2016 for males and 2020 for females, and then further adjusted to ensure sufficient margin improvement in certain age ranges. Disabled participants mortality rates were based on the RP-2000 Male and Female Disabled Retiree Mortality Tables projected (using Projection Scale AA) to 2021 for males and to 2017 for females. Each table includes a margin for future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2020 valuation were based on the SERS experience study that covered the years 2011 through 2015. 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 an April 2017 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.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

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, 2021, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
Domestic equity	40.0%	5.8%
International equity	27.0%	6.3%
Fixed income	23.0%	2.1%
Real estate	8.0%	5.1%
Cash and Cash Equivalents	1.5%	0.4%
Private Equity	0.5%	9.3%
Total	<u>100.0%</u>	

**Discount Rate:** The discount rate used for the total OPEB liability reported at June 30, 2021 was 2.21 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, 2020. 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 (1.21 percent) or one percentage point higher (3.21 percent) than the current discount rate.

	<u>1% Decrease 1.21%</u>	<u>Current Discount Rate 2.21%</u>	<u>1% Increase 3.21%</u>
PLCB’s proportionate share of REHP net OPEB liability as of the June 30, 2020 measurement date	\$ 584,667	\$ 512,371	\$ 452,190

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE D – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

**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 (5.60 percent/5.10 percent decreasing to 3.10 percent) or one percentage point higher (7.60 percent/7.10 percent decreasing to 5.10 percent) than the current healthcare cost trend rates.

	<b>1% Decrease 5.60% / 5.10% decreasing to 3.10%</b>	<b>Current health Trend rate 6.60% / 6.10% decreasing to 4.10%</b>	<b>1% Increase 7.60% / 7.10% decreasing to 5.10%</b>
PLCB’s proportionate share of REHP net OPEB liability as of the June 30, 2020 measurement date	\$ 435,484	\$ 512,371	\$ 608,445

**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.

**Payable to the OPEB plan:** At June 30, 2021, 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 \$0.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE E – CAPITAL ASSETS**

Changes in capital assets for the fiscal year ended June 30, 2021 are as follows:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2021</u>
Non-depreciable capital assets:				
Land	\$ 323	\$ -	\$ -	\$ 323
Depreciable capital assets:				
Building	20,875	284	10,575	10,584
Leasehold improvements	197	12	-	209
Machinery and equipment	49,226	1,165	3,053	47,338
Intangibles - internally generated software	23,374	8,648	9,691	22,331
Intangibles - right to use leases	281,492	48,979	8,205	322,266
Total capital assets	<u>\$ 375,487</u>	<u>\$ 59,088</u>	<u>\$ 31,524</u>	<u>\$ 403,051</u>
Total capital assets, net excluding lease assets	<u>\$ 93,995</u>	<u>\$ 101,109</u>	<u>\$ 23,319</u>	<u>\$ 80,785</u>

Changes in capital assets accumulated depreciation for the fiscal year ended June 30, 2021 are as follows:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2021</u>
Building	\$ 16,646	\$ 866	\$ 8,907	\$ 8,605
Leasehold improvements	99	25	-	124
Machinery and equipment	37,256	2,637	2,847	37,046
Intangibles - internally generated software	11,150	3,563	3,182	11,531
Intangibles - right to use leases	-	56,789	571	56,218
Total accumulated depreciation	<u>65,151</u>	<u>63,880</u>	<u>15,507</u>	<u>113,524</u>
Total accumulated depreciation, net excluding lease assets	<u>\$ 65,151</u>	<u>\$ 7,091</u>	<u>\$ 14,936</u>	<u>\$ 57,306</u>

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE E – CAPITAL ASSETS (Continued)**

Changes in lease assets for the fiscal year ended June 30, 2021 are as follows:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2021</u>
Lease assets:				
RTU Buildings and Improvements	\$ 281,450	\$ 48,608	\$ 8,163	\$ 321,895
RTU Machinery and Equipment	42	371	42	371
Lease assets, net	<u>\$ 281,492</u>	<u>\$ 48,979</u>	<u>\$ 8,205</u>	<u>\$ 322,266</u>
Less accumulated amortization for:				
RTU Buildings and Improvements	\$ -	\$ 56,716	\$ 529	\$ 56,187
RTU Machinery and Equipment	-	73	42	31
Lease assets accumulated depreciation, net	<u>\$ -</u>	<u>\$ 56,789</u>	<u>\$ 571</u>	<u>\$ 56,218</u>
Total lease assets, net	<u>\$ 281,492</u>	<u>\$ (7,810)</u>	<u>\$ 7,634</u>	<u>\$ 266,048</u>

**NOTE F – DUE TO OTHER FUNDS**

At June 30, 2021 a total of \$22,304 was due to other funds. This total was due to various funds.

**NOTE G – LEASE COMMITMENTS**

As of June 30, 2021, 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>
2022	\$ 52,835	\$ 4,236	\$ 57,071
2023	49,397	3,338	52,735
2024	43,277	2,525	45,802
2025	37,628	1,818	39,446
2026	29,248	1,231	30,479
2027 - 2031	56,062	1,623	57,685
2032 - 2037	1,225	18	1,243
Total lease obligations	<u>\$ 269,672</u>	<u>\$ 14,789</u>	<u>\$ 284,461</u>

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**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 the fiscal year ended June 30, 2021.

**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 liability payable to the DDAP was \$5,297 for the fiscal year ended June 30, 2021.

**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 transfer was \$29,236 for the fiscal year ended June 30, 2021.

**NOTE K – CONTINGENCIES-LITIGATION**

The PLCB is a defendant in various legal proceedings pertaining to matters normally incidental to routine operations. Based on the current status of these legal proceedings, it is the opinion of the PLCB’s management and counsel that they will not have a material effect on the PLCB’s financial position.

**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 Pennsylvania Statute Title 47, Article VIII, §801.



**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**NOTE L – BALANCE SHEET – LIQUOR LICENSE FUND (Continued)**

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 \$2.5 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, 2021. 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.

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, 2021, the State Stores Fund reported a \$65,200 liability (\$6,299 as current and \$58,901 as non-current) for employee disability claims.

The following summary provides aggregated information for the fiscal year ending June 30, 2021, of the reported self-insurance liabilities to include the incurred claims and payments during the fiscal year then ended:

<b>Fiscal Year Ended</b>	<b>Liability – Beginning Balance</b>	<b>Incurred Claims</b>	<b>Payments</b>	<b>Liability – Ending Balance</b>
June 30, 2021	\$ 53,590	\$ 17,821	\$ 6,211	\$ 65,200

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

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**NOTE N – RESTATEMENT**

New Accounting Pronouncements – Adopted:

Effective July 1, 2020, the PLCB implemented the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Under GASB 87, certain operating leases previously expensed based on payment schedules are reported as assets with associated liabilities for future lease payments. The July 1, 2020 net position is not restated for the cumulative effect of applying GASB 87, because at that date the lease assets and liabilities were the same.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**REQUIRED SUPPLEMENTARY INFORMATION**

Pension Schedules

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

Last Ten Fiscal Years Ended June 30 <sup>1</sup>	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution <sup>2</sup>	\$ 53,577	\$ 52,986	\$ 52,235	\$ 48,227	\$ 40,348	\$ 33,752	\$ 27,044
Contributions in relation to the contractually required contribution	\$ 53,577	\$ 52,986	\$ 52,235	\$ 48,227	\$ 40,348	\$ 33,752	\$ 27,044
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PLCB's covered-employee payroll	\$ 185,755	\$ 180,355	\$ 174,048	\$ 171,016	\$ 162,310	\$ 166,701	\$ 162,037
Contributions as a percentage of covered-employee payroll	\$ 28.84%	\$ 29.38%	\$ 30.01%	\$ 28.20%	\$ 24.86%	\$ 20.25%	\$ 16.69%

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

<sup>1</sup> PLCB adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only seven years are presented in the above schedule. The amounts presented for each fiscal year were determined as of 12/31.

<sup>2</sup> 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, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**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 <sup>1</sup>	2021 <sup>2</sup>	2020	2019	2018	2017	2016	2015
PLCB's proportion of the net pension liability	2.69%	2.52%	2.55%	2.55%	2.48%	2.47%	2.44%
PLCB's proportionate share of the net pension liability	462,619	458,686	\$ 530,291	\$ 440,677	\$ 477,444	\$ 449,176	\$ 362,685
PLCB's covered-employee payroll	185,755	180,355	\$ 174,048	\$ 171,016	\$ 162,310	\$ 166,701	\$ 162,037
PLCB's proportionate share of the net pension liability as a percentage of its covered-employee payroll	249.05%	254.32%	304.68%	257.68%	294.16%	269.45%	223.83%
Plan fiduciary net position as a percentage of the total pension liability	67.03%	63.11%	56.39%	62.97%	57.80%	58.90%	64.80%

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

<sup>1</sup> PLCB adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only seven years are presented in the above schedule. The amounts presented for each fiscal year were determined as of 12/31.

<sup>2</sup> 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](http://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, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**REQUIRED SUPPLEMENTARY INFORMATION (Continued)**

OPEB Schedules

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

Last Ten Fiscal Years Ended June 30<sup>(1)</sup>

	2021	2020	2019	2018
Contractually required contribution <sup>(2)</sup>	\$ 19,402	\$ 24,615	\$ 20,490	\$ 29,409
Contributions in relation to the contractually required contribution	\$ 19,648	\$ 23,376	\$ 24,623	\$ 26,157
Contribution deficiency (excess)	\$ (246)	\$ 1,239	\$ (4,133)	\$ 3,252
PLCB's employee covered payroll	\$ 131,262	\$ 129,950	\$ 126,621	\$ 124,980
Contributions as a percentage of employee covered payroll	14.97%	17.99%	19.45%	20.93%

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

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

<sup>2</sup> 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, 2021**  
**LIQUOR LICENSE FUND – JUNE 30, 2021**

**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<sup>(1)</sup>

	2021	2020	2019	2018
PLCB's allocation of the net OPEB liability	4.16%	4.12%	4.11%	3.96%
PLCB's allocated share of the net OPEB liability	\$ 512,371	\$ 429,569	\$ 603,955	\$ 793,355
PLCB's employee covered payroll	\$ 131,262	\$ 129,950	\$ 126,621	\$ 124,980
PLCB's allocated share of the net OPEB liability as a percentage of its employee covered payroll	390.34%	330.57%	476.98%	634.79%
Plan fiduciary net position as a percentage of the total OPEB liability	3.67%	3.74%	2.22%	1.39%

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

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



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Department of the Auditor General  
Harrisburg, PA 17120-0018  
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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

**Independent Auditor's Report**

The Honorable Tom Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Tim Holden  
Chairman  
Pennsylvania Liquor Control Board  
Harrisburg, PA 17124

We have audited, 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, the accompanying Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows for the State Stores Fund, and the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance for the Liquor License Fund of the Pennsylvania Liquor Control Board (PLCB), as of and for the year ended June 30, 2021, and the related notes to the financial statements and have issued our report thereon dated December 7, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered PLCB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PLCB's internal control. Accordingly, we do not express an opinion on the effectiveness of PLCB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the PLCB's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

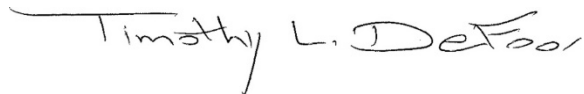
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the PLCB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PLCB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PLCB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Timothy L. DeFoor  
Auditor General  
December 7, 2021



**COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA LIQUOR CONTROL BOARD  
JUNE 30, 2021  
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This report was initially distributed to the following:

**The Honorable Tom Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Tim Holden**  
Chairman  
Pennsylvania Liquor Control Board

**The Honorable Michael Negra**  
Member  
Pennsylvania Liquor Control Board

**The Honorable Gregory Thall**  
Budget Secretary  
Commonwealth of Pennsylvania

**Mr. Brian T. Lyman**  
Chief Accounting Officer  
Office of Comptroller Operations  
Commonwealth of Pennsylvania

**The Honorable Stacy Garrity**  
State Treasurer  
Commonwealth of Pennsylvania

**Mr. Michael J. Burns**  
Director  
Bureau of Accounting & Financial Management  
Office of the Budget

**The Honorable Josh Shapiro**  
Attorney General  
Commonwealth of Pennsylvania

**Ms. Mary Spila**  
Collections/Cataloging  
State Library of Pennsylvania

**Mr. William Canfield**  
Director, Bureau of Audits  
Office of the Budget

**The Honorable Mike Regan**  
Chair  
Senate Law and Justice Committee

**Mr. Michael G. Demko**  
Executive Director  
Pennsylvania Liquor Control Board

**The Honorable James R. Brewster**  
Minority Chair  
Senate Law and Justice Committee

**Mr. Jason Lutcavage**  
Director of Administration  
Pennsylvania Liquor Control Board

**The Honorable Karl Metzgar**  
Chair  
House Liquor Control Committee

**The Honorable Mary Isenhour**  
Member  
Pennsylvania Liquor Control Board

**The Honorable Daniel J. Deasy**  
Minority Chair  
House Liquor Control Committee

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