

# Annual Report

Fiscal Year  
2018



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# Table of Contents

	Page
<b>Iowa Alcoholic Beverages Division</b>	
Our Mission .....	1
Our Progress – Year in Review .....	2-3
Iowa Alcoholic Beverages Commission .....	4-5
Organizational Chart .....	6
<b>Regulatory Compliance Bureau</b>	
Bureau Performance Summary .....	7
Alcohol Compliance Unit .....	8
Tobacco Unit .....	9
Alcohol Licensing Unit .....	10 – 11
Administrative Actions Unit .....	12 – 13
Education and Outreach Unit .....	14
<b>Business Operations Bureau</b>	
Bureau Performance Summary .....	15
Revenue Earned .....	16
Annual Liquor Sales Comparison .....	17
Where the Profits Go .....	18
Distributed / Reverted Funds .....	19
Beer and Wine Gallons Sold .....	20
Comparative Statement of Liquor Gallons Sold .....	21
Top 10 Product Categories .....	22
Top 10 Suppliers .....	23
Iowa Manufacturers .....	24 – 25
Top 50 Brands .....	26
Top 50 Iowa Brands .....	27
Class "E" License and SKU Growth .....	28
Class "E" License Growth .....	29
Class "E" License Radius Analysis .....	30
Sales by Class "E" Licensees .....	31
Total Gallons Sold Per County .....	32 – 34
<b>Financial Management</b>	
Financial Highlights .....	35
Overview of Financial Statements .....	36
Liquor Sales by Month for Fiscal Year 2018 .....	37
Liquor Control Trust Fund Summary .....	38
Reversion Analysis .....	39
Profit & Loss Statement .....	40
Net Income Statement .....	41
Statement of Cash Flow .....	42
Balance Sheet .....	43
Notes to Financial Statements .....	44



## Our Mission

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To serve Iowans through responsible and efficient licensing, regulation and distribution of alcohol.

## Our Vision

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The Iowa Alcoholic Beverages Division provides clarity, consistency and equity to all stakeholders within the beverage alcohol industry.

## Executive Information

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Kim Reynolds . . . . . Governor of Iowa  
Adam Gregg . . . . . Lieutenant Governor

## Division Administration

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Stephen Larson . . . . . Administrator  
Herbert H. Sutton, Jr. . . . . Business Operations Bureau Chief  
Joshua Happe . . . . . Regulatory Compliance Bureau Chief  
Leisa Bertram . . . . . Comptroller  
Stephanie Strauss . . . . . Government Relations  
Erin Carpenter . . . . . Secretary to Administrator

" Maintaining a responsive and effective organization requires state agencies to look at their business processes and operations anew. "

— Stephen Larson, Administrator



## Our Progress — Year in Review

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Pursuant to the Iowa Alcoholic Beverage Control Act (Iowa Code chapter 123), the Iowa Alcoholic Beverages Division (Division) is responsible for the administration and enforcement of alcoholic beverages laws in the state of Iowa. Furthermore, the law provides the legal authority for the Division to assume direct control of the distribution at wholesale of alcoholic liquor to off-premises retail licensees.

Iowa's economic vitality is supported by the work performed by the Division. As the regulatory authority on alcohol in Iowa, the Division ensures fair and effective administration and governance in the Iowa marketplace. The Division's role in licensing and regulating the alcohol industry ensures a fair marketplace, enhanced business opportunities, and a level playing field for those engaged in the alcoholic beverages arena.

During Fiscal Year 2018, the Division took steps to make improvements to meet industry and consumer demands for alcoholic beverages brand diversity, adapt our processes to meet the needs of our licensees, and increase our regulatory and educational efforts in the Iowa marketplace, all while working to protect the three-tier system and the health, safety, and welfare of Iowans.

The Division also made progress in reviewing and refreshing Iowa Code chapter 123 to make Iowa's alcohol laws clearer and more stable. Our goal is to ensure the laws can be more easily understood, consistently interpreted, and applied fairly, and that, over time, this will reduce instances of noncompliance, as well as support those businesses seeking to participate in the alcoholic beverages marketplace.

### FISCAL YEAR 2018 HIGHLIGHTS

The Division's mission is to serve Iowans through responsible and efficient licensing, regulation, and distribution of alcohol. To that end, we had many accomplishments in Fiscal Year 2018 aligning with these goals.

The Division experienced vigorous revenue growth. Total liquor sales were \$320 million, a 4.7% increase over the previous fiscal year. Income from liquor profits, funds generated by excise taxes on wine and beer, and license fees and fines translated into a total transfer of \$138.5 million. The Division processed 61,601 orders, which is 2.77% or 3,186 more orders than FY17 and picked more than 24,545,610 bottles, which equates to an increase of more than 5.35% or 1,245,743 bottles over the previous fiscal year.

### BUSINESS OPERATIONS

Integrating innovation into Division processes to optimize the delivery of liquor is a top priority. The Business Operations Bureau has been meeting that standard throughout Fiscal Year 2018. As our number of customers has surpassed 1,500 individual stores, so has our warehousing and delivery workload. Impressively, even though the number of weekly orders increased, operations were maintained to one shift and we upheld a 99% on-time delivery average within a 30-minute window. This proves that along with the Division's growth we were able to increase efficiency and maintain delivery consistency for our customers.

