

**77th Annual Report
Utah Department of Alcoholic Beverage Control
Sal Petilos, Director
For the Fiscal Year ended June 30, 2012
Summary of Operations**

Background

Utah is one of 18 "control" jurisdictions in the nation that controls the sale of alcoholic beverages (there are 18 states and Montgomery County in Maryland). These jurisdictions, which regulate their own retail and/or wholesale distribution of alcoholic beverages, account for nearly one-third of the U.S. population. The results: revenues that would otherwise go to private sellers as profit are instead funneled into state coffers and used to support public goals of moderation and government revenue enhancement.

The Utah Department of Alcoholic Beverage Control is governed by a seven member, part-time commission. The commission employs a full-time executive director to oversee the day-to-day operation of the department. The policy of the department, as set by statute, is to operate as a public business using sound management principles and practices, and function with the intent of servicing the public demand for alcoholic beverages.

The department operates a statewide network of state stores and package agencies that sell all alcoholic beverages except beer containing less than 4% alcohol by volume (which is sold in grocery and convenience stores). The department also administers the liquor laws, alcohol education, and regulates the sale, service, storage, manufacture, distribution, and consumption of alcoholic products.

Utah's liquor control system offers definite advantages to Utah's citizens. Liquor sales provide a significant source of income to the state's general fund which serves to relieve the individual tax burden of Utah citizens. In addition, the school lunch program receives substantial funding from liquor sales.

Annual statistical data clearly shows that per capita consumption of alcoholic beverages is significantly lower in control states.

Liquor Control States

| | | | |
|--|----------------|--------------|---------------|
| Alabama | Michigan | Ohio | Virginia |
| Idaho | Mississippi | Oregon | West Virginia |
| Iowa | Montana | Pennsylvania | Wyoming |
| Maine | New Hampshire | Utah | |
| Maryland (<i>Only Montgomery County</i>) | North Carolina | Vermont | |

| Average Utah Consumption Per Capita (In gallons) | FY 2012* | FY 2011* |
|--|--------------|--------------|
| Wine | 1.065 | 1.028 |
| Spirits | .913 | .875 |
| Heavy Beer | .514 | .478 |
| Flavored Malt Beverages | .052 | .042 |
| Total | 2.544 | 2.423 |

*Based on estimated population of 2,854,400 as of June 30, 2012 and 2,815,000 as of June 30, 2011.

| Comparative Gallonage for Utah | FY 2012 | FY 2011 |
|--------------------------------|------------------|------------------|
| Wine | 3,040,115 | 2,895,167 |
| Spirits | 2,606,159 | 2,464,136 |
| Heavy Beer | 1,465,813 | 1,344,505 |
| Flavored Malt Beverages | 147,974 | 118,133 |
| TOTAL GALLONS | 7,260,061 | 6,821,941 |

| Total Funds to State and Local Governments from Liquor Sales | | |
|--|--------------------|--------------------|
| Funds | FY 2012 | FY 2011 |
| School Lunch and Public Safety Transfer | 35,260,271 | 29,555,158 |
| Sales Tax | 17,087,011 | 15,752,918 |
| Net Profit | 70,787,797 | 62,313,707 |
| Net Operating Income | 123,135,079 | 107,621,783 |

