



THE UTAH DEPARTMENT OF
ALCOHOLIC BEVERAGE CONTROL

—2017—

ANNUAL REPORT

SUMMARY OF OPERATIONS
JULY 1, 2016–JUNE 30, 2017

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INTRODUCTION

It is my pleasure to present the Fiscal Year 2017 Annual Report for the Department of Alcoholic Beverage Control (DABC). Fiscal Year 2017 was a trying year for the department with the challenges associated with meeting continued growth pressures being compounded by the challenges that accompany the implementation of a new Enterprise Resource Planning (ERP) system. While the myriad challenges we faced tested the department's operational capabilities, I am proud to recognize the staff's impressive and selfless efforts in ensuring that the DABC overcame these challenges and was able to receive, ship and sell products to meet public demand for alcoholic beverages throughout the year.

FY 2017 sales, excluding taxes, increased a relatively modest 5.3 percent over the FY 2016's record total to \$427.61 million. These sales resulted in the return of approximately \$178.90 million to the state treasury, state agencies and programs, the school lunch program and local jurisdictions:

- A profit transfer of **\$106.34 million** to the General Fund;
- A **\$42.75 million** contribution to Utah's School Lunch Program;
- Funding of **\$4.27 million** for the State Bureau of Investigation's liquor law enforcement program;
- Funding of **\$2.38 million** for Parents Empowered, the state's underage drinking prevention program; and
- Collection and disbursement of **\$23.15 million** in sales taxes to the state, local counties and municipalities.

The department also had some success obtaining funding to begin to address the twin concerns of additional compensation and additional store staff. Department employees realized a 4 percent

increase in pay in FY 2017. This was made possible by virtue of a 2 percent statewide increase in compensation requested by the governor and funded by the Legislature, and an additional department-funded 2 percent increase that was made possible by the restoration of funds that were cut from the department budget in FY 2016. The department also received funding for an additional 10 FTE for the stores that helped limit the rate of growth in workload at the stores.

Finally, the DABC continues to pursue legislative authorization to construct additional economically sustainable State Liquor and Wine Stores in order to meet growth. The DABC commissioned a new facilities master plan to assist in prioritizing the construction of new stores, as well as the replacement or relocation of existing stores. The department received authorization to construct two new stores during the 2017 General Session and, in June 2017, opened a new State Liquor and Wine Store in West Valley City, Utah.

Sincerely,



Salvador D. Petilos
Executive Director



COMMISSIONER NARRATIVE

It has been an interesting year! With comprehensive liquor law overhaul by the 2017 General Session of the Legislature, staff and industry have been challenged to respond to some of the more significant provisions. In this regard, I must thank Representative Brad Wilson and Senator Jerry Stevenson for their hard work in developing the legislative package I refer to. Representative Wilson was especially diligent in obtaining input from all those who had an interest. Not everyone got what they wanted, but the legislation reflects necessary compromise.

Thanks also to our remarkable employees who have responded to many changes required by the legislation. Now as we approach the holiday season, I want to thank, in advance, all of our employees for their diligence and loyalty to the department and its mission. We anticipate a busy season and I am confident that all will respond. Our financial tracking clearly indicates that there is constant pressure on our already hard-working employees. With this in mind, we are always aware of the need for better compensation of our people. I hope that the Legislature will be responsive to our needs and perhaps review how the department is funded.

This year we said goodbye to two fine commissioners, Jeff Wright and Olivia Agraz. Both served faithfully and diligently and we were sad to see them leave. However, the governor nominated two excellent replacements, Tom Jacobsen and Sophia DiCaro.

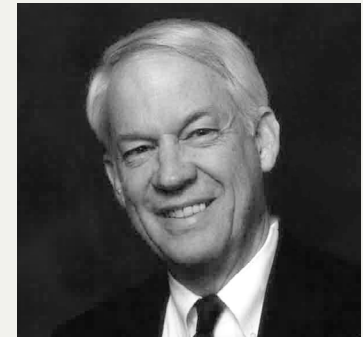
Both have excellent credentials and we are looking forward to working with them.

Sincerely,

John T. Nielsen
Chair, DABC Commission

DABC Commissioners Chair—John T. Nielsen

is retired as Sr. Legal Counsel and Director of Government Relations for Intermountain Healthcare. Nielsen has had a long career in government and private law practice, serving as Assistant City Attorney for Salt Lake City, Salt Lake City Police first legal advisor, Deputy County Attorney and Chief Deputy County attorney in charge of the Criminal Division and as Utah's Commissioner of Public Safety. In that capacity, he was in charge of all the state's law enforcement and public safety components. He and his wife Suzi are the proud parents of four daughters and 11 grandchildren.





DABC COMMISSIONERS

Vice Chair—S. Neal Berube is the president and CEO of Associated Food Stores (AFS), an independent retailer-owned food distributor in Salt Lake City, Utah. Berube graduated magna cum laude with a B.S. degree in accounting from Weber State University in 1979 and earned CPA status in 1981. He has served on numerous boards including Intermountain Healthcare. He also served as a member of Governor Herbert's commission to optimize state government.

Steven B. Bateman retired from a 35-year career in hospital administration, most recently as CEO of St. Mark's Hospital in Salt Lake, in September 2017. He began a new position as full-time faculty member of Weber State University, teaching health services administration courses to both undergrad and graduate students. He received his MBA from Utah State University in 1982. He is a recipient of the Distinguished Healthcare Executive Award and served on the board of directors of the High-Risk Insurance Pool. He and his wife Kathy are the parents of five children.

Kathleen McConkie Collinwood received her Bachelor of Arts from Brigham Young University, and went on to earn her Juris Doctor from Hamline University School of Law in St. Paul, Minnesota. She is a former partner at Parker, McKeown, and McConkie and is currently with McConkie Law Offices.

She is admitted to practice law in the state of Utah, the U.S. Tax Court, and the 9th & 10th Circuit Federal Appellate courts. She has also prepared briefs for the U.S. Supreme Court.

Amanda Smith is an environmental and natural resources attorney counseling clients on compliance with state and federal environmental laws. She was energy policy advisor to Governor Gary Herbert and has served as the executive director of the Utah Department of Environmental Quality. She received her law degree from Gonzaga University School of Law.

