

**2014 ANNUAL FINANCIAL REPORT
NEW HAMPSHIRE STATE LIQUOR COMMISSION
A DEPARTMENT OF THE STATE OF NEW HAMPSHIRE**



LIQUOR STORE-NEW LOCATION IN BEDFORD



NH Liquor & Wine Outlet



STATE OF NEW HAMPSHIRE

Margaret W. Hassan

GOVERNOR

Executive Council

Joseph D. Kenney

FIRST DISTRICT

Colin Van Ostern

SECOND DISTRICT

Christopher Sununu

THIRD DISTRICT

Christopher C. Pappas

FOURTH DISTRICT

Debora B. Pignatelli

FIFTH DISTRICT

NEW HAMPSHIRE STATE LIQUOR COMMISSION

Chairman

Joseph W. Mollica

Deputy Commissioner

Michael R. Milligan

Director of Administration

Craig W. Bulkley

Director of Enforcement, Licensing and Education

James M. Wilson

Director of Marketing, Merchandising and Warehouse

Richard D. Gerrish

Chief Financial Officer

Steven A. Kiander

Human Resources Administrator

Kelly M. Mathews

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NEW HAMPSHIRE STATE LIQUOR COMMISSION (NHSLC)
ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDING JUNE 30, 2014

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LiquorandWineOutlets.com

JULY 2014

CELEBRATE NH

Complimentary Copy

World of Wine:
Chateau Ste. Michelle

INTRODUCTORY SECTION

Let's Entertain:
Summer in a Glass

The Resurgence of Gin

Check out our **tax-free**, lowest prices in New England!



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**State of New Hampshire
LIQUOR COMMISSION**

Storrs Street
P.O. Box 503
Concord, N.H. 03302-0503
(603) 230-7026

Joseph W. Mollica
Chairman

Michael R. Milligan
Deputy Commissioner

Margaret W. Hassan
Governor

December 30, 2014

To: Her Excellency the Governor and the Honorable Council, and
The Citizens of the State of New Hampshire

We are pleased to submit the Annual Report of the New Hampshire State Liquor Commission (NHSLC) as of and for the fiscal year ended June 30, 2014. It covers the results of operations from July 1, 2013 through June 30, 2014 and marks the 80th year of operations for the Liquor Commission. The Liquor Commission Bureau of Finance and Accounting prepared this report. Responsibility for both the accuracy of the financial data along with the completeness and fairness of the presentation, including all disclosures, rests with the management of the Liquor Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Liquor Commission.

This report is divided into two sections: introductory and financial. The introductory section includes a transmittal letter. The financial section contains the independent auditor's report, management's discussion and analysis (MD&A) and the financial statements.

The Governmental Accounting Standards Board Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it.

The financial activity of the Liquor Commission is included within the State's Comprehensive Annual Financial Report. This annual report presents all activities of the Commission in a single enterprise fund and does not include data or information related to any other state agency or fund.

This report aims to summarize our many accomplishments over the past year, as well as our objectives for the future. We welcome your comments, questions and suggestions, and appreciate your continued support. This annual report may also be viewed on the State of New Hampshire – Liquor Commission web site located at <http://www.nh.gov/liquor/2014annualreport.pdf>.

Message from Governor Maggie Hassan

On behalf of the people of New Hampshire, I want to thank the New Hampshire Liquor Commission (NHLC) and its staff for their continued dedication, effort and commitment to success and record-breaking sales. We thank them for their exceptional customer service and attentiveness to visitors from our bordering states, throughout the country and around the world.

The New Hampshire State Government depends on NHLC to deliver critical revenue to support a breadth of State services, including education, health and social services, economic development and natural resource protection. With two new outlet stores anchoring the newly renovated Hooksett Welcome Centers and an innovative approach to sales and marketing in place, the NHLC is delivering.



But along with supporting NH priorities, NHLC has consistently worked to reduce alcohol abuse and the incidents of underage drinking through strategic partnerships with communities and law enforcement departments statewide. As it does each year, NHLC's Enforcement Division hosted a series of trainings, seminars and educational events this year aimed at spreading the word about the dangers of abusing alcohol. I applaud their efforts to keep the people of New Hampshire safe, and I encourage continued cooperation between NHLC and local communities so that we can continue to uphold New Hampshire's status as a responsible control state.

Thanks to the dedicated efforts of the NHLC team, this was yet another extraordinary year for New Hampshire's liquor stores with record sales, bringing an important financial boost to the state. This report outlines the financial performance and achievements of NHLC during the past year. With more new and remodeled stores on the way and a continued emphasis on exceeding customer expectations, we all look forward to continued success from the New Hampshire Liquor Commission.

With every good wish,

A handwritten signature in blue ink that reads "Margaret Wood Hassan".

Margaret Wood Hassan
Governor

Chairman's Message

The 2014 fiscal year marked yet another record-breaking year for the New Hampshire Liquor Commission (NHLC). With \$626 million in sales, NHLC saw a \$22 million increase in total sales from Fiscal Year 2013, and total liquor net profits transferred to New Hampshire's General Fund reached \$149 million.

In an effort to provide our customers with greater selection and a better shopping experience, NHLC has made a major commitment to renovating and relocating NH Liquor & Wine Outlets. We are particularly proud to have opened our brand new 20,000 square foot flagship outlets at the new Hooksett Welcome Centers. In addition, we relocated our Bedford and Manchester stores to prime locations with state of the art features and have new stores planned in Epping and Londonderry.



The NHLC Enforcement Division is committed to the safety of all New Hampshire citizens, as well as those visiting or traveling through New Hampshire. NHLC's Enforcement Division is comprised of professionals that pledge to enforce the laws in a fair and uniform manner. Enforcement staff spends considerable time in the field working in an educational capacity with licensees and communities to strive toward the goals of eliminating underage consumption and reducing the incidents of drinking and driving. Please visit our website for more information and details regarding licensing, education and training, as well as our laws and rules.

NHLC is determined to introduce customers to new wines and spirits, while also educating them so they can make more informed choices when shopping. Events like the Winter Wine Spectacular and the Distiller's Showcase of Premium Spirits do just that, while raising nearly \$200,000 for New Hampshire nonprofit organizations in the last year alone.

The NHLC team is committed to working closely with all of our business partners to make sure our stores' shelves are always stocked with the very best selection of wine and spirit products. NHLC will always work as a team with energy, thoughtfulness and ambition to exceed consumer expectations and to grow our business. From our headquarters in Concord to each of our 77 Liquor & Wine Outlets statewide, we are constantly working to meet and exceed our customers' expectations, while at the same time striving to meet our mission of maintaining safe and responsible consumption.