### REGULATORY COMPLIANCE

The Division is responsible for licensing, inspecting, and controlling the manufacture of alcoholic beverages and regulating the alcoholic

*Continued on page 3*



beverages industry in the state. The Regulatory Compliance Bureau focuses on protecting public health and safety and ensuring a fair and level playing field in the alcoholic beverages industry.

During Fiscal Year 2018, the bureau processed almost 17,000 licenses, permits, and certificates, opened over 300 investigations for alleged alcohol or Smokefree Air Act violations, and collected over \$150,000 in civil penalties and audit funds. Educational efforts resulted in over 21,000 people trained and certified in the responsible selling and serving of alcoholic beverages through the Iowa Program for Alcohol Compliance Training, or I-PACT, as well as over 700 licensees educated along the 2018 RAGBRAI route.

### FOCUS ON THE FUTURE

As we look to the future, the Division's strategic initiatives will be to continue working toward refreshing our laws, policies, and processes to align with Governor Reynolds' vision of "Building a Better Iowa." This will be accomplished by creating methods to streamline the alcohol licensing process and evaluating laws and rules that may need to be refreshed to align with today's business environment.

The Division will also need to prepare for further growth in the number of customers we serve, and continue to build upon a commitment to foster and encourage a successful alcoholic beverages industry while emphasizing a fair and level playing field within the three-tier system.

Most importantly, the Division will continue to remain a viable revenue-producing agency capable of making significant contributions to the State General Fund and providing a return on investment to the citizens of Iowa.

In closing, this report highlights our numerous operational achievements and reaffirms our commitment to strive for continual improvement to better serve our customers and meet the demands of an ever-evolving alcoholic beverages marketplace while balancing public safety.

Sincerely,



Stephen Larson, Administrator

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## STEPHEN LARSON

**Stephen Larson** was first appointed as Administrator in 2010, and has twice since been reappointed in 2014 and 2018 by Governor Terry Branstad and Governor Kim Reynolds. He has been in public service to his home state of Iowa since 1984. During his time in government he has served on state and national boards, most recently as the Chairman of the National Alcohol Beverage Control Association.

During his term as the Administrator, Mr. Larson has taken steps to make improvements to meet industry and consumer demands for alcoholic beverage brand diversity; adapted the Division's business processes to meet the needs of the industry; led public policy discussions that contributed to the modernization of Iowa's alcohol laws; and has increased regulatory and educational efforts within the state.

On July 1, 2018, he released a study on Iowa's tied house laws to the Iowa Legislature and

members of the alcohol beverage industry. The information within this study will be used by legislators as a foundation of work to assist in making decisions in the future about whether or not Iowa tied house laws work and are relevant to the Iowa marketplace.

Mr. Larson's prior employment includes various roles and responsibilities in the Iowa State Treasurer's Office, including serving as Deputy of Governmental Relations and Public Policy, auditing for unclaimed property, and serving as President of the National Unclaimed Property Administrators.

Throughout his career, Mr. Larson has been recognized and honored for his exemplary work. He graduated with honors from William Penn University in Oskaloosa with a BA degree in Business Administration. He resides in Polk City, Iowa, with his wife, Jane, has two sons, and is a proud grandparent of two granddaughters. ■

# Iowa Alcoholic Beverages Commission

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**T**he Iowa Alcoholic Beverages Commission is created under Iowa Code section 123.5 and is comprised of five members appointed by the Governor and subject to confirmation by the Iowa Senate. The commission acts as a public policy-making body and serves in an advisory capacity to the Administrator of the Iowa Alcoholic Beverages Division.

## About Us

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### **Rachel Eubank – Chairperson**

Rachel Eubank was appointed by Governor Terry E. Branstad to the Iowa Alcoholic Beverages Commission and began her first term on May 1, 2015. Currently the President of Sticks, Inc., she has served as a volunteer with many organizations, including Chrysalis, the I Have a Dream Foundation, the Des Moines Art Center and the 20/30 Society. She is a graduate of the University of Iowa and the University Lueneburg in Germany. She is a native of Des Moines and currently resides there with her husband and three young children. Commissioner Eubank's current term will expire on April 30, 2020. She will be eligible for a second five-year term.



### **John Pauli – Vice Chairperson**

John Pauli was appointed by Governor Terry E. Branstad to the Iowa Alcoholic Beverages Commission and began his first term on May 1, 2016. Commissioner Pauli is an engineer with Pella Windows Corporation in Carroll. He is a graduate of the University of Wisconsin, Platteville (Industrial Engineering) and Drake University (MBA). He is a past member and Chairman of the Carroll County Conservation Board and has served in a number of volunteer positions in the community, including serving as the coach for the local trap shooting team. Commissioner Pauli's current term will expire on April 30, 2021. He will be eligible for a second five-year term.