Amanda received the 2011 Governor's Medal for Science and Technology and was honored by the Utah State Bar in 2012 as Lawyer of the Year in Energy, Natural Resource and Environmental Law.

Thomas N. Jacobson is a graduate of Utah State University and the University of Utah Law School. He has been a practicing attorney for more than 40 years in Utah, California and Texas. He is admitted to practice at the U.S. Supreme Court as well as several Federal appeals courts.

Tom, as he likes to be called, has been honored many times with professional awards, including League of Women Voters Citizen of the Year, a 2015 Southern California Top Lawyer, and named as one of Southern California's Super Lawyers in 2007. He is also active in numerous civic and nonprofit organizations.



LEGISLATIVE SUMMARY

The following laws were enacted during the 2017 General Session of the Utah Legislature.

SB 155
*Alcoholic Beverage
Control Budget
Amendments*
Mayne, K

This legislation modified provisions related to the budget of The Department of Alcoholic Beverage Control by requiring that the department's base budget shall include as an appropriation from the Liquor Control Fund: credit card- related fees paid by the department; package agency compensation; and the department's costs of shipping and warehousing alcoholic products.

The department may retain each fiscal year from the Liquor Control Fund \$1,000,000 that the department may use for: capital equipment purchases; salary increases for department employees; performance awards for department employees; or information technology enhancements because of changes or trends in technology.

STATUS: *Signed, Effective 7/1/17*

HB 442
SB 279
*Alcohol Amendments and
Alcohol Modifications*
Wilson, B

This legislation streamlined dining establishments by eliminating dining clubs; grandfathered bars and dual licenses; allowed for visible dispensing in restaurants within a dispensing area; reduced proximity restrictions for restaurants to 300 feet pedestrian travel and removed commission authority to grant variances to proximity restrictions (see HB442 amended by SB279); established a department training program for on- and off-premise licensees; made modifications to label approvals to allow gluten free beer to be sold in the state; amended provisions applicable to off-premise beer retailer to require state licensing as well as modifications to labeling and display requirements; and increased the mark-up on liquor by 2 percent.

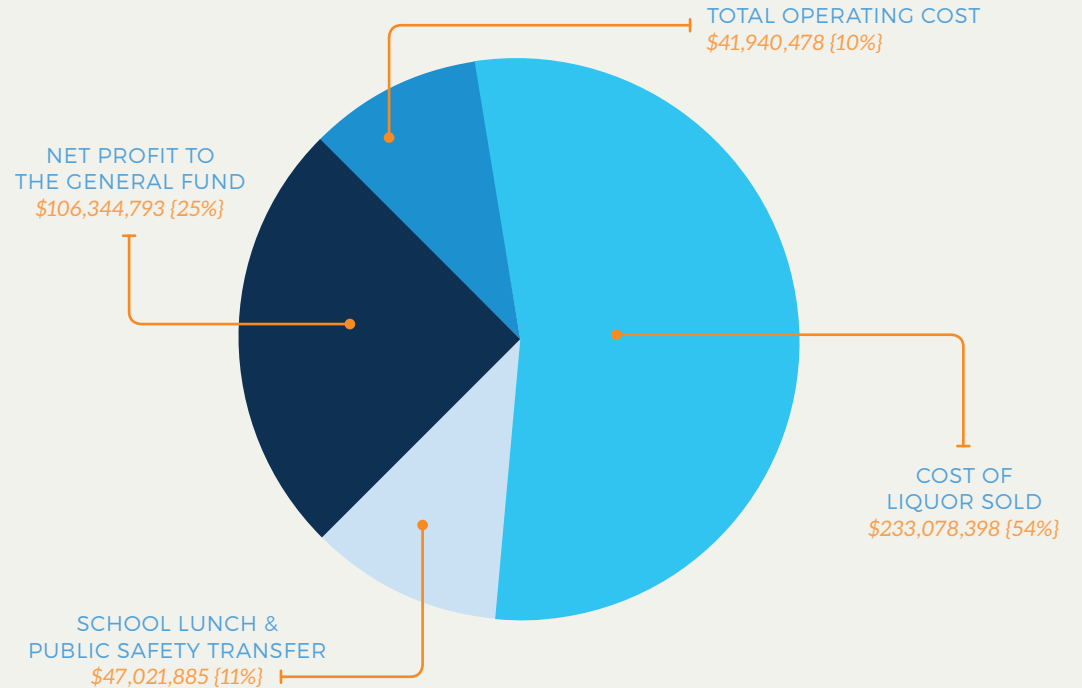
STATUS: *Signed, Effective 5/9/17*

FINANCIAL HIGHLIGHTS

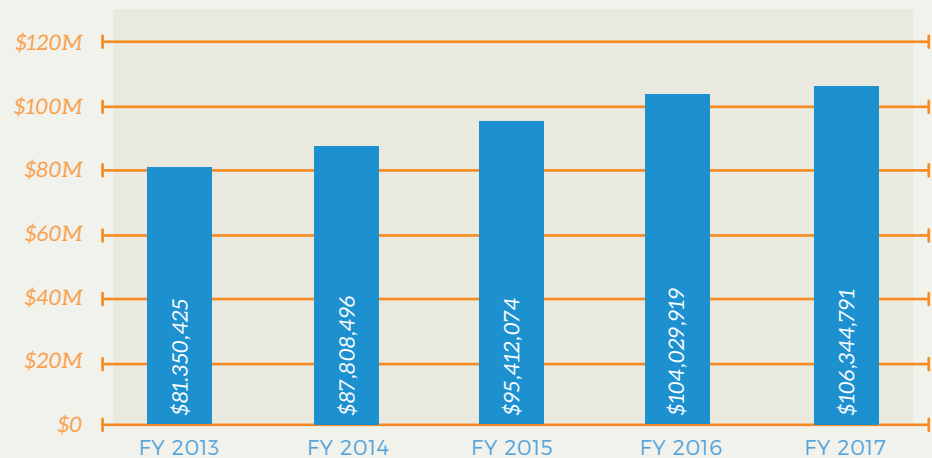
Where does the money go? State Liquor and Wine Stores generated more than \$427 million in sales and taxes in FY2017.