Deputy Commissioner Milligan and I would like to thank all of our employees, past and present, who have dedicated themselves to NHLC. We have accomplished so much and our many successes would not be possible without your efforts and commitment. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Mollica". The signature is fluid and cursive, written over a light-colored background.

Joseph W. Mollica
Chairman

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CELEBRATE NH

Complimentary Copy

Rye Whiskey

Fields of Gold
in a Bottle

FINANCIAL SECTION

World of Wine:
Robert Sinskey Vineyards
and Klinker Brick Winery

Check out our **tax-free**, lowest prices in New England!



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JEFFRY A. PATTISON
Legislative Budget Assistant
(603) 271-3161

MICHAEL W. KANE, MPA
Deputy Legislative Budget Assistant
(603) 271-3161

State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT
State House, Room 102
Concord, New Hampshire 03301

STEPHEN C. SMITH, CPA
Director, Audit Division
(603) 271-2785

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report On The Financial Statements

We have audited the accompanying financial statements of the New Hampshire Liquor Commission which comprise the Statement of Net Position as of June 30, 2014, and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows 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 New Hampshire Liquor Commission as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 8 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the New Hampshire Liquor Commission's basic financial statements. The Introductory Section of this report is presented for purposes of additional analysis and is not a required part of the financial statements.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic 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 30, 2014 on our consideration of the New Hampshire Liquor Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts 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 the New Hampshire Liquor Commission's internal control over financial reporting and compliance.



Office Of Legislative Budget Assistant

December 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the New Hampshire State Liquor Commission (the Liquor Commission) offers the readers of the financial statements this narrative overview and analysis of the financial activities of the Liquor Commission for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented herein in conjunction with additional information we have furnished in our letter of transmittal, on page 1 in the introductory section of this annual financial report, as well as the Liquor Commission's financial statements, which follow this section.

Financial Highlights

The Liquor Commission distributed \$148.6 million to the State's General Fund during fiscal year 2014. Net sales increased by \$22.5 million or 3.8% over the previous fiscal year to \$611.2 million.

REVENUE/ EXPENSE ITEM	FY 2014* (In Millions)	FY 2013* (In Millions)	% INCREASE (DECREASE)
Gross Sales ¹	\$ 626.9	\$ 603.5	3.9%
Discounts	(9.8)	(8.7)	12.6%
Total Sales	617.1	594.8	3.7%
Fees (Bank, Credit Card, etc)	(5.9)	(6.1)	-3.3%
Net Sales	611.2	588.7	3.8%
Cost of Goods Sold	434.4	418.4	3.8%
Gross Revenue - Liquor	176.8	170.3	3.8%
Operating Expenses ²	(46.2)	(44.7)	3.4%
Interest Expense	(0.5)	(0.3)	100.0%
Miscellaneous Revenue	6.3	1.5	320.0%
Net Income (Not including taxes and grants) ³	136.4	126.8	7.6%
Specific Liquor Taxes	12.9	12.9	0.0%
Total Net Revenue	\$ 149.3	\$ 139.7	6.9%

OTHER MERCHANDISING STATISTICS	FY 2014	FY 2013	% INCREASE
Number of Cases Sold	5,205,652	5,122,699	1.6%
Average Price Per Case	\$ 119.10	\$ 117.63	1.2%
Items Available (brands and sizes)	17,269	16,771	3.0%
Number of Bottles Sold	51,609,494	50,024,832	3.2%
Average Price Per Bottle	\$ 12.15	\$ 12.05	0.8%

APPARENT CONSUMPTION STATISTICS	FY 2014		FY 2013	
	Gallons	Per Capita ⁴	Gallons	Per Capita ⁴
Distilled Spirits	5,387,111	4.07	5,251,342	3.97
Wine (21% alcohol or less)	7,871,503	5.95	7,721,579	5.84
Beer	42,419,976	32.06	42,296,051	32.13

NOTES:

- (1) For the current fiscal year, off premise licensees accounted for 16.8% or \$105.2 million of total liquor sales. On premise licensees, such as bars, restaurants, hotels and clubs accounted for 9.8% or \$61.6 million of total liquor sales.
- (2) Operating Expenses do not include Liquor purchases and grants.
- (3) Net Income is computed after deducting all operating expenses including the General Fund portion of Enforcement and Licensing Expenses.
- (4) Based on 2013 population estimates of 1,323,262 from the State Office of Energy and Planning.

Liquor Commission operations earned net profits for the State of New Hampshire totaling \$149.3 million in fiscal year 2014, an increase of 6.9% over the previous fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Overview

National prohibition was repealed in 1933 by the Twenty-First Amendment to the U.S. Federal Constitution. This provided each state freedom to adopt its own system of alcoholic beverage control. As a result, the New Hampshire State Liquor Commission was established in 1933 pursuant to Chapter 99, NH Laws of 1933. New Hampshire State liquor laws are codified in RSAs 175 through 180 and cover the establishment of the Commission, liquor store operations, liquor licenses and fees, beverage distributor contracts, and enforcement.

The Liquor Commission regulates the manufacture, possession, sale, consumption, importation, use, storage, transportation and delivery of wine, spirits, and malt or brewed beverages in New Hampshire. All sales of wine and spirits in New Hampshire, with the exception of wines sold by licensees of the Liquor Commission and direct shippers, are made through the wine and spirits stores operated by the Liquor Commission. These include both retail sales to individual consumers and wholesale sales to licensed establishments where wine and spirits are either sold and consumed on the licensed premise or sold and consumed off the licensed premise. In addition to liquor sales, the Liquor Commission collects license fees for the manufacturing, sale, transportation, or warehousing of alcoholic beverages and taxes on beer sold by wholesale distributors and beverage manufacturers equal to \$.30 per gallon sold to retailers in New Hampshire, in accordance with RSA 178:26.

The Liquor Commission is comprised of a Commissioner, who is known as the Chairman of the Liquor Commission, and a Deputy Commissioner. The Commissioner is appointed by the Governor with the consent of the Council and the Deputy Commissioner is nominated by the Commissioner and appointed by the Governor with the consent of the Council. The Commissioner and the Deputy Commissioner are appointed to four-year terms. Pursuant to RSA 176:3, the Liquor Commission's primary duties are to optimize profitability, maintain proper controls, assume responsibility for effective and efficient operations, and provide service to customers. The Liquor Commission is also statutorily required to enforce the laws and regulations governing the purchase, consumption, and maintenance of proper control over alcoholic beverages through the State of New Hampshire, in addition to monitoring youth access to tobacco products.