# Iowa Alcoholic Beverages Commission

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## **Christine Spratt – Secretary**

Christine Spratt was appointed by Governor Terry E. Branstad to the Iowa Alcoholic Beverages Commission on May 1, 2017. She is the General Manager and Vice-President of Golden Eagle Distributing in Mt. Pleasant. She resides in Burlington, Iowa. Commissioner Spratt's current term will expire on April 30, 2022. She will be eligible for a second five-year term.



## **Jay Wilson – Commissioner**

Jay Wilson was appointed by Governor Terry E. Branstad to the Iowa Alcoholic Beverages Commission on May 1, 2013. Commissioner Wilson is the Assistant Vice President of Wine and Spirits for Hy-Vee. He was selected as one of six Market Watch Leaders in 2009 by Market Watch magazine. He also started an online wine study program in 2006, intended for employees to increase their wine knowledge and improve performance. Once completing the online program, the employee is a Certified Hy-Vee Wine Specialist. Commissioner Wilson's current term will expire on April 30, 2023.

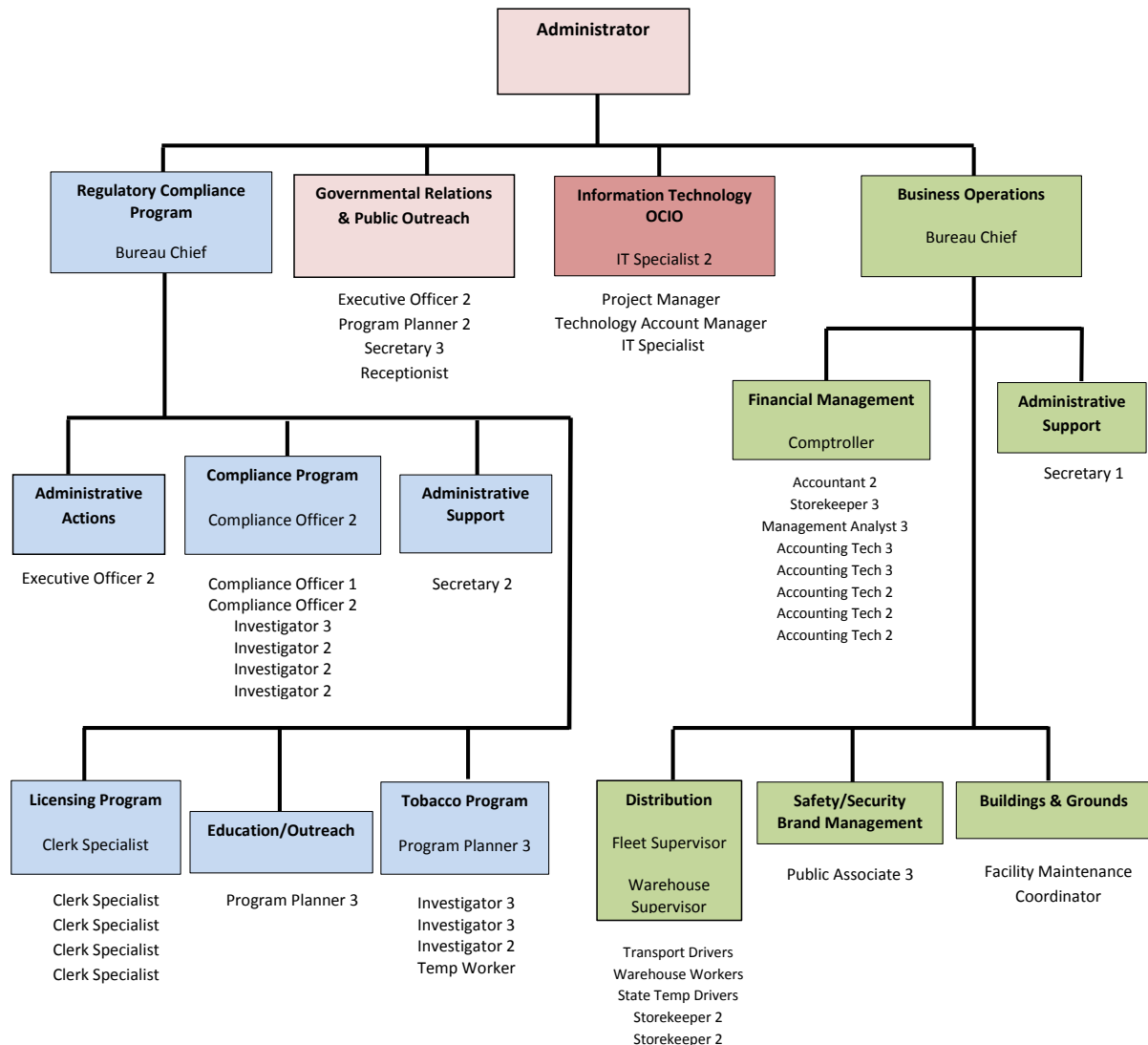


## **Gary Nystrom – Commissioner**

Gary Nystrom was appointed by Governor Terry E. Branstad to the Alcoholic Beverages Commission and began his first term on May 1, 2014. Commissioner Nystrom was a partner in business in the private sector at Pritchard Bros. Inc. Plumbing and Heating for over 45 years, retiring December of 2017. He is a lifelong resident of Boone where he is joined by his wife, two grown children, and five grandchildren. Commissioner Nystrom served the citizens of Boone as an elected City Councilman for 8 years. Commissioner Nystrom currently serves as the chairman of the City of Boone's planning and zoning commission and trustee for the Ericson Public Library in Boone. He has always been active in the community and continues to volunteer and is seated on several other committees and boards both locally and statewide. Commissioner Nystrom's current term will expire on April 30, 2019. He will be eligible for a second five-year term.