As a result, more than \$170 million was returned to the state treasury, funded state programs or was returned to local communities in FY 2017.

- The DABC returned \$106.34 million to the General Fund.
- The Department of Public Safety, State Bureau of Investigation received \$4.27 million for enforcement of state liquor laws.
- Schools received \$42.75 million for the School Lunch Program.
- Parents Empowered received \$2.38 million to fund its efforts to curtail underage drinking.
- The state and local communities received \$23.15 million in sales taxes.



DISTRIBUTION OF PROCEEDS



NET PROFIT
FIVE-YEAR SUMMARY



5-YEAR FINANCIAL SUMMARY

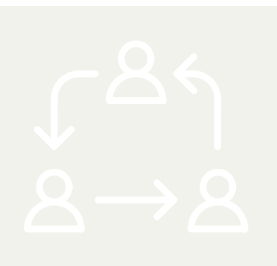


SUMMARY FINANCIAL INFORMATION	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	CAGR*
REVENUE	\$328,912,217	\$348,453,487	\$376,238,719	\$405,911,384	\$427,606,013	5.39%
GROSS PROFIT	154,008,906	162,281,115	173,068,079	186,732,544	194,527,614	4.78%
OTHER INCOME	3,996,107	3,656,219	3,520,511	3,597,916	3,776,720	-1.12%
TOTAL REVENUE	\$158,005,013	\$165,937,334	\$176,588,590	\$190,330,460	\$198,304,334	4.65%
<i>Less Parents Empowered</i>	1,739,981	1,883,768	2,061,086	2,185,762	2,331,288	6.03%
<i>Less Operating Expenses</i>	36,712,605	37,854,753	37,647,446	39,406,980	42,604,600	3.02%
<i>Less Transfer to SBI</i>	3,468,655	3,485,802	3,762,385	4,064,345	4,274,717	4.27%
<i>Less School Lunch Program</i>	34,686,558	34,858,020	37,623,855	40,643,453	42,747,168	4.27%
NET PROFIT	\$81,350,425	\$87,808,496	\$95,412,074	\$104,029,919	\$106,346,561	5.50%
SALES TAX	17,882,083	18,751,649	20,187,202	21,747,746	23,152,093	5.30%
DABC OPERATIONS SUMMARY	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	CAGR*
REVENUE	\$328,912,217	\$348,453,487	\$376,238,719	\$405,911,384	\$427,606,013	5.39%
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OTHER INCOME	3,996,107	3,656,219	3,520,511	3,597,916	3,776,720	-1.12%
TOTAL REVENUE	\$158,005,013	\$165,937,334	\$176,588,590	\$190,330,460	\$198,304,334	4.65%
<i>Less Salaries and Wages</i>	15,228,792	15,766,050	16,138,132	16,570,978	17,867,569	3.25%
<i>Less Profit Transfers</i>	38,155,214	38,343,822	41,386,241	44,707,799	47,021,885	4.27%
<i>Less Other Expenses</i>	23,223,794	23,972,471	23,570,400	25,021,764	27,068,319	3.11%
NET PROFIT	\$81,350,425	\$87,808,496	\$95,412,074	\$104,029,919	\$106,346,561	5.50%
WAGES PERCENT OF GROSS SALES	4.39%	4.29%	4.07%	3.87%	4.18%	-0.99%
TOTAL CASES SOLD	2,932,249	3,057,085	3,230,925	3,418,914	3,518,742	3.71%

*Compound Annual Growth Rate

HOW PRODUCTS REACH CONSUMERS

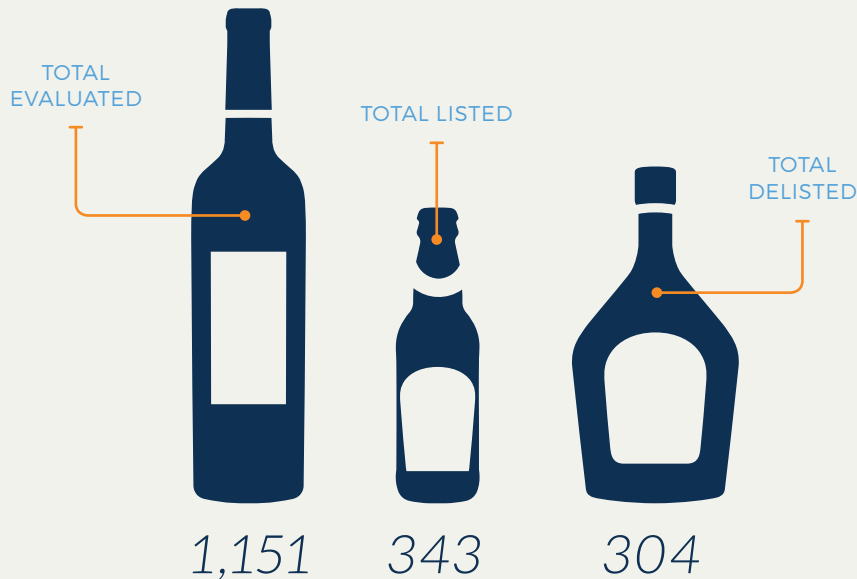
Three groups—
purchasing, warehouse
and stores—are
responsible for getting
products from suppliers
to the customer.



DABC DIVISION OF PURCHASING

The division seeks to select and provide Utah consumers the best wines, distilled spirits and heavy beers at competitive prices. The division buys approximately 6,000 individual wine, spirits and heavy beer products from domestic and foreign producers annually.

Evaluating new products to list and add to DABC's product offering is a major function of the division and is critical to maintaining a vibrant product line.