Chapter 106, Laws of 1996 reorganized the Liquor Commission into three divisions, including: the Division of Enforcement, Licensing and Education; the Division of Marketing and Sales; and the Division of Administrative Services. The Division of Enforcement, Licensing and Education is responsible for the day-to-day activities of the Liquor Commission's enforcement and licensing functions; the Division of Marketing and Sales oversees the Liquor Commission's functions related to marketing, merchandising, purchasing, store operations, warehousing and distribution; and the Division of Administrative Services oversees all aspects of the Liquor Commission's administrative functions to include accounting, financial management, data processing, management information systems, human resources and contracting.

The Liquor Commission is responsible for the accounting and reporting of the Liquor Fund. The Liquor Fund is an enterprise fund which receives revenues primarily from the sale of goods through State Liquor Stores, fees from licensees and fines, and penalties from rule or law violations. The Liquor Fund serves as a pass-through account for receipts which are transferred to the General Fund on a daily basis. The Liquor Fund appropriations are provided to cover costs associated with the operation and administration of all Liquor Commission functions including the enforcement of the liquor laws and regulations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Discussion of Basic Financial Statements

The activities of the Liquor Commission are accounted for on a fiscal year basis, comprised of twelve fiscal months ending on June 30th of each year. The Liquor Commission is accounted for as an enterprise fund, reporting all financial activity, assets, and liabilities using the accrual basis of accounting.

The financial statements prepared by the Liquor Commission include the Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows.

The Statement of Net Position provides information about assets and liabilities and reflects the financial position at the fiscal year end. The Statement of Revenues, Expenses and Changes in Net Position reports the operating revenue activity and the expenses related to such activity for the fiscal year. The Statement of Cash Flows outlines the cash inflows and outflows relating to the operations for the fiscal year.

The financial statements present the financial position and activities of only the Liquor Commission. The following is a discussion on the current year results of operations for the Liquor Commission.

Financial Analysis

Net Position and Changes in Net Position

Per RSA 176:16 "the state treasurer shall credit all gross revenue derived by the commission from the sale of liquor, or from license fees, and interest received on such moneys, to a special fund, to be known as the liquor commission fund, from which the treasurer shall pay all expenses of the commission incident to the administration of this title. Any balance left in such fund after such expenses are paid shall be deposited in the general fund on a daily basis." As a result, the net position of the Liquor Commission consist solely of capital assets, net of related debt.

The following is a condensed statement of net position as of June 30, 2014 and 2013 (in thousands).

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
ASSETS:		
Current Assets	\$ 71,098	\$ 74,698
Noncurrent Assets (net of accumulated depreciation)	23,631	16,646
Total Assets	<u>\$ 94,729</u>	<u>\$ 91,344</u>
LIABILITIES:		
Current Liabilities	\$ 70,416	\$ 66,784
Non-current Liabilities	14,570	14,853
Total Liabilities	<u>84,986</u>	<u>81,637</u>
NET POSITION:		
Net Investment in Capital Assets	<u>9,743</u>	<u>9,707</u>
Total Net Position	<u>\$ 9,743</u>	<u>\$ 9,707</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Distributions

The Liquor Commission is required by law to deposit all excess revenue into the General Fund. During fiscal year 2014, the Liquor Commission made distributions of \$148.6 million to the General Fund. Net profit from Liquor Operations increased \$9.6 million, or 7.6%, over fiscal year 2013, while net profit from Beer Operations remained flat.

Assets

- The Liquor Commission ended fiscal year 2014 with a total of \$71.1 million in current assets, including \$54.4 million in wine and spirits inventory for resale.
- The Liquor Commission's total investment in capital assets is \$42.2 million with accumulated depreciation of \$18.6 million netting to \$23.6 million invested in capital assets.
- In total, assets increased from \$91.3 million in fiscal year 2013 to \$94.7 million in fiscal year 2014.
- Return on Assets increased from the previous year and remained an impressive 162.2% in fiscal year 2014 as compared to other control states in the nation.

Liabilities

- Total liabilities were up \$3.3 million from the previous year. This was the result of amount due to the Capital Fund for capital expenditure for Hooksett North and South and an increase in accrued payroll and accounts payable.

	(Amounts in thousands)	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Accounts Payable	\$ 62,475	\$ 60,117
Accrued Payroll	1,633	1,140
Due to Other Funds	2,318	1,200
Unearned Revenue	2,194	2,184
Bonds Payable	11,591	12,347
Compensated Absences	4,396	4,237
Other Liabilities	379	412
Total Liabilities	<u>\$ 84,986</u>	<u>\$ 81,637</u>

Funding

- The Liquor Commission receives an annual appropriation from the State Legislature to meet its day-to-day operations as provided for in RSA 176. Any additional year-end requirements/payables are supported by the excess of cash receipts over transfers to the General Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Revenues

The primary source of revenue for the Liquor Commission is derived from the retail and wholesale sales of wine and spirits from the seventy-seven wine and spirit stores located throughout the State of New Hampshire as well as the two warehouse locations in Bow and Concord. The Liquor Commission attributes the growth in sales to (a) the positive impact of recent marketing initiatives designed to create excitement and to drive consumers to our clean and well merchandised outlet stores, and (b) an excellent selection coupled with competitive pricing.

In addition, the Liquor Commission generates revenues from other sources including beer tax, licensing, warehouse bailment, direct shipping permits, sweepstakes sales, and ATM transaction fees.

The beer tax and permit revenues have been relatively flat over the past decade and increased 0.3% in fiscal year 2014 from the previous year. Liquor licenses increased 6.78% in fiscal year 2014 from the previous fiscal year and warehouse bailment decreased by approximately \$658,028 or 34.73% over the same period. Bailment inventory has been moved to our new contracted warehouse in Bow, therefore the State will no longer be receiving Bailment Revenue in FY15 and beyond.

During this biennium, we have transitioned to our new contracted warehouse operation. This state-of-the-art warehouse which houses all products for immediate distribution to our State stores and wholesale licensees. This warehouse houses approximately 14,032 wine and 3,278 spirit Stock Keeping Units (SKUs). The sale of spirits account for 56% of our business and the sale of wine accounts for 44% of our business. Our new contracted warehouse, has prepared the Liquor Commission to meet the additional demand for the years ahead, as we continue to grow our store sales.