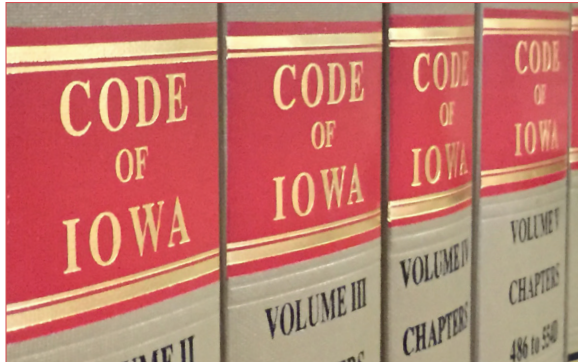
# Iowa Alcoholic Beverages Division

## IOWA ALCOHOLIC BEVERAGES DIVISION ORGANIZATIONAL CHART





# Regulatory Compliance Bureau



"Public health, safety, and welfare will be at the forefront of the work we do."

— Joshua Happe,  
Bureau Chief

The Bureau is comprised of six units:

- Alcohol Compliance
- Tobacco
- Education and Outreach
- Alcohol Licensing
- Administrative Actions
- Administrative Support

Each unit is playing a vital role in executing the public policy mission of protecting the health, safety, and welfare of the citizens of Iowa. (Iowa Code section 123.1).

The Bureau continues to be effective and efficient in the licensing, education, and regulation of alcohol and tobacco

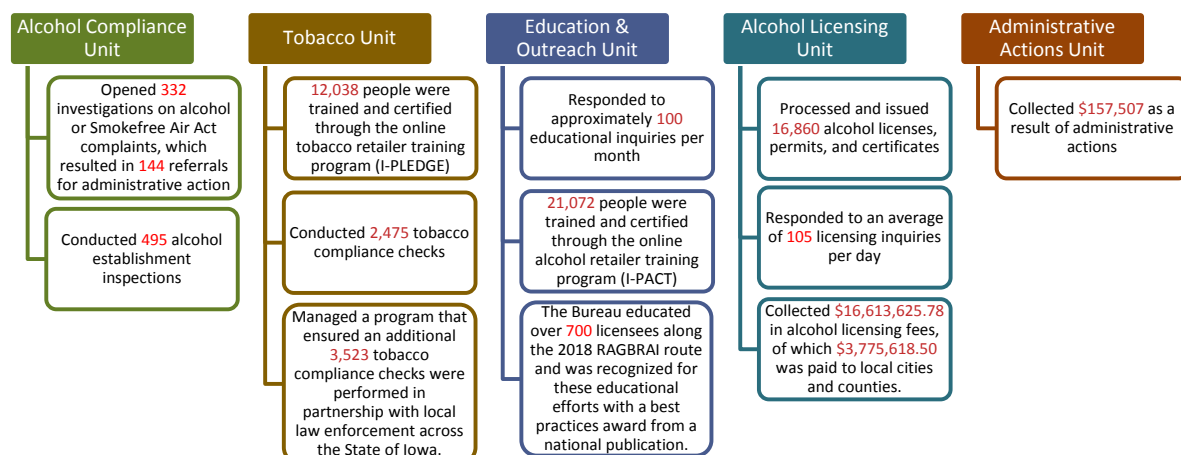
in the State of Iowa. Its experienced staff continues to have much success in this regard.

The Bureau is building upon an existing foundation to develop additional capabilities in licensing, education, investigation, auditing, and inspection. This is being done through training of personnel and improving existing technology, with the goal of conducting more complex licensing and regulatory work in the future.

The Bureau is working to increase its regulatory footprint and provide more education on alcohol and tobacco to stakeholders within the state. This includes increased collaboration with local, state, and federal regulatory agencies. ■

## FY18 Bureau Performance Summary

These numbers are particularly significant in light of the fact that it only cost **\$1,262,750.52** to fund the operations of the entire bureau. The Bureau's performance demonstrates that State of Iowa money spent translates to State of Iowa money earned.



## Alcohol Compliance Unit

Pursuant to the Iowa Alcoholic Beverage Control Act (Iowa Code chapter 123), the Alcoholic Beverages Division (Division) is responsible for the administration and enforcement of alcoholic beverage laws in the state of Iowa. Furthermore, the law provides the legal authority for the Division to inspect and control the manufacture of beer, wine, and alcoholic liquors and regulate the entire beer, wine, and liquor industry in the state. The Division serves as a supplementary aid to the Department of Public Safety in enforcement of alcoholic beverage laws.

In Fiscal Year 2018 the Alcohol Compliance Unit focused its enforcement efforts on violations of alcohol laws that affect public health, safety, and welfare and ensuring a fair and level playing field in the alcoholic beverages industry. Investigations were generated from complaints reported to the Division and violations discovered during inspections of alcohol licensed establishments.