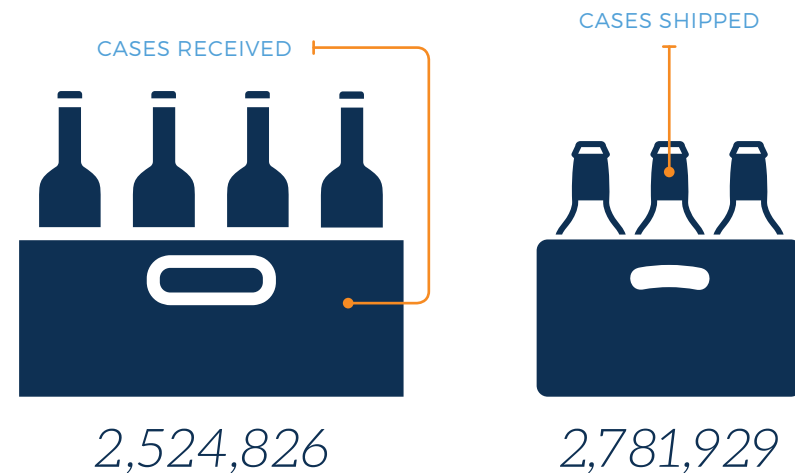


**NEW PRODUCTS
EVALUATED FOR LISTING FY 2017**

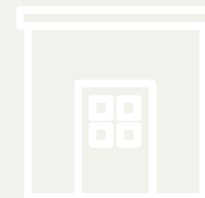


DABC WAREHOUSE

The DABC operates a central warehouse located in Salt Lake City. The 141,000-square-foot warehouse contains an automated storage and retrieval system capable of holding 9,600 pallets. The warehouse stores, on average, 525,000 cases daily.



DABC WAREHOUSE ACTIVITY FY 2017



DABC RETAIL STORES

As of June 30, 2017, the DABC operated 45 retail facilities.

43

STANDARD
STORES

2

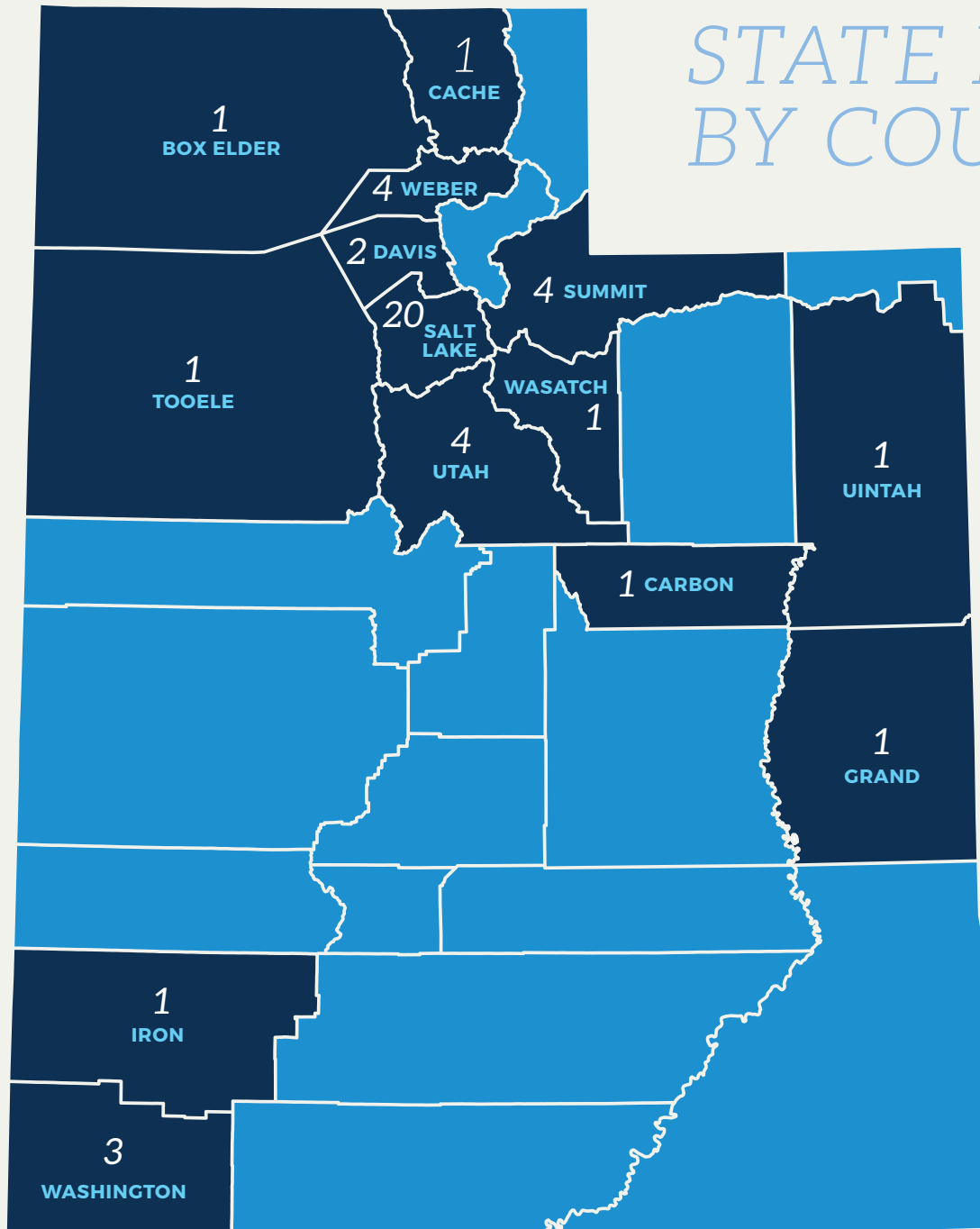
CLUB/LICENSEE
STORES

45 STORES STATEWIDE
378,278 SQUARE FEET
8,600 SQ. FT. AVERAGE STORE SIZE
\$9,225,258 AVERAGE STORE SALES

STORE PERSONNEL (JUNE 30, 2017)
290 FULL-TIME EMPLOYEES
384 PART-TIME EMPLOYEES
674 TOTAL



STATE LIQUOR STORES BY COUNTY



45

TOTAL STORES

TOP 10 STORES

BY SALES VOLUME

	FY 2017	FY 2016	PERCENT INCREASE
SALT LAKE CLUB STORE	\$25,133,155	\$23,473,203	9.07%
COTTONWOOD HEIGHTS	\$19,652,043	\$19,218,775	2.26%
SANDY	\$18,932,874	\$18,132,947	4.42%
SNOW CREEK, PARK CITY	\$15,398,690	\$14,714,279	4.65%
SUGARHOUSE	\$15,386,076	\$15,002,647	2.56%
HOLLADAY	\$15,232,840	\$14,451,007	5.41%
PARK CITY CLUB STORE	\$14,908,638	\$13,659,059	9.43%
KEARNS	\$13,952,303	\$13,697,132	1.87%
KIMBALL JUNCTION	\$13,550,348	\$12,930,124	4.80%
DOWNTOWN SLC	\$13,165,720	\$13,466,458	-2.23%