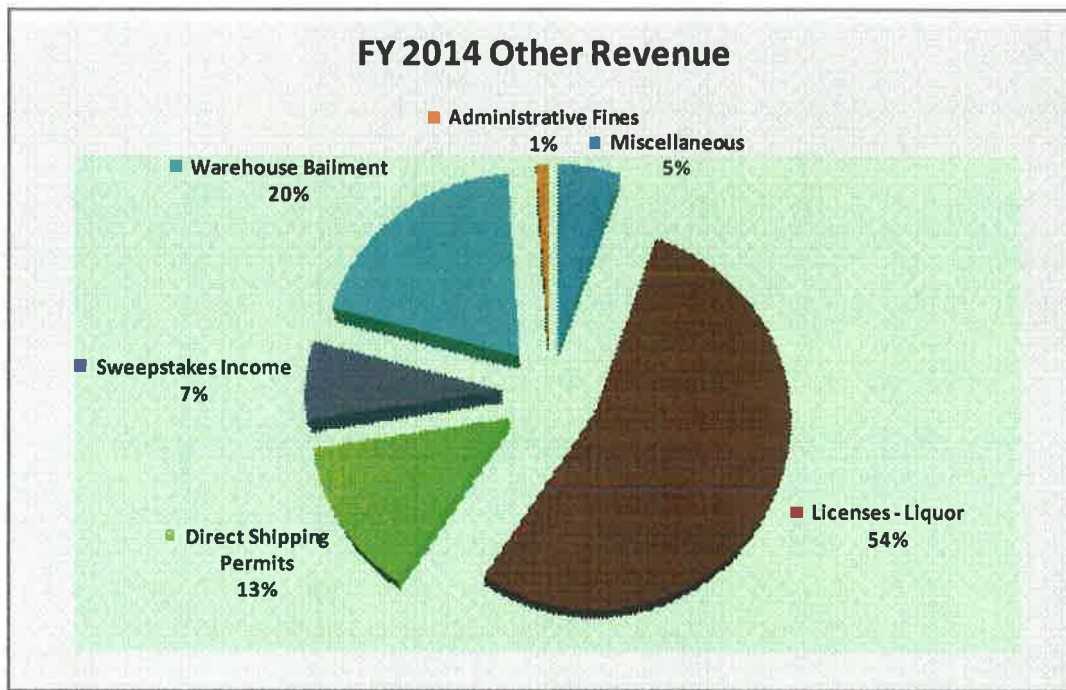
The direct shipping permit program revenue increased 11.37% in fiscal year 2014, and remained strong at just over \$820,000. This program allows New Hampshire residents to order and have wine and/or spirits shipped from anywhere in the nation to their homes.

Revenue from the sale of New Hampshire lottery tickets decreased 16% from the previous fiscal year.

Since December 2011, the Liquor Commission has contracted with CORD Financial Services to install and operate ATM machines at 25 state liquor stores. The Commission earns 60% of the surcharge and interchange fees on each transaction. The program resulted in fiscal year 2014 revenue of over \$52,000. ATM transaction fee revenue has significantly underperformed expectations through the first 19 months of the contract.

The Liquor Commission ceased operation of its owned bailment warehouse during fiscal year 2014. As a result fiscal year 2014 bailment revenues decreased \$658K or 35% from the prior period.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)



Net Sales Increased 3.8% Over the Previous Year

Net sales increased \$22.4 million over the previous year as a result of the Liquor Commission's aggressive marketing and merchandising efforts, competitive pricing and new sales and distribution. Throughout the year the Liquor Commission created excitement for our customers with targeted in-store promotions and creative merchandising campaigns utilizing all forms of advertising and the Internet, which translated into increased sales and profits.

The continued success of innovative marketing programs and wine tastings conducted helped to increase the product knowledge of our customers and ultimately increased sales.

Cost of Goods Sold/Gross Margin

Cost of Goods Sold remained constant in fiscal year 2014 at 71.1% of sales. Gross profits from sales increased to \$176.7 million up \$6.4 million from the previous fiscal year. All stores carry stock historically in high demand, selections of both wine and spirits. Stores with larger space generally located in heavily populated areas offer an expanded selection both in wines and spirits. On our website www.nh.gov/liquor, under the stores link, there is a list of all stores with their address along with stores identified that offer expanded selection.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating Expenses

Operating expenses excluding cost of goods sold, grew at a slightly slower rate than sales and as a result, remained at 7.8% of sales. Increases in spending on infrastructure repairs, debt service, rent, temporary workers and employment benefits were the main drivers behind operating expense growth in fiscal year 2014.

In total at the end of fiscal year 2014, the Liquor Commission lapsed unexpended appropriations back to the General Fund totaling just over \$1.2 million or approximately 2.4% of the total appropriation for the year ended June 30, 2014.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Revenues		
Charges for Sale and Services	\$ 611,157	\$ 588,729
Operating Expenses		
Cost of Sales and Services	434,406	418,380
Administration	46,243	44,178
Depreciation	1,007	966
Total Operating Expenses	<u>481,656</u>	<u>463,524</u>
Operating Income	<u>129,501</u>	<u>125,205</u>
Non-Operating Revenues (Expenses)		
Licenses	4,495	4,206
Beer Taxes	12,656	12,689
Miscellaneous	2,504	(2,049)
Distribution to the State's General Fund	(148,618)	(145,027)
Interest on Bonds	(502)	(319)
Total Nonoperating Revenue (Expense)	<u>(129,465)</u>	<u>(130,500)</u>
Change in Net Position	36	(5,295)
Net Position - July 1	<u>9,707</u>	<u>15,002</u>
Net Position - June 30	<u>\$ 9,743</u>	<u>\$ 9,707</u>

Requests for Information

This annual report is designed to provide a general overview of the Liquor Commission's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to Steven Kiander, Chief Financial Officer at steven.kiander@liquor.state.nh.us.