| STATEMENT OF OPERATION (unaudited) | FY 2012 | FY 2011 |
|---|----------------------|----------------------|
| Operating Revenue: | | |
| Retail Sales (Note B) | 320,516,511 | 293,979,460 |
| Military Sales | 1,454,197 | 1,569,786 |
| Total Sales | 321,970,708 | 295,549,246 |
| | | |
| Cost of Goods Sold | 164,071,194 | 151,642,355 |
| Gross Profit | 157,899,514 | 143,906,891 |
| | | |
| Permits, Licenses & Fees | 2,714,793 | 1,928,696 |
| Misc. Other Income | 414,843 | 522,342 |
| Total Other Income | 3,129,636 | 2,451,038 |
| Total Revenue | 161,029,150 | 146,357,929 |
| Operating Expenses: | | |
| Salaries, Wages & Benefits | 15,282,488 | 16,108,772 |
| Rentals & Leases (Note C) | 4,832,395 | 5,040,411 |
| Credit Card Fees | 3,397,129 | 3,513,190 |
| Depreciation | 3,126,821 | 2,025,091 |
| Maint. & Repairs/Oper. Supplies | 2,342,913 | 2,089,534 |
| Delivery To Stores | 2,126,021 | 2,111,955 |
| P.A. Contracts | 1,760,160 | 1,931,936 |
| Data Processing | 1,658,034 | 1,960,419 |
| Alcohol Education Media Campaign | 1,380,039 | 1,460,837 |
| Professional & Tech. Services | 876,320 | 950,806 |
| Postage, Printing & Supplies | 293,613 | 380,186 |
| Telephone | 190,353 | 179,119 |
| Liquor Bags | 190,139 | 204,195 |
| Insurance & Bonds | 129,251 | 125,284 |
| Check Service Fees | 106,136 | 42,400 |
| Utilities | 92,688 | 261,099 |
| Misc. Other Expenses | 57,375 | 241,549 |
| Travel Expense | 27,434 | 43,438 |
| Cash Over & Short | (9,917) | 3,886 |
| Total Operating Expenses | \$37,859,392 | \$38,674,107 |
| | | |
| Other Expenses: | | |
| Loss From Breakage & Damage | 57,241 | 70,529 |
| Claims Against Suppliers | (22,562) | (8,490) |
| Total Other Expenses | \$34,679 | \$62,039 |
| | | |
| Total Expenses | 37,894,071 | 38,736,146 |
| | | |
| Net Operating Income | 123,135,079 | 107,621,783 |
| | | |
| Less: Transfers & Taxes | | |
| School Lunch and Public Safety Transfer | 35,260,271 | 29,555,158 |
| Sales Tax | 17,087,011 | 15,752,918 |
| Total Taxes Collected | \$52,347,282 | \$45,308,076 |
| | | |
| Net Profit | \$70,787,797 | \$62,313,707 |
| | | |
| BALANCE SHEET (unaudited) | | |
| | | |
| Current Assets: | | |
| Cash In Banks & Treasurer (Note D) | 0 | 0 |
| Petty Cash & Change Fund | 137,050 | 136,550 |
| Total Cash | 137,050 | 136,550 |
| | | |
| Other Current Assets: | | |
| Accounts Receivable | 15,025,825 | 19,846,382 |
| Inventories (Note E) | 29,719,295 | 30,389,427 |
| Total Other Current Assets | 44,745,120 | 50,235,809 |
| Total Current Assets | \$44,882,170 | \$50,372,359 |
| | | |
| Property & Equipment: | | |
| Buildings | 74,389,890 | 73,625,934 |
| Land | 22,460,028 | 22,189,573 |
| Furniture, Fixtures & Equipment | 9,116,600 | 9,146,349 |
| Software | 327,932 | 0 |
| Total Property & Equipment (Note F) | 106,294,450 | 104,961,856 |
| Less: Accumulated Depreciation | (23,222,019) | (20,112,094) |
| Net Property & Equipment | 83,072,431 | 84,849,762 |
| | | |
| Total Assets | \$127,954,601 | \$135,222,121 |