TOP 10 SPIRITS

BY UNIT SALES

	SIZE	SALES	UNITS SOLD
BARTON VODKA	375 ml	\$807,142	245,332
BARTON VODKA	1750 ml	\$2,888,580	241,721
TAAKA VODKA	375 ml	\$468,866	146,980
TAAKA VODKA	1750 ml	\$1,518,430	129,529
FIREBALL CINNAMON WHISKY	750 ml	\$1,857,474	118,199
KAMCHATKA VODKA & LIQUEUR	375 ml	\$351,419	108,129
BARTON VODKA	750 ml	\$560,634	96,828
SMIRNOFF VODKA	1750 ml	\$2,038,246	85,166
BARON ROTHSCHILD VODKA	375 ml	\$284,875	84,034
KAMCHATKA VODKA & LIQUEUR	1750 ml	\$943,528	81,282

BY SALES DOLLARS

	SIZE	SALES	UNITS SOLD
BARTON VODKA	1750 ml	\$2,888,580	241,721
JACK DANIEL'S BLACK LABEL	1000 ml	\$2,225,388	77,442
SMIRNOFF VODKA	1750 ml	\$2,038,246	85,166
PATRON SILVER TEQUILA	750 ml	\$1,990,252	40,700
JACK DANIEL'S BLACK LABEL	1750 ml	\$1,887,201	39,327
FIREBALL CINNAMON WHISKY	750 ml	\$1,857,475	118,199
JAMESON IRISH WHISKEY	750 ml	\$1,803,010	66,140
CROWN ROYAL	750 ml	\$1,724,755	64,462
CROWN ROYAL	1750 ml	\$1,716,987	31,741
CROWN ROYAL REGAL APPLE	750 ml	\$1,540,827	59,009

TOP 10 WINES

BY UNIT SALES

	SIZE	SALES	UNITS SOLD
COOKS BRUT SPARKLING WINE	750 ml	\$412,178	66,865
VENDANGE PINOT GRIGIO	500 ml	\$220,926	60,881
KENDALL-JACKSON VINTNER'S RESERVE CHARDONNAY	750 ml	\$927,150	56,017
MENAGE A TROIS RED	750 ml	\$624,979	55,132
FRANZIA SUNSET BLUSH HOUSE WINE	5000 ml	\$816,470	54,097
VENDANGE CHARDONNAY	500 ml	\$192,550	52,861
FRANZIA CHILLABLE RED HOUSE WINE	5000 ml	\$741,075	48,930
BOGLE CHARDONNAY	750 ml	\$387,183	46,920
COOKS EXTRA DRY SPARKLING WINE	750 ml	\$262,797	44,822
BOTA BOX PINOT GRIGIO	3000 ml	\$845,026	42,818

BY SALES DOLLARS

	SIZE	SALES	UNITS SOLD
KENDALL-JACKSON VINTNER'S RESERVE CHARDONNAY	750 ml	\$927,150	56,017
VEUVE CLICQUOT BRUT YELLOW LABEL	750 ml	\$854,449	16,066
BOTA BOX PINOT GRIGIO	3000 ml	\$845,026	42,818
BLACK BOX CABERNET	3000 ml	\$829,713	36,536
FRANZIA SUNSET BLUSH HOUSE WINE	5000 ml	\$816,470	54,097
FRANZIA CHILLABLE RED HOUSE WINE	5000 ml	\$741,075	48,930
MEIOMI PINOT NOIR	750 ml	\$702,788	35,157
BLACK BOX CHARDONNAY CALIFORNIA	3000 ml	\$677,658	29,604
FRANZIA CHARDONNAY AUSTRALIAN	5000 ml	\$667,028	34,922
SONOMA-CUTRER CHARDONNAY	750 ml	\$656,567	31,280





TOP 10 BEERS, CIDERS & FMBs



BY UNITS SOLD

	SIZE	SALES	UNITS SOLD
ICEHOUSE BEER	355 ml	\$1,100,167	1,111,280
SQUATTERS HOP RISING DOUBLE IPA	330 ml	\$1,667,487	882,268
BUSCH ICE LAGER	355 ml	\$674,635	681,449
STELLA ARTOIS	330 ml	\$1,248,328	570,013
PACIFICO LAGER MEXICO	355 ml	\$832,507	440,480
WASATCH DEVASTATOR DOUBLE BOCK	355 ml	\$655,354	346,748
SIERRA NEVADA PALE ALE	355 ml	\$617,129	333,583
SQUATTERS HOP RISING DOUBLE IPA CAN	355 ml	\$580,833	307,319
MICKEY'S FINE MALT LIQUOR	355 ml	\$412,561	305,601
SIERRA NEVADA PALE ALE CANS	355 ml	\$564,513	305,142

BY SALES DOLLARS

	SIZE	SALES	UNITS SOLD
SQUATTERS HOP RISING DOUBLE IPA	355 ml	\$1,667,487	882,268
STELLA ARTOIS	330 ml	\$1,248,328	570,013
ICEHOUSE BEER	355 ml	\$1,100,167	1,111,280
PACIFICO LAGER MEXICO	355 ml	\$832,507	440,480
BUSCH ICE LAGER	355 ml	\$674,635	681,449
WASATCH DEVASTATOR DOUBLE BOCK	355 ml	\$655,354	346,748
RED ROCK ELEPHINO IPA	500 ml	\$633,029	174,988
SIERRA NEVADA PALE ALE	355 ml	\$617,129	333,583
ANGRY ORCHARD CRISP APPLE HARD CIDER	355 ml	\$611,749	298,414
SQUATTERS HOP RISING DOUBLE IPA CAN	355 ml	\$580,833	307,319



AVERAGE UTAH CONSUMPTION PER CAPITA

(IN GALLONS)*

ALCOHOL TYPE	2017	2016
WINE	1.183	1.158
SPIRITS	1.032	0.987
HEAVY BEER	0.656	0.622
FLAVORED MALT BEVERAGES	.07	.082
TOTAL	2.941	2.849

*Based on estimated population of 3,051,200 as of June 30, 2017, and 3,048,200 as of June 30, 2016.

COMPARATIVE GALLONAGE FOR UTAH

ALCOHOL TYPE	2017	2016
WINE	3,609,107	3,531,285
SPIRITS	3,150,283	3,009,051
HEAVY BEER	2,000,614	1,896,646
FLAVORED MALT BEVERAGES	212,992	250,344
TOTAL GALLONS	8,972,996	8,687,326

DIVISION OF LICENSING & COMPLIANCE



The Division of Licensing and Compliance is responsible for the licensure of all persons involved in the manufacture and sale of alcohol in the state of Utah. The division strives to assist licensees and permittees to remain in compliance with the requirements of the Alcoholic Beverage Control Act and open for business.

APPLICATIONS RECEIVED AND PROCESSED IN FY 2017

2,076	LICENSE/PERMIT RENEWALS
280	NEW LICENSES/PERMITS
783	EVENT PERMITS
604	LABEL APPROVALS
1,118	CRIMINAL BACKGROUND CHECKS

TOTAL LICENSEE AUDITS CONDUCTED IN FY 2017

442	CLUBS & TAVERNS
1,011	RESTAURANTS
131	BEER RECREATIONAL
147	OTHER LICENSES



PARENTS EMPOWERED MAGAZINE



PREVENTION STARTS WITH PARENTING

Parents are the number one influence in their kids' lives.

Kids need clear rules and expectations to stay alcohol-free.

Parents often talk to their kids two years too late concerning alcohol.

PARENTS EMPOWERED

Parents Empowered is a statewide, state-sponsored campaign launched in September 2006 to educate parents and communities about the lasting harms of underage drinking and provide them with the proven skills, tools and information required to help prevent it. Parents Empowered is targeted directly at parents rather than teens or children, as parents and community support are keys to preventing underage drinking. The campaign is designed to introduce and establish a no underage drinking community social norm. Based on clear-cut research, underage drinking can no longer be thought of as a harmless rite of passage.

Program Effectiveness

The 2016-17 year is a significant one for Utah's Parents Empowered underage drinking prevention campaign. Over the years since 2006, when Parents Empowered was initially created, all measures of underage drinking in Utah had decreased, year-over-year, often faster than the national average. This is an incredible record of success, considering that Utah's youth alcohol use was already low. But for the first time since its inception, some areas within the state experienced a modest increase in underage drinking.

According to the latest Student Health and Risk Prevention (SHARP) survey data, Utah's uptick is seen in the 30-day-use category among sixth- and 12th-graders, despite other grades and use-cases leveling off or experiencing a decline.

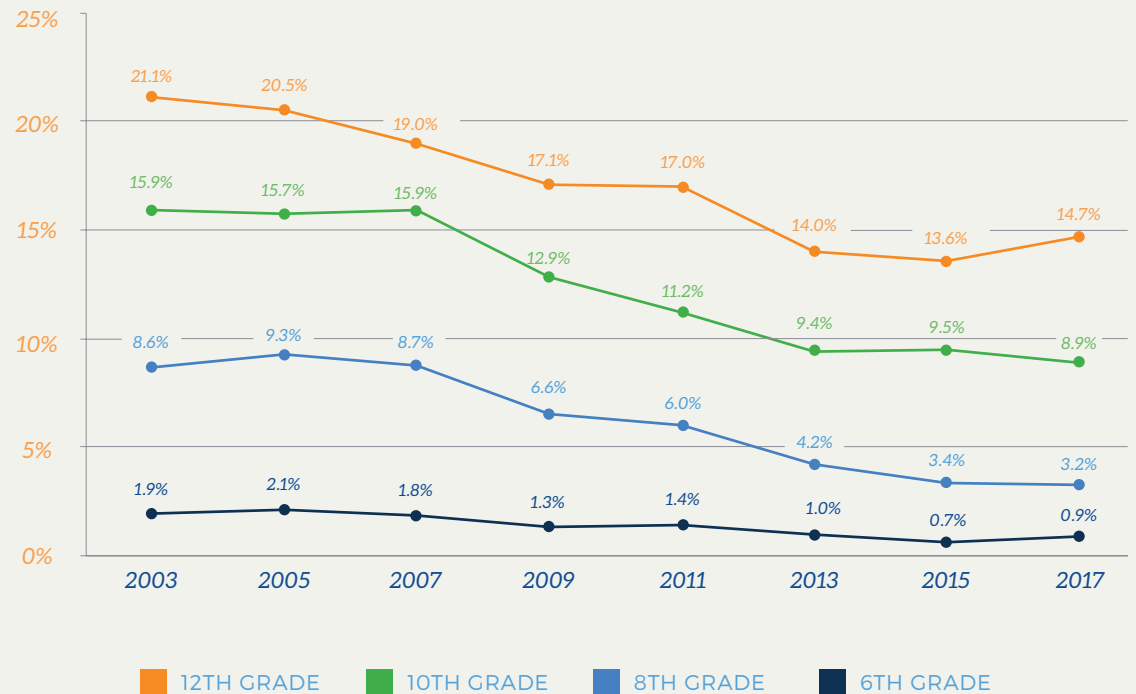
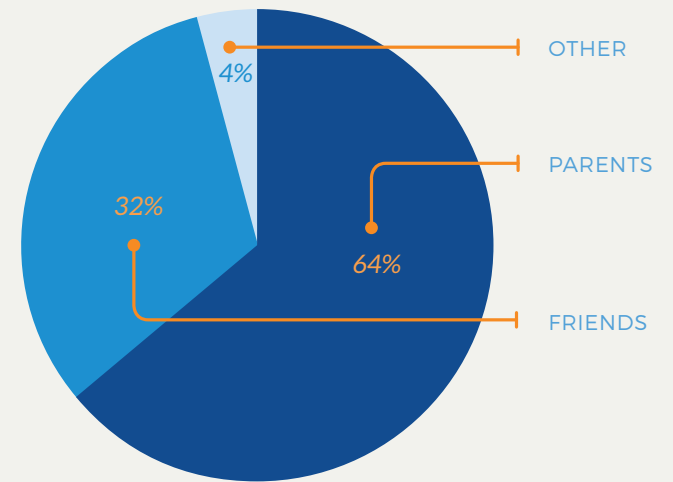
Community Mobilization and Return on Investment

The key to Parents Empowered's success is that it's more than just an ad campaign. It's a community mobilization effort embraced by both the public and private sectors, focused on educating the public about the negative consequences and changing social norms about underage drinking.

In FY 2017, Parents Empowered invested substantial resources into its "mini-grant" program with city and county prevention coalitions, customizing the campaign's messages to local needs, and taking advantage of uniquely effective, local marketing opportunities.

INFLUENCE ON KIDS

PARENT FOCUS GROUP QUESTION:
Who has the greatest influence on kids' decisions to drink or not?



30-DAY ALCOHOL USE: UTAH (2003-2017)

Between added value and earned media, the Parents Empowered campaign and its partnerships generated more than \$4.5 million of bonus media coverage—that's over \$1.70 of free media exposure for every dollar spent on Parents Empowered, including all money used for producing ads, county mini-grants, buying media, conducting research, and managing the day-to-day campaign. Through its community mobilization efforts, the Parents Empowered campaign magnifies the effectiveness of every dollar Utah invests in preventing underage drinking.

U.S. Ski and Snowboard Team Partnership

The 2017 Park City mini-grant effort included a partnership with the U.S. Ski and Snowboard Team aimed at reminding parents that there's no off-season for parenting. This collaboration truly mobilized local leadership, bringing together representation from the lieutenant governor, Mayor Jack Thomas from the Park City Mayor's office, law enforcement officials from both the city and county, the county attorney's office, as well as world-class athletes who work in the county.

From top to bottom:

"There's no off-season for parents" outdoor board

TV spot with Joss Christensen, Olympic gold medalist for slopestyle skiing

Press conference with the U.S. Ski and Snowboard team



Kearns Family Dinner Partnership

A partnership between Parents Empowered and the township of Kearns launched a community-wide effort supported by Harmons Grocery. Mayor Ben McAdams and Bob Harmon (owner of Harmons Grocery) shared the vital message of the importance of family meals and their impact on keeping kids alcohol-free.



In-store signage (banners and freezer-door clings) at the Kearns' Harmons for the Family Dinner partnership

Ute Tribe and Northeastern Counseling Center Partnership

The Ute Tribe and the Northeastern Counseling Center worked with Parents Empowered to carry out an event in the community titled, "Strike Out Underage Drinking" that was held at the Ute Lanes Bowling Center in Fort Duchesne. The night kicked off a month-long campaign full of activities that served one purpose: Encourage families to spend time together having fun.



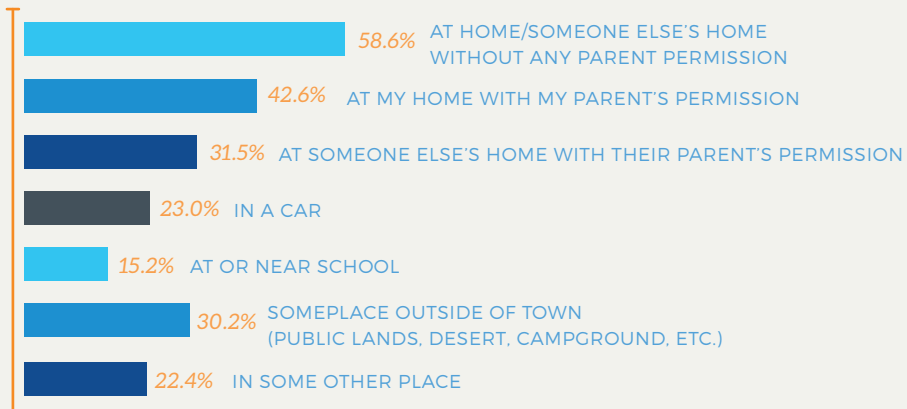
Outdoor signage, T-shirts and custom score cards at the family bowling night for the partnership with the Ute Tribe and the Northeastern Counseling Center

Looking Ahead

The number of Utah children who drink underage remains unacceptable, and there is still work to be done to keep kids away from alcohol and free from myriad negative consequences associated with underage drinking.

Of particular concern is where Utah's youth are getting their alcohol. Research shows that adults continue to give and make alcohol available to children. For example, in the 2017 SHARP survey, 43 percent of students who use alcohol reported that they drank it at home with their parents' permission. This needs to stop.

The reality is that all Utah teens, at some point, will face the decision to drink underage. Research continues to show a need to continuously refine and refocus the campaign's message on the importance of prevention behaviors and changing perceptions about underage vulnerability and access to alcohol.



ACCESS TO ALCOHOL

2017 SHARP SURVEY QUESTION TO KIDS:
If you drank alcohol in the past year, how did you get it?





DIVISION OF TECHNOLOGY SERVICES

On July 1, 2016, DABC went live with a new ERP system called “Microsoft Dynamics AX 2012 R3.” On that day, every process, procedure, application and computer-related task changed. The entire project spanned over 35 months. The actual implementation lasted 21 months.

Microsoft Dynamics AX is rapidly becoming the choice of ERP systems for numerous liquor control states. Several have migrated to this system over the last few years, while others are in the process of procuring and developing the solution. It is a versatile system that is intended to aggregate the use of outside connectors and is known to be cost effective to operate, which makes it attractive to fixed-budget control states.

Some of the greatest challenges to overcome during the rollout were the integrations of complex interfaces that had been custom fit by DABC and DTS over the years—and would need to be accommodated until a phased deployment approach within AX could be considered. Some of those included the following:

- Control of liquor vendor-owned inventory (Bailment)
- Voxware’s Pick-to-Voice system
- WynRight’s Automatic Storage and Retrieval system (ASRS)
- SAP’s Point-of-Sale system
- Online Licensee Sale and Special Order system
- Reporting to the State’s FINET system

One of the driving factors for the move to a new ERP system for DABC was that DABC’s legacy ERP system was not able to be enhanced or updated. The system was behind on Oracle updates and supported hardware was also becoming an issue. As DABC moved toward Dynamics AX, the company that owned the legacy ERP system announced the end-of-life (EOL) as December 2016. This EOL announcement came in May 2015 while the move to Dynamics AX was well underway. DABC and DTS knew this announcement was inevitable since upgrades to the system had failed several times before. Shortly after this announcement, the key support team of the legacy ERP system was dismissed and support was shifted to India.