NEW HAMPSHIRE STATE LIQUOR COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2014
(Expressed in Thousands)

ASSETS**Current Assets:**

Cash	\$ 7,770
Receivables (Net of Allowances for Uncollectible)	8,886
Inventory	54,442
Total Current Assets	<u>71,098</u>

Noncurrent Assets

Land & Land Improvements	3,078
Buildings & Building Improvements	26,895
Construction in Progress	7,007
Equipment	5,206
Less: Allowance for Depreciation and Amortization	<u>(18,555)</u>
Net Capital Assets	<u>23,631</u>
Total Noncurrent Assets	<u>23,631</u>
Total Assets	<u>94,729</u>

LIABILITIES**Current Liabilities:**

Accounts Payable	62,475
Accrued Payroll	1,633
Due to Other State Agencies	2,318
Unearned Revenue	2,194
Bonds Payable-Current	755
Compensated Absences Payable & Uninsured Claims	1,041
Total Current Liabilities	<u>70,416</u>

Noncurrent Liabilities:

Bonds Payable	10,836
Compensated Absences Payable & Uninsured Claims	3,355
Other Noncurrent Liabilities	379
Total Noncurrent Liabilities	<u>14,570</u>
Total Liabilities	<u>84,986</u>

NET POSITION

Net Investment in Capital Assets	<u>9,743</u>
Total Net Position	<u>\$ 9,743</u>

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

**NEW HAMPSHIRE STATE LIQUOR COMMISSION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)**

OPERATING REVENUES

Charges for Sales and Services	\$ 611,157
Total Operating Revenue	<u>611,157</u>

OPERATING EXPENSES

Cost of Sales and Services	434,406
Administration	46,243
Depreciation	<u>1,007</u>
Total Operating Expenses	<u>481,656</u>
Operating Income (Loss)	<u>129,501</u>

NONOPERATING REVENUES (EXPENSES)

Licenses	4,495
Beer Taxes	12,656
Miscellaneous	2,504
Distribution to the State's General Fund	(148,618)
Interest on Bonds	<u>(502)</u>
Total Nonoperating Revenues (Expenses)	<u>(129,465)</u>
Change in Net Position	36
Net Position - July 1	<u>9,707</u>
Net Position - June 30	<u>\$ 9,743</u>

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

NEW HAMPSHIRE STATE LIQUOR COMMISSION
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 613,862
Payments to employees	(25,825)
Payments to suppliers	(456,900)
Payments for Interfund Services	(4,744)
Net cash provided (used) by operating activities	<u>126,393</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment to State General Fund	(149,024)
Proceeds from Collection of Licenses and Beer Tax	17,151
Net Cash Used for Noncapital and Related Financing Activities	<u>(131,873)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition, Disposal, Sale and Construction of Capital Assets	(6,424)
Interest Paid on Bonds	(502)
Principal Paid on Bonds	(756)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(7,682)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Other Income	2,469
Net Cash Provided by Investing Activities	<u>2,469</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10,693)
Cash - July 1	18,463
Cash - June 30	<u>\$ 7,770</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 129,501
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,007
Change in Operating Assets and Liabilities:	
(Increase) Decrease in Receivables	2,727
(Increase) Decrease in Inventories	(9,820)
Increase (Decrease) in Accounts Payable and other Accruals	2,978
Net Cash Provided (Used) by Operating Activities	<u>\$ 126,393</u>

Liquor Non-Cash Capital and Related Financing Activities

During fiscal year 2014, the State's Capital Projects Fund paid \$1,575,000 of Construction in Progress. Liability for Construction in Progress funding is included in the Due to Other State Agencies at June 30, 2014.

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

**NEW HAMPSHIRE STATE LIQUOR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – Summary of Significant Accounting Policies

A. Reporting Entity

Chapter 99, NH Laws of 1933, codified as RSAs 175 through 180, established the New Hampshire State Liquor Commission (the Liquor Commission). The Liquor Commission is comprised of a Commissioner, who is known as the Chairman of the Liquor Commission, and a Deputy Commissioner. The Commissioner is appointed by the Governor with the consent of the Council and the Deputy Commissioner is nominated by the Commissioner and appointed by the Governor with the consent of the Council. The Commissioner and the Deputy Commissioner are appointed to four-year terms. Pursuant to RSA 176:3, the Liquor Commission's primary duties are to optimize profitability, maintain proper controls, assume responsibility for effective and efficient operations, and provide service to customers. The Liquor Commission is organized into three divisions: (1) Division of Enforcement, Licensing and Education; (2) Division of Marketing and Sales; and (3) Division of Administrative Services.

In addition to liquor sales, the Liquor Commission collects license fees on the manufacture, sale, transportation, and warehousing of alcoholic beverages and taxes on beer sold by wholesale distributors and beverage manufacturers to retailers in New Hampshire. The Liquor Commission is also statutorily required to enforce the laws and regulations governing the purchase, consumption, and maintenance of proper control over alcoholic beverages through the State of New Hampshire, in addition to monitoring youth access to tobacco products.

At June 30, 2014 the Liquor Commission processed wholesale and retail sales from 77 owned and leased retail stores and one owned and one contracted warehouse.

For financial reporting purposes, the Liquor Commission is considered a department of the State of New Hampshire. The financial activity of the Liquor Commission is reported as an enterprise fund of the State of New Hampshire and is included in the Comprehensive Annual Financial Report of the State. The State of New Hampshire's Comprehensive Annual Financial Report can be accessed online at: www.admin.state.nh.us/accounting.

The Liquor Commission's financial statements include all financial activity of the Liquor Commission in a separate enterprise fund and do not include any activity related to any other State agency or fund. The financial statements represent the financial net position of only the Liquor Commission as of June 30, 2014 and its change in net position and its cash flows for the year then ended.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements of the Liquor Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting standards. The Liquor Commission accounts for its operations as a single enterprise fund and accordingly uses the accrual basis of accounting. Under the accrual basis,

NOTE 1 – Summary of Significant Accounting Policies (continued)

revenues are recognized when earned and expenses are recognized when the related liability is incurred. The Liquor Commission's operations are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the Liquor Commission are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The Liquor Commission applies all applicable GASB pronouncements.

The accompanying financial statements of the Liquor Commission are presented as of June 30, 2014 and for the fiscal year then ended.

C. Cash Equivalents

Cash equivalents are investments with maturity dates of three months or less from the date of purchase. The majority of the Liquor Commission's cash is held by the State Treasurer. A portion of State cash in Treasury may be pooled for investment purposes in short-term, highly liquid investments which are considered to be cash equivalents. Cash equivalents are recorded at cost.

D. Accounts Receivable

Receivables are reported at their gross value and consist of amounts due at June 30. Receivables consist of amounts due from wholesale distributors and beverage manufacturers for taxes on the sale of alcoholic beverages of \$1,196,917; the credit card processing company for debit/credit card sales of \$5,274,353; on-premise and off-premise licensees for stock purchased on fifteen day credit of \$2,224,644; Warehouse Manufacturing Tax of \$15,900; Direct Shipper Permits of \$49,142; ATM Transaction Fees of \$2,378 and the New Hampshire Departments of Justice, Highway Safety, and Health and Human Services and the Food and Drug Administration for grant reimbursements of \$122,666.

E. Inventory

Wine and spirit inventory is valued at the lower of cost (average cost method) or market. The Liquor Commission maintains the salable liquor inventory at its warehouse in Concord, its contracted warehouse in Bow, and at the Liquor Commission's retail stores throughout the State.