The unit opened 332 investigations for alcohol or Smokefree Air Act complaints in Fiscal Year 2018, leading to 144 referrals for administrative action. To aid in the reporting of alcohol violations, the Division added the ability for complaints to be submitted online in late January 2018, leading to approximately 68 of the investigations. Additionally, the unit conducted 495 inspections of alcohol licensed establishments, which led to approximately 45 additional investigations for alcohol or Smokefree Air Act violations.

The Voluntary Disclosure Program was launched in April 2018, offering alcohol license and permit holders to voluntarily disclose actual or potential violations

of laws and rules administered by the Division. In exchange for voluntary disclosure, license and permit holders may receive reduced penalties or other special considerations when and if the Division proposes administrative actions. The unit received 3 voluntary disclosures that were opened for investigation during Fiscal Year 2018.

An essential component of the unit's enforcement efforts involves strengthening partnerships with law enforcement agencies by providing training and assistance in alcohol-related investigations. In June 2018, the unit initiated communication with Iowa law enforcement authorities through an emailed letter that provided education on the role of the Division and offered the Division's assistance and training. The Division provided training and education to 3 Iowa State Patrol Districts and Iowa State Patrol technical investigators. Additionally, the unit conducted presentations at the Iowa Law Enforcement Academy, educating and training 316 law enforcement recruits, in 8 academy classes, throughout Fiscal Year 2018.

Lastly, in Fiscal Year 2018 the Division partnered with the National Liquor Law Enforcement Association (NLLEA), in cooperation with the National Highway Traffic Safety Administration, to initiate a Place of Last Drink pilot program. The NLLEA developed a website for law enforcement to access and enter data on place of last drink or purchase. The information is useful to the Division and law enforcement officials in identifying potentially problematic alcohol outlets that may be over-serving or violating other alcohol laws and providing interventions. ■

## Tobacco Unit

### I-PLEDGE Enforcement Program

Total Compliance Checks	3,583
Total Compliance Checks Completed	3,523
Compliant Checks	3,222
Non-compliant Checks	301
Checks Unable to be Completed	60
Statewide Compliance Rate	91%

### I-PLEDGE Retailer Training Program

Total Persons Trained	12,391
Total Persons Certified	12,038
Total Persons Not Certified	353
Persons Decertified Resulting from Selling a Tobacco/Alternative Nicotine/Vapor Product to a Minor	47
Passage Rate	97%

## Inspections

Smokefree Air Act complaints received from the Iowa Department of Public Health (IDPH)	29
Investigations Conducted	35
<p>❖ The Food &amp; Drug Administration (FDA) made <b>2,475</b> regulatory decisions from July 1, 2017, through June 30, 2018, regarding tobacco compliance check inspections conducted on tobacco retailers in Iowa. This information is available to the public at <a href="https://www.accessdata.fda.gov/scripts/oce/inspections/oce_insp_searching.cfm">https://www.accessdata.fda.gov/scripts/oce/inspections/oce_insp_searching.cfm</a></p>	

# Regulatory Compliance Bureau

## Alcohol Licensing Unit

### RETAIL LICENSES, PERMITS ISSUED \*

	12 Month	8 Month	6 Month	14 Day	5 Day	Sub Permit	FY18 Total	FY17 Total	Increase/ Decrease
<b>On-Premises</b>									
Class "B" Beer Permit (BB)	454	14	83	24	412		987	1,039	-5.0%
Class "A" Liquor License (LA)	129				9		138	134	3.0%
Class "B" Liquor License (LB)	138		1		1		140	126	11.1%
Class "C" Liquor License (LC)	4,071	43	59	14	352		4,539	4,468	1.6%
Class "C" Native Distilled Spirits Liquor License (LCN)	5						5	0	0%
Class "D" Liquor License (LD)	22		1				23	23	0%
Special Class "C" Liquor License (BW)	555	7	33	6	195		796	785	1.4%
Class "C" Native Wine Permit (WCN)	74		1		9	43	127	140	-9.3%
<b>Total</b>	<b>5,448</b>	<b>64</b>	<b>178</b>	<b>44</b>	<b>978</b>	<b>43</b>	<b>6,755</b>	<b>6,715</b>	<b>0.6%</b>
<b>Off-Premises</b>									
Class "C" Beer Permit (BC)	1,684					1,373	3,057	2,954	3.5%
Class "E" Liquor License (LE)	1,473						1,473	1,332	10.6%
Class "B" Wine Permit (WB)	27	1	1			1,885	1,914	1,774	7.9%
Class "B" Native Wine Permit (WBN)	309		9	3	22	905	1,248	1,223	2.0%
<b>Total</b>	<b>3,493</b>	<b>1</b>	<b>10</b>	<b>3</b>	<b>22</b>	<b>4,163</b>	<b>7,692</b>	<b>7,283</b>	<b>5.6%</b>
<b>Special Class "A" Beer Permit (BREW PUB)</b>									
Class "B" Beer Permit (BB)	3						3	3	0%
Class "C" Liquor License (LC)	42						42	34	23.5%
<b>Total</b>	<b>45</b>						<b>45</b>	<b>37</b>	<b>21.6%</b>
<b>Charity Beer, Spirits, and Wine Auction Permit (CP)</b>	<b>89</b>						<b>89</b>	<b>69</b>	<b>29.0%</b>
<b>TOTAL RETAIL LICENSES / PERMITS</b>							<b>14,581</b>	<b>14,104</b>	<b>3.4%</b>

\* Permits Issued on pages 10 and 11 refer to the total number of licenses processed by the Licensing team within the e-Licensing system for the fiscal year.