While the challenges of implementing this system were great, both DABC and the DTS support teams were able to overcome all of the challenges associated with releasing a new ERP system. DABC is now starting to enjoy many of the benefits of this state-of-the-art system, and have full confidence moving forward knowing that Microsoft’s Dynamics AX is a well-supported platform and is used worldwide by more than 20,000 companies. Dynamics AX will be able to accommodate the rapid growth and changes of DABC.



FINANCIAL STATEMENTS

Date prepared: 10/19/17, unaudited

STATEMENT OF OPERATION	FY 2017	FY 2016		FY 2017	FY 2016
Operating Revenue			P.A. Contracts	2,112,463	1,950,195
Retail Sales (Note B)	\$426,642,066	\$404,987,894	Delivery to Stores	1,961,419	1,904,325
Military Sales	963,947	971,451	Data Processing	2,452,554	2,143,002
Total Sales	427,606,013	405,959,345	Professional & Tech. Services	1,144,567	889,625
Cost of Goods Sold			Postage, Printing & Supplies	373,676	320,579
Cost of Liquor Sold	232,914,880	219,178,840	Liquor Bags	351,090	368,711
Claims Against Suppliers	(75,726)	(33,831)	Telephone	195,459	184,602
Loss from Breakage/Damage	208,779	33,617	Insurance & Bonds	108,892	106,433
Beer Tax	30,465	47,961	Travel Expense	43,663	45,664
Total Cost of Goods Sold	233,078,398	219,226,587	Cash Over & Short	17,688	16,641
Gross Profit	194,527,615	186,732,758	Check Service Fees	13,398	5,088
Permits, Licenses & Fees	3,426,833	3,256,079	Misc. Other Expenses	56,359	42,429
Misc. Other Income	46,756	38,543	Total Operating Expenses	\$41,940,478	\$38,498,193
Total Other Income	3,473,589	3,294,622	Net Operating Income	\$156,060,726	\$151,529,187
Total Operating Revenue	198,001,204	190,027,380	Non-Operating Revenues (Expenses)		
Operating Expenses			Federal Grant	303,132	303,294
Salaries, Wages & Benefits	17,867,569	16,570,978	Gain (Loss) on Sale of Capital Assets	(1,769)	—
Credit Card Fees	5,723,268	5,053,877	Interest on Bonds and Notes	(2,995,411)	(3,094,549)
Rentals & Leases (Note C)	1,094,748	1,067,488	Transfer to School Lunch and Public Safety	(47,021,885)	(44,707,799)
Depreciation	3,177,348	3,167,263	Total Non-Operating Revenues (Expenses)	(49,715,933)	(47,499,054)
Maintenance & Repairs/ Operating Supplies	2,920,054	2,475,531	Net Profit	\$106,344,793	\$104,030,133
Alcohol Education Media Campaign	2,326,263	2,185,762			

<i>BALANCE SHEET</i>	AS OF SEPT. 30, 2017	AS OF SEPT. 30, 2016	AS OF SEPT. 30, 2017	AS OF SEPT. 30, 2016
Current Assets			Current Liabilities	
Cash in Banks & Treasurer (Note D)	0	0	Accounts Payable—Liquor (Note G)	69,602
Petty Cash & Change Fund	\$169,450	\$156,450	Accounts Payable—Other	11,524,495
Accounts Receivable	2,543,038	2,117,672	Due to Other Funds	31,797,018
Due From Other Funds	6,306,894	9,418,092	Revenue Bonds Payable (Note H)	4,820,536
Inventories (Note E)	37,500,985	37,434,821	Deposit in Lieu of Bond	845,098
Total Current Assets	46,520,367	49,127,035	Unearned Revenue	1,080,542
			Total Current Liabilities	\$50,137,291
Noncurrent Assets			Noncurrent Liabilities	
Buildings	78,355,689	75,403,992	Net Pension Liability	6,306,846
Land	24,166,540	23,356,813	Net Other Postemployment Benefit Liability (Note H)	902,214
Furniture, Fixtures & Equipment	8,609,072	8,985,979	Revenue Bonds Payable (Note H)	66,453,700
Software	1,963,242	2,086,809	Total Noncurrent Liabilities	\$73,662,760
Work In Process	0	143,216	Total Liabilities	\$123,800,051
Less Accumulated Depreciation	(37,584,677)	(34,935,442)	Deferred Inflows of Resources	
Net Property & Equipment	75,509,866	75,041,367	Deferred Inflows Relating to Pensions	823,944
Total Assets	122,030,233	124,168,402	Deferred Inflows Relating to Other Postemployment Benefits	34,853
			Total Deferred Inflows of Resources	858,797
Deferred Outflows of Resources			Fund Balances	
Deferred Amount on Refundings of Bonded Debt	3,744,062	4,288,829	Net Investment in Capital Assets	11,035,000
Deferred Outflows Relating to Pensions	2,998,670	2,492,302	Unrestricted (Deficit)	(7,053,000)
Total Deferred Outflows of Resources	6,742,732	6,781,131	Retained Earnings	132,117
Total Assets and Deferred Outflows	128,772,965	130,949,533	Total Fund Balances/Retained Earnings	\$4,114,117
			Total Liabilities, Advances & Retained Earnings	128,772,965
				130,949,533

NOTES TO FINANCIAL STATEMENTS

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 percent; beer 64.5 percent.

Note B: Retail Sales: Sales are reported at published prices; sales taxes excluded.

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 and Markup Holding Funds. In September 2017, the

cash balance was transferred to the State of Utah General Fund, resulting in a zero balance in the Cash account.

Note E: Inventories: Inventories are valued at FIFO and consist of merchandise stored in our warehouse and at each of the 45 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 20-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 percent to 5.50 percent.

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