F. Capital Assets

Capital assets, including equipment and real property, are recorded at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the asset which are as follows: buildings - 40 years, building improvements - 20 years, and other equipment - 5 years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Income derived from surplus property sales is recorded in the Liquor Fund at the time of sale. Losses on the disposal of surplus equipment are recorded at the time of disposal.

G. Accounts Payable

The accounts payable at June 30, 2014 primarily consists of purchases of liquor inventory and liquor freight received on or before June 30, 2014 but not paid for until after June 30.

NOTE 1 – Summary of Significant Accounting Policies (continued)

H. Accrued Payroll

The accrued payroll at June 30, 2014 represents payroll and related benefit costs incurred from June 13th through June 30th and paid in July 2014.

I. Unearned Revenue

Unearned revenue is recognized when cash, receivables, or other assets are recorded prior to being earned. The Liquor Commission issues annual licenses to entities involved in the sale, transportation, warehousing, or manufacturing of alcoholic beverages. These licenses are generally effective for a twelve-month period and expire on the last day of the birth month of the licensee or the last day of the month of incorporation or organization. The Liquor Commission also receives cash from the sale of gift cards that allow the holder to redeem the cards for product at a future point in time. The unearned revenue reported by the Liquor Commission at June 30, 2014, is the prorated portion of license fees and gift card sales collected by the Liquor Commission that had not been earned at June 30.

J. Compensated Absences

The 302 full-time classified employees of the Liquor Commission accrue annual, bonus, compensatory and sick leave at various rates within the limits prescribed by the collective bargaining agreement. In conformity with GASB Statement No. 16, the Liquor Commission accrues all types of leave benefits as earned by its classified employees. The compensated absences liability represents the total liability of the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the Liquor Commission's share of Social Security, Medicare, and retirement contributions. The current portion of the leave liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed, which ranges from thirty-two to fifty days based on years of service. The accrual for sick leave is made to the extent it is probable that the benefits will result in termination payments rather than be taken as absences due to illness.

K. Net Position

The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets and capital leases outstanding.

L. Revenues and Expenses

Revenues and expenses are classified as operating or non-operating and are sub-classified by object (e.g. administration and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

Operating Revenues: The Liquor Commission controls the distribution of alcoholic beverages in the State through retail and wholesale sales from the seventy-seven retail stores located throughout the state, wholesale sales from the Liquor Commission warehouse in Concord and contracted warehouse in Bow, and through regulated direct deliveries of product from vendors to licensees.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Cost of Sales and Services: The cost of sales includes the cost of products sold plus the cost of transporting the products for sale to retail stores.

Other Operating Expenses: Other operating expenses include expenses indirectly related to the purchase, sale, transportation, and warehousing of liquor inventory. These expenses consist of Administration, mainly employees' salaries and benefits, rent, and utilities, and Depreciation.

Nonoperating Revenues: Nonoperating revenues include income received from private distributors and retailers for permits and licenses to sell alcoholic beverages, an additional fee on alcoholic beverages sold by wholesale distributors and beverage manufacturers, and warehouse bailment.

Nonoperating Expenses: Nonoperating expenses include payments to the State's General Fund and interest paid on general obligation bonds issued and restricted for capital improvements.

M. Budgetary Control and Reporting

As a department of the State of New Hampshire, the Liquor Commission is required to submit a biennial budget to the Governor of the State of New Hampshire where it is approved and further submitted to the Legislature for its approval. Approved biennial appropriations are provided in annual amounts. The Liquor Commission's official budget, as adopted by the Legislature, is prepared principally on a modified cash basis. Due to the nature of the Liquor Commission's activities, the majority of its costs of sales are not included in the State's biennial budget.

N. Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

O. Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2014, the State adopted the following new accounting standards issued by the GASB:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASBS 65) establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Adoption of GASBS 65 did not require modification to the financial statements.

GASB Statement No. 66, *Technical Corrections—2012*, (GASBS 62) amends GASBS No. 10, *Accounting and Financial Reporting for Risk Financing Related Insurance Issues*, and GASBS No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 66 amends GASB No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. It also amends GASBS No. 62 by modifying the specific guidance of accounting for (1) operating lease payments that

NOTE 1 – Summary of Significant Accounting Policies (continued)

vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group loans, (3) servicing these related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) serving fee rate. Adoption of GASBS 66 did not require modification to the financial statements.

GASB Statement No 70, Accounting Financial for Nonexchange Financial Guarantees (GASBS 70), establishes accounting and financial reporting standards for governments that extend and receive non-exchange financial guarantees. GASBS 70 requires a government that extends a non-exchange financial guarantee to recognize a liability when a qualitative factor and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Adoption of GASBS 70 did not require modification to the financial statement.

GASB Statements No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, (GASBS 63) provided guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount of net position, rather than net assets. The provisions of GASBS 63 requires these changes and replaces the statement of net assets with the statement of net position for the Liquor Commission’s accrual basis financial statements.

NOTE 2 – Cash

The Liquor Commission's cash as reported on the Statement of Net Position as of June 30, 2014 consists of the following:

Cash in Banks (carrying amount)	\$ 637,616
Cash in State Treasury	6,992,305
Petty Cash & Change Fund	<u>140,000</u>
Total Cash	<u>\$ 7,769,921</u>

The State Treasury pools cash except for separate cash and investment accounts maintained in accordance with legal restrictions. The State Liquor Commission's share of the total pooled cash is included on the Statement of Net Position.

Deposits: The following statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits:

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

Custodial Credit Risk: The custodial risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although the State law does not require deposits

NOTE 2 – Cash (continued)

to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk. The Governor and Executive Council must approve all depositories used by the State at least annually.

All deposits at FDIC-insured depository institutions (including noninterest bearing accounts) were insured by the FDIC up to the standard maximum amount of \$250,000 for each deposit insurance ownership category.

While the Liquor Commission accepts payments in both US and Canadian currency, foreign currency risk is essentially non-existent on Liquor Commission deposits, as the volume of Canadian currency transactions is extremely low.

The bank balance of the Liquor Commission's cash accounts at June 30, 2014 was \$242,629 most of which was covered by FDIC insurance or other collateralized agreements. The difference between the carrying value and bank balances for these accounts is the result of deposits-in-transit.

NOTE 3 – Capital Assets

A summary of capital asset balances, which include the eleven State-owned stores, the Concord warehouse, capital lease and headquarters, at June 30, 2014, is presented below:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 2,079,729	\$ -	\$ -	\$ 2,079,729
Other Capital Assets:				
Land Improvements	998,198	-	-	998,198
Buildings	18,970,907	396,325		19,367,232
Building Improvement	7,213,350	314,252	(200)	7,527,402
Construction in Progress		7,007,114		7,007,114
Equipment	4,968,737	282,248	(44,983)	5,206,002
Total Capital Assets	34,230,921	7,999,939	(45,183)	42,185,677
Less: Accumulated Depreciation	(17,584,738)	(1,016,086)	44,983	(18,555,841)
Net Capital Assets	\$ 16,646,183	\$ 6,983,853	\$ (200)	\$ 23,629,836

NOTE 4 – Long Term Liabilities

On November 14, 2012, the State issued \$90 million of general obligation capital improvements bonds. This bond issue allotted \$8.5 million to the Liquor Commission for the construction and repair of liquor stores located in Nashua, Hooksett, Portsmouth, West Chester, and North Hampton.

Bonds Authorized and Unissued: Bonds authorized and unissued amounted to \$33.1 million at June 30, 2014. The proceeds of the bonds are restricted for construction and are intended for liquor stores along Interstate 93 in Hooksett, and construction and repair of new liquor stores in Hampton, Portsmouth, Warner, Nashua, Epping and Salem.

NOTE 4 – Long Term Liabilities (continued)

Bond Issues: On October 27, 2011, the State issued \$100 million of general obligation capital improvement bonds. The bond issue included \$4.1 million for the construction and repair of liquor stores located in Nashua and Hampton. The bond liability was transferred from the State's General Fund to the Liquor Fund during fiscal year 2013.

Changes in Long-Term Liabilities: A summary of general obligation bonds payable, capital leases, compensated absences, and workers' compensation activity for the year ended June 30, 2014 is presented below.

	July 1, 2013			June 30, 2014		
	Balance	Increase	Decrease	Balance	Current	Long-Term
General Obligation Bonds Payable	\$ 12,346,872	\$ -	\$ 755,545	\$ 11,591,327	\$ 755,545	\$ 10,835,782
Capital Lease	412,160		14,744	397,416	18,763	378,653
Claims & Compensated Absences Payable	4,237,327	949,289	790,418	4,396,198	1,040,906	3,355,292
Total	\$ 16,996,359	\$ 949,289	\$ 1,560,707	\$ 16,384,941	\$ 1,815,214	\$ 14,569,727

Debt Maturity: Bonds issued by the State Treasury on behalf of the Liquor Commission are general obligation bonds, which are backed by the full faith and credit of the State. Interest rates on these issues range from 2.0% to 5.0%. The anticipated source of repayment of these is Liquor funds and the annual maturities are as follows:

Payable June 30	DEBT SERVICE		
	Principal	Interest	Total
2015	\$ 755,545	\$ 466,283	\$ 1,221,828
2016	755,545	428,505	1,184,050
2017	755,545	390,728	1,146,273
2018	755,545	352,951	1,108,496
2019	755,545	315,174	1,070,719
2020-2024	3,480,451	1,041,196	4,521,647
2025-2029	2,609,540	476,132	3,085,672
2030-2033	1,723,611	103,413	1,827,024
Total	\$ 11,591,327	\$ 3,574,382	\$ 15,165,709

NOTE 5 – Risk Management Insurance

The Liquor Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

NOTE 5 – Risk Management Insurance (continued)

Principle of Self-Insurance

As a general operating rule, the State self-insures against all damages, losses and expenses except to the extent that provisions of law require the purchase of commercial insurance or a risk assessment has indicated that commercial insurance is economical and beneficial for the State or the general public. In such instances, the State may elect to purchase commercial insurance. There are approximately 26 such commercial insurance programs in effect including State owned real property insurance, fleet automobile liability, and a fidelity and faithful performance bond.

Employee and Retiree Health Benefits

During fiscal year 2004, the State established an Employee Benefit Risk Management Fund, an internal service fund, to account for its uninsured risks of loss related to employee and retiree health benefits. Currently, the State retains all of the risk associated with these benefits, and utilizes an actuarially-established IBNR (incurred but not reported) claims reserve. In addition, state law prescribes the retention of a reserve comprising 5% of annual claims and administrative costs, for unexpected costs. Rates are established annually, by actuaries, based on an analysis of past claims, state and other medical trends, and future estimated loss experience.

Workers' Compensation

Since February 2003, the State has been self-insured for its workers' compensation exposures, retaining all of the risk associated with workers' compensation claims. The State utilizes an actuarial study that provides an annual estimate of the outstanding liabilities for the prior years' claims. The study also contains assumptions about loss development patterns, trends and other claim projections based upon the State's historical loss experience.

The following table presents the changes in the Liquor Commission's claim liabilities during the fiscal years ending June 30, 2013 and 2014.

Workers' Compensation
Claims Payable

Balance			Balance			Balance		
June 30, 2012	Increases	Decreases	June 30, 2013	Increases	Decreases	June 30, 2014	Current	Long-Term
\$ 1,859,000	\$ 1,437,100	\$ 827,100	\$ 2,469,000	\$ 459,998	\$ 517,998	\$ 2,411,000	\$ 504,903	\$ 1,906,097

NOTE 6 – Employee Benefits Plan

Retirement Plan

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time State employees, public school teachers

NOTE 6 – Employee Benefits Plan (continued)

and administrators, permanent firefighters, and police officers within the State of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.667%) of average final compensation multiplied by years of creditable service (1/66 of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.515%) of AFC multiplied by years of creditable service. Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by ¼ of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011 who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

In 2007, legislation was passed that permits transfer of assets into the special account for earnings in excess of 10 1/2 percent as long as the actuary determines the funded ratio of the consolidated retirement system to be at least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account. In FY2011, two pieces of legislation passed that impacted the special account period.

NOTE 6 – Employee Benefits Plan (continued)

The New Hampshire Retirement System issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord NH 03301-8507. Or from their website at <http://www.nhrs.org>

Funding Policy: The Plan is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II fire-fighter members contributed 11.80% of gross earnings and group II police officers contributed 11.55% of gross earnings. Employers contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll.

The Liquor Commission's required and actual contributions to the plan for the years ending June 30, 2014 and 2013 were \$1.8 million and \$1.5 million respectively. Included in these contributions for fiscal year 2014 and fiscal year 2013 is an amount for other postemployment benefits of \$30K and \$23K, respectively. The Liquor Commission's contributions for the fiscal year ended June 30, 2014 increased over the amounts contributed for the fiscal years ended June 30, 2013, primarily due to increased contribution rates.

Other Postemployment Benefits

In addition to providing benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of state service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21:I:30 and provide through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health plan (PLAN), which is the state's self-insurance internal service fund implemented in October 2003 for active state employees and retirees. The plan funds the cost of medical claims by charging actuarially develops working rates to State agencies for participating employees, retirees and eligible spouses. The Liquor Commission contributions to the fund for the years ended June 30, 2014 and 2013 were \$4.7 million and \$4.5 million respectively.

An additional major source of funding for retiree benefits is from the New Hampshire Retirement System medical premium subsidy program for group I and group II employees. The state legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), actuarial determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortized any unfunded actuarial liabilities over a period not to exceed 30 years.

The State's long-term cost of retirement health care and Other Post-Employment Benefits (OPEB) are determined actuarial on a state-wide basis as required under GASB 45. The most recent actuarial valuation was performed as of June 30, 2013. Disclosure of the annual OPEB cost, funding status, met OPEB obligation components of cost and other information concerning the plan are provided in the State Of New Hampshire Comprehensive Annual Financial Report.

NOTE 7– Leases

Operating Leases

The Liquor Commission has lease commitments for space requirements which are accounted for as operating leases. These leases, subject to continuing appropriation, extend forward a number of years and may contain renewal options. Rent expenditures for fiscal year 2014 were approximately \$4.1 million. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2014.

Fiscal Year	Lease Payment
2015	\$ 3,267,569
2016	3,288,660
2017	3,238,953
2018	3,270,259
2019	3,272,742
2020 - 2024	<u>3,290,599</u>
Total	<u>\$ 19,628,782</u>

Capital Leases

The Liquor Commission entered into a lease agreement for retail space in Peterborough, NH, for the period May 1, 2011 to April 30, 2021. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments.

The future minimum lease obligation and the net present value of minimum lease payments as of June 30, 2014 are as follows:

Fiscal Year	Store Lease
2015	\$ 113,496
2016	115,387
2017	124,845
2018	124,845
2019	124,845
2020-2021	<u>228,883</u>
Total Future Minimum Lease Payments	832,301
Less: Amount Representing Interest	<u>(434,885)</u>
Present Value of Net Future Minimum Lease Payments	<u>\$ 397,416</u>

Capital leases included in capital assets at June 30, 2014 include the following:

Buildings and Building Improvements	\$ 1,563,059
Less: Accumulated Depreciation	<u>(879,223)</u>
Net	<u>\$ 683,836</u>

NOTE 8 – Sales and Services Revenue

Sales and services revenue is reported net of discounts and credit card fees. For the fiscal year-ended June 30, 2014 the Commission's reported operating revenues of \$611.2 million were net of \$9.8 million of discounts and \$5.9 million of credit card fees.

NOTE 9 – Litigation

Liquor Commission**Law Warehouses, Inc., v. New Hampshire State Liquor Commission (2013102976)**

Law Warehouses Inc. ("LWI") has provided warehousing services to the New Hampshire State Liquor Commission ("NHSLC"). The parties' current contract ended on October 31, 2013. In March 2012, the NHSLC issued a RFP requesting bids for a 20-year warehousing services contract to begin upon the expiration of its current contract with LWI. In June 2012, LWI and four other vendors submitted bids under the RFP. On November 20, 2012, following a thorough review of each bid, the NHSLC awarded the warehousing contract to Exel, Inc. ("Exel"). LWI finished third under the NHSLC's bid scoring system. LWI did not participate in the protest process outlined in the RFP, but instead, on February 27, 2013, filed a civil action seeking to enjoin the contract between the NHSLC and Exel, and order that a new bidding process take place. LWI contends that the NHSLC improperly modified the RFP in favor of Exel's bid in violation of New Hampshire's competitive bidding laws. The trial court denied LWI's motion for preliminary injunction. LWI has submitted expert reports seeking approximately \$24.8 million dollars in lost profit damages. The State's expert has opined that, if LWI was to prevail on liability, damages would be approximately \$5.2 million dollars. Trial is scheduled for the week of May 4, 2015. We are unable to determine if an unfavorable outcome is likely.

Law Warehouses, Inc., v. New Hampshire State Liquor Commission and Exel Inc. (2014111610)

On October 17, 2014, the plaintiff brought a new lawsuit in Hillsborough Superior Court, Southern District. The claims arise from the same set of facts for which trial is scheduled to begin on May 4, 2015. Namely, the plaintiff claims that it was improperly denied the 20 year contract for liquor warehouse services for the state due to a civil conspiracy between the State and the winning vendor. The State has filed a motion to dismiss which is pending. The plaintiff has filed a motion to consolidate this new lawsuit with the pending suit set forth above. The damages sought would be the same as those set forth above.

XTL-NH, Inc., v. New Hampshire State Liquor Commission and Exel Inc. (2013103239)

In March 2012, the New Hampshire State Liquor Commission issued a RFP requesting bids for a 20-year warehousing services contract. In June 2012, XTL-NH, Inc. ("XTL") and four other vendors submitted bids under the RFP. On November 20, 2012, following a thorough review of each bid, the NHSLC awarded the warehousing contract to Exel, Inc. ("Exel"). XTL finished second under the NHSLC's bid scoring system. XTL participated in the two-level protest process outlined in the RFP. On March 8, 2013, the NHSLC denied XTL'S protest. On March 12, 2013, XTL filed a civil action requesting that the Court enjoin performance of the contract between NHSLC and Exel and ordered the NHSLC to award the contract to XTL. XTL contends that as the lowest responsible bidder, it is entitled to the contract. Further, XTL argues that NHSLC improperly modified the RFP to favor Exel's bid in violation of New Hampshire's competitive bidding laws. On May

NOTE 9 – Litigation (continued)

7, 2013, the trial court denied XTL's request for preliminary injunction. Trial is scheduled for January 5, 2015 though a joint motion to continue trial is pending. XTL's expert projects lost profits of approximately \$54 million dollars. The State's expert has opined that, if XLT was to prevail on liability, damages would be approximately \$5.2 million dollars. We are unable to determine if an unfavorable outcome is likely or not.

NOTE 10 – Contingent Liability

Payroll Matters: As a result of converting to a new consolidated payroll system, the State has become aware of certain potential compliance concerns with Federal wage and hour regulations associated with the Liquor Commission's payroll processing procedures. An estimate of potential liability for the Liquor Commission related to these circumstances cannot be determined at this time.

NEW HAMPSHIRE STATE LIQUOR COMMISSION



Joseph W. Mollica
Chairman



Michael R. Milligan
Deputy Commissioner

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