## Alcohol Licensing Unit

### NON-RETAIL LICENSES, PERMITS, CERTIFICATES ISSUED

	12-Month FY18 Total	12-Month FY17 Total	Increase/ Decrease
<b>Importer/Manufacturer</b>			
Brewer's Certificate of Compliance (CB)	181	155	16.8%
Distiller's Certificate of Compliance (CD)	214	179	19.6%
Vintner's Certificate of Compliance (CV)	627	541	15.9%
<b>Total</b>	<b>1,022</b>	<b>875</b>	<b>16.8%</b>
<b>Wholesaler</b>			
Class "A" Beer Permit (BA)	40	37	8.1%
Class "A" Wine Permit (WA)	33	32	3.1%
<b>Total</b>	<b>73</b>	<b>69</b>	<b>5.8%</b>
<b>In-State Manufacturer</b>			
Class "A" Beer Permit (BAN)	63	47	34.0%
Class "A" Wine Permit (WAN)	112	98	14.3%
Class "A" Native Distilled Spirits License (ND)	16	11	45.5%
Manufacturer's License (CM)	16	19	-15.8%
<b>Total</b>	<b>207</b>	<b>175</b>	<b>18.3%</b>
<b>Broker's Permit (SP)</b>	<b>35</b>	<b>25</b>	<b>40.0%</b>
<b>Wine Direct Shippers License (DS)</b>	<b>942</b>	<b>800</b>	<b>17.8%</b>
<b>Wine Carrier Permit (AC) Issued once in 2010</b>	<b>0</b>	<b>0</b>	<b>0%</b>
<i>*All Wine Carrier Permits (4) were issued a one-time permit in 2010. This used to be an Alcohol Carrier Permit until 7/1/2018 with the new law change.</i>			
<b>Total Non-Retail Licenses</b>	<b>2,279</b>	<b>1,769</b>	<b>17.1%</b>

Comparison of Licenses/Permits/Sub-Permits Issued to In-State Manufacturers			
FY17		FY18	
BAN/BAAN	47/41	BAN <sup>1</sup>	63
Brewpub/High Proof Brewpub	35/14	Brewpub <sup>2</sup>	45
WAN	98	WAN	112
MD	11	ND <sup>3</sup>	16
CM	19	CM	16
<b>TOTAL</b>	<b>265</b>		<b>252</b>

#### Comparison Notes

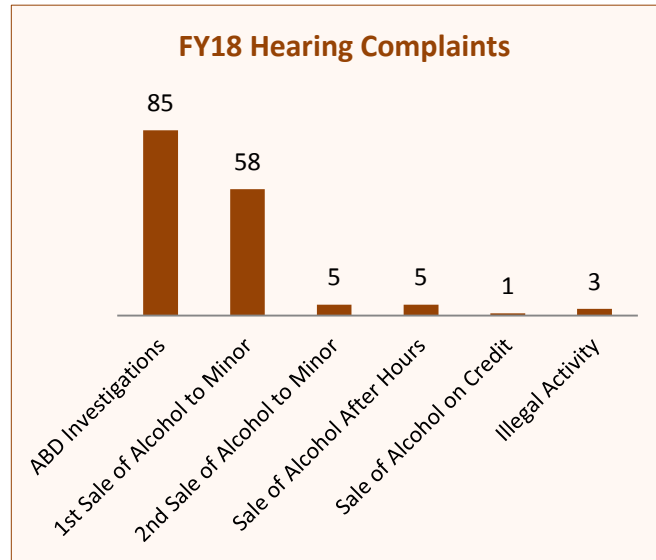
<sup>1</sup>Law change eliminated class "AA" beer permit classification and authorized class "A" beer permit holders to manufacture both beer and high alcoholic content beer.

<sup>2</sup>Law change eliminated special class "AA" beer permit classification (high proof brewpub) and authorized special class "A" beer holders to manufacture both beer and high alcoholic content beer.

<sup>3</sup>Law change renamed micro-distillery (MD) to native distillery (ND).