| BALANCE SHEET (continued) | FY 2012 | FY 2011 |
|--|---------------------|----------------------|
| Current Liabilities: | | |
| Accounts Payable (Note G) | 23,254,451 | 25,801,624 |
| Bonds Payable (Note H) | 4,295,586 | 4,151,083 |
| Accrued Payroll | 624,029 | 619,857 |
| Deposit In Lieu of Bond | 583,550 | 482,600 |
| Accrued Annual Leave Payable | 21,958 | 12,606 |
| Deferred Revenue | 967,124 | 1,229,000 |
| Total Current Liabilities | \$29,746,698 | \$32,296,770 |
| | | |
| Long-Term Debt: | | |
| Bonds Payable (Note H) | 83,869,302 | 88,586,750 |
| Due To General Fund | 12,518,054 | 12,518,054 |
| Total Long Term Debt | \$96,387,356 | \$101,104,804 |
| | | |
| Fund Balance: | | |
| Investment in Fixed Assets | 1,619,547 | 1,619,547 |
| Working Capital | 201,000 | 201,000 |
| Total Advances & Retained Earnings | \$1,820,547 | \$1,820,547 |
| | | |
| Total Liabilities, Advances & Retained Earnings | 127,954,601 | 135,222,121 |

NOTE A: ACCOUNTING POLICIES: The Utah Department of Alcoholic Beverage Control has been designated as an enterprise fund by the Division of State Finance. The administrative operating budget is subject to legislative controls. The transfer of profits to the general fund is determined by the department's accounting system, which is on an accrual basis in accordance with generally accepted accounting principles. The current markup is as follows: distilled spirits, wine and flavored malt beverages 86%; beer 64.5%.

NOTE B: RETAIL SALES: Sales are reported at published prices and include sales and transit taxes which are added at the register.

NOTE C: RENTALS AND LEASES: Leases are the result of competitive bids or negotiations. A standard lease agreement has been developed. The more recent leases now provide for payment of taxes and insurance when they exceed those of a base period. None of the current leases contain provisions for minimum payment in case of cancellation by the state, but they all contain a provision in case of a change in the law that might have an impact upon the operation of the department. Also included is the interest expense on the annual bond payments for the state owned liquor stores.

NOTE D: CASH: All cash receipts are deposited in bank accounts to the credit of the State Treasurer; then, depending on the particular account, these funds are transferred, generally on a daily basis, to the Liquor Control Fund.

NOTE E: INVENTORIES: Inventories are valued at FIFO and consist of merchandise stored in our warehouse and at each of the 44 stores. It also includes consignment inventory at package agencies.

NOTE F: PROPERTY AND EQUIPMENT: Property and equipment are stated on the balance sheet at cost and are depreciated on the straight-line method over the estimated service lives of the assets.

NOTE G: ACCOUNTS PAYABLE: Accounts payable represent the current liabilities incurred for incoming freight, operating costs, and the purchase of merchandise.

NOTE H: BONDS PAYABLE: Bonds payable represents 13 issues of twenty year lease revenue bonds issued by the State of Utah. The bonds have maturity dates ranging from 2014 to 2030 and carry interest rates from 2.72% to 5.50%.

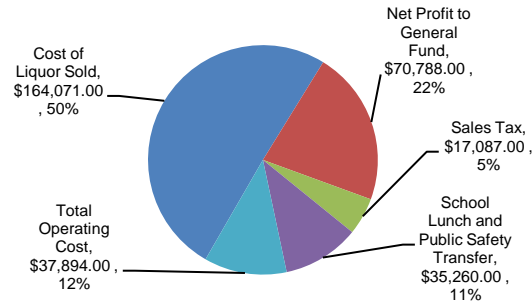
Liquor Outlets in Operation (as of June 30, 2012)

| | |
|--------------------------|-----|
| State Liquor Stores..... | 44 |
| Package Agencies..... | 109 |

Case Sales

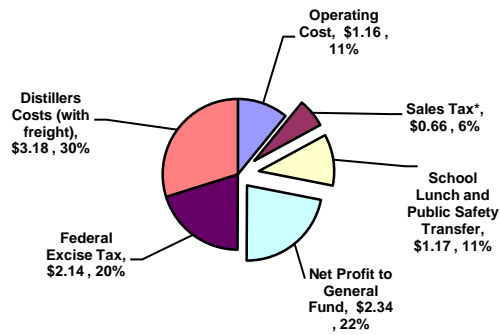
Total case sales in all categories of alcoholic beverages amounted to 2,814,454 cases in fiscal year 2012, an increase of 188,119 cases or 7.2% from fiscal year 2011.

Distribution of dollars for FY 2012



Net Profit, School Lunch and Public Safety Transfer and Sales Tax are state revenues. Percentages based on gross sales and fees of \$325,100. (Values shown rounded in thousands of \$)

Price Analysis 750 ml bottle



Exploded segments represent spendable State revenue based on a 750 ml bottle, with a retail price of \$9.99 and Sales tax of \$0.66*.

*** The Sales Tax percentage varies from each city, town and county.**

UNDERAGE DRINKING PREVENTION
All parents want their kids to reach their potential

Overview

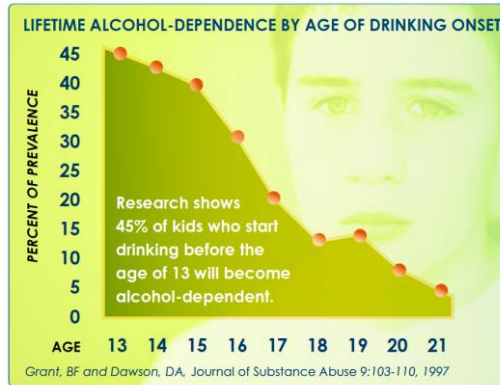
ParentsEmpowered.org is an award winning statewide, state-sponsored campaign and mobilizing effort launched in 2006 to educate parents about the lasting harms of underage drinking and provide them with the proven skills, tools, and information to help prevent it. The Utah Department of Alcoholic Beverage Control is the lead agency for the campaign and is working in partnership with many state agencies and organizations. The campaign is funded through the state's liquor revenue proceeds.

Goal

After setting a goal to reduce underage drinking in Utah, the ParentsEmpowered committee decided there is no good reason to tolerate any illegal use and thus, since its inception, the goal of ParentsEmpowered is to "eliminate underage drinking in Utah." We're educating parents, guardians, and communities, to take a more active role to keep their children alcohol-free. Research shows parental disapproval of underage drinking is the #1 reason youth choose not to drink.

SOBERING FACTS ABOUT UNDERAGE DRINKING

- Binge drinking begins as early as grade school.
- The average age kids begin drinking in Utah is 13.
- The younger they start, the greater the risk of addiction.



Our commitment:

The Utah DABC understands alcohol is no ordinary commodity. We pursue the goal of a healthy and safe society in which alcohol is sold to adults only and is consumed responsibly and in moderation. Through sound alcohol policies, collaborative efforts to prevent underage drinking, and ensuring the observance of the alcoholic beverage control laws, we're working to promote the interests of public health, safety, and social well-being, for the benefit of everyone in our communities.

For more information visit: www.ParentsEmpowered.org



77th
ANNUAL REPORT
Summary of Operations
 For the Fiscal Year ended
June 30, 2012
 (unaudited)

Utah Department of Alcoholic Beverage Control

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WWW.ABC.UTAH.GOV

Utah Department of Alcoholic Beverage Control Commission

Commissioners

Dr. Richard Sperry, Chairman
 Jeff Wright, Vice Chairman

Kathleen McConkie (Collinwood), J.D.
 David L. Gladwell
 Constance B. White

Commission Meetings: Held monthly at the department's office in Salt Lake City (1625 South 900 West).

Personnel (Positions filled as of June 30, 2012):

| | |
|----------------------------|-----|
| Administrative Office..... | 32 |
| Warehouse | 35 |
| Stores | |
| Full Time Employees | 193 |
| Part Time Employees..... | 312 |
| Total Store Employees..... | 505 |
| Total Employees..... | 572 |

The Utah Department of Alcoholic Beverage Control would be happy to provide additional information on our activities. Please contact our office as listed on the front cover.