## Administrative Actions Unit



### ABD Investigations

Violations processed as a result of Division investigations and audits

### 1<sup>st</sup> Sale of Alcohol to Minor

Violations processed from cases referred to the Division by law enforcement

### 2<sup>nd</sup> Sale of Alcohol to Minor

Violations processed from cases referred to the Division by law enforcement

### Sale of Alcohol After Hours

Violations processed from cases referred to the Division by law enforcement

### Sale of Alcohol on Credit

Violations processed from cases referred to the Division by law enforcement

### Illegal Activity

Violations processed from cases referred to the Division by law enforcement

Civil Penalties and Audit Funds	
Civil penalties collected from violations	\$ 154,470
Audit funds recovered	\$ 3,037
<b>Total civil penalties and audit funds collected in FY18</b>	<b>\$ 157,507</b>

## Administrative Actions Unit

Administrative Appeals	
Hearings Held by ALJ for Local Authority Cases	6
Hearings Held by ALJ for Division Hearing Complaints	1

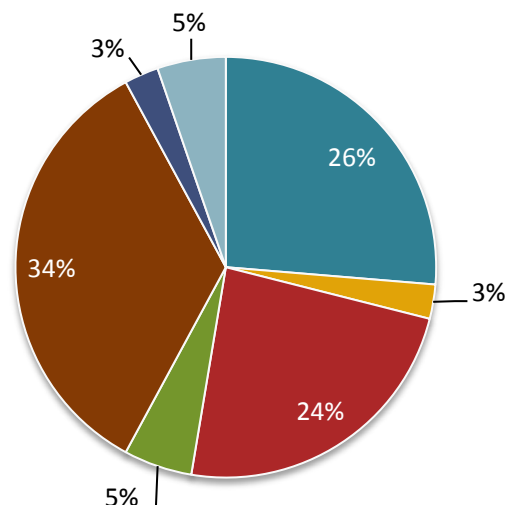
License/Permit Applications Denied at Renewal by ABD	
Applications Denied for a Deleted Corporation	103
Applications Denied due to Personal Taxes Owed	1
<b>Total</b>	<b>104</b>

### Licenses Suspended

In Fiscal Year 2018, 70 licenses were suspended by the Division. The most common reasons leading to suspension include:

1. Failure to maintain dram shop insurance
2. Non-payment of taxes
3. Bootlegging

### Total Educational Letters Sent = 38



- Infusing Violation - 10
- Class "A" Permit Holder Selling to Public - 1
- Illegal Advertising - 9
- Failure to Maintain Records - 2
- Purchasing from Non-Wholesaler - 13
- Storing Liquor on Unlicensed Premises - 1
- Failure to Affix Keg Registration Sticker - 2

SUMMARY SUSPENSIONS	Suspensions Dismissed	Licensee Still Suspended	Licenses Cancelled	Total
No Dram Insurance	35	2	5	42
Non-Payment of Taxes	9	1	2	12
Danger to Public	0	0	0	0

\*The Division initiates suspensions of alcohol licenses/permits on behalf of the Iowa Department of Revenue (IDR) for taxes owed by the licensee/permittee. In Fiscal Year 2018, the Division sent a total of 116 Intent to Suspend Notices on behalf of IDR.

## Education and Outreach Unit

The Education & Outreach Unit uses a variety of programs to implement the educational objectives of the Division. One of the most widely used programs is the Iowa Program for Alcohol Compliance Training or I-PACT. The goal of I-PACT is increased voluntary compliance with Iowa's alcohol laws through education and enforcement. In Fiscal Year 2018, 21,871 people were trained in the responsible selling and serving of alcoholic beverages through the I-PACT program. Of those trained, 21,072 were certified while 799 failed the certification, leading to a 96 percent passage rate. In Fiscal Year 2018, 12 people were decertified due to selling alcohol to a minor.

Another method used to educate a large number of stakeholders is the the Division's RAGBRAI program. This program utilizes the RAGBRAI route to educate all relevant parties on Iowa's alcohol laws, including local authorities, industry members, and license/permit holders. Strengthening relationships and increasing compliance are also important aspects of this program. The 2018 RAGBRAI program educated over 700 local authorities, wholesalers, manufacturers, and on-premises license/permit holders.

The unit offers formalized training/informational opportunities as well. Over 350 stakeholders received education through these opportunities. These included beer wholesalers, law enforcement agencies, the Governor's Traffic Safety Bureau's Impaired Driving Coalition, local authorities, and external stakeholders/members of the public

during various public forums.

Two new initiatives were started this fiscal year to help educate license/permit holders and consumers about the practices of the Division. The first is *The Messenger*, a monthly electronic newsletter that informs stakeholders of business operations, compliance initiatives, and product management information. *The Messenger* is sent to over 1,700 stakeholders each month.

The second initiative is the creation of *Iowa Spirits Magazine*. This magazine is produced bi-annually, showcases the spirits environment in Iowa and highlights Division initiatives, and is available free-of-charge to consumers at class "E" liquor licensed establishments. The Division distributed 30,000 copies of the inaugural issue of *Iowa Spirits Magazine* throughout the state.

The unit also fields over 100 questions each month from stakeholders on topics ranging from compliance/legal inquiries to special event outlines. Along with providing education via phone or email, the unit also utilizes the Division's website as an educational resource. The Division's website features bulletins, licensing information, compliance, regulation, and educational material. Advisory, educational, and regulatory bulletins provide guidance to a target audience on specific alcohol related matters. The unit published 1 Advisory Bulletin and 2 Educational Bulletins during Fiscal Year 2018. The website saw more than 114,000 unique visitors in Fiscal Year 2018. ■

# Bureau of Business Operations

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"Changing with the times requires strategic planning, and executing those plans as a team is critical for success."

— Herbert H. Sutton, Jr.,  
Bureau Chief

## Bureau Performance Summary

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**T**he Business Operations Bureau is responsible for all day-to-day functions, which incorporate:

- Accounting
- Order Picking
- Receiving
- Delivery
- Product Management

In Fiscal Year 2018, the number of class "E" licenses increased from 1,423 to 1,529. This equates to 61,601 orders being timely processed by our **accounting** unit. Moreover, the unit is tasked with processing returns, paying the Division's invoices, and providing analytics to our internal stakeholders.

As the number of class "E" licensees grew, so did the **picking** workload. As the number of stores ordering weekly increased, the Division maintained operations utilizing only one shift. Although challenging at times, efficiencies in the warehouse made this possible. Of the 1,529 class "E" licensees, approximately 1,040 stores ordered weekly, with some stores comprising multiple orders to be picked.

Along with sales growth, the Division's **Receiving** Department experienced growth as well. Maintaining inventory levels was critical for the success of this unit and the class "E" licensees that we served. Suppliers were allowed to maintain an eight-weeks' supply of product in the Division's

warehouse. This meant that if we did not receive product for eight weeks, the warehouse would theoretically be emptied. This equated to replacing our inventory of approximately \$22 million 6.5 times annually.

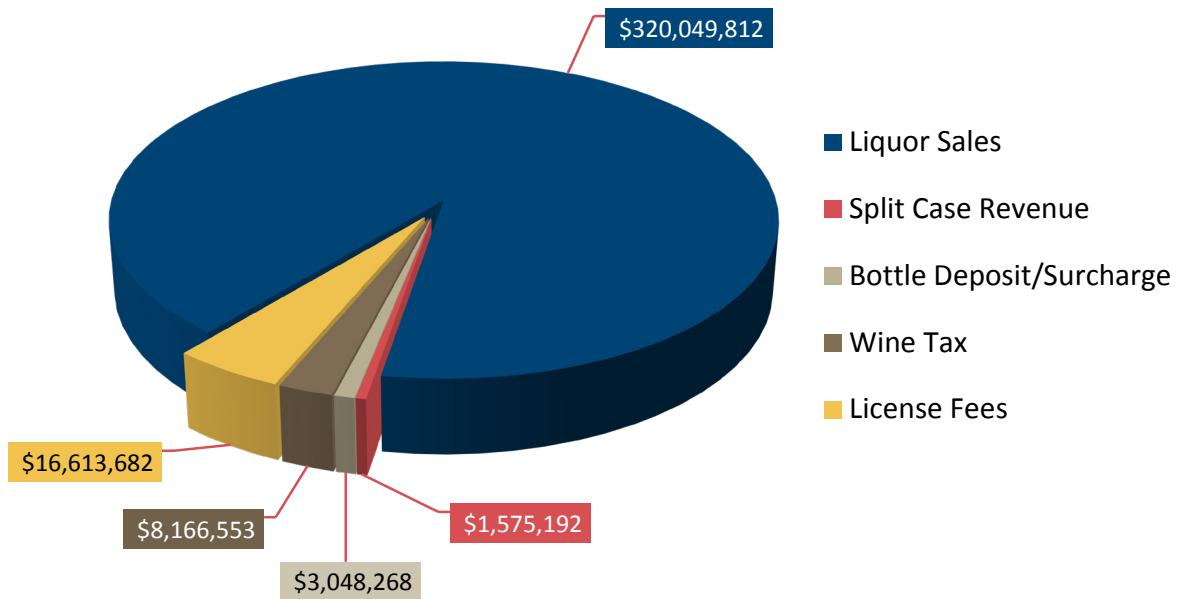
The Division's professional transport drivers were tasked with making approximately **1,040 deliveries** per week to class "E" licensees. Consistency was a key element to the success they continually provided, since many stores scheduled the necessary employees needed to receive and put away their ordered products at time of delivery. Our transport drivers had a 93.76% on-time delivery average within five minutes of the weekly scheduled delivery times. This advanced to 98.7% within a 30-minute window. With Iowa winters and safety in mind, this rate of consistency served Iowa well.

**Product** selection remained a high priority for the Division. In 2013, the Division maintained approximately **983** listed products, including different sizes of the same brand. In 2018, that number of product selection increased to over **2,300**. As consumer choice changed frequently, the Division continued to add to its portfolio to enhance product choice for Iowans.

The Business Operations Bureau will continue to work together to meet its goals of demonstrating ongoing improvement in the distribution of spirits and integrating innovation into Division processes to optimize the delivery of spirits. ■

# Business Operations Bureau

## Revenue Earned



### Liquor Sales \$320,049,812

The Division is the sole wholesaler for alcoholic liquor sold in Iowa and delivers product to over 1,529 off-premises retail locations across the state. Iowa Code requires the Division to mark up product up to 50%. Iowa Code §123.24(4).

### Bottle Deposit / Surcharge \$3,048,268

Pursuant to Iowa Code §455C)(2) and Iowa Code §123.24(5), the Division will charge a bottle deposit and a surcharge to be included in the wholesale purchase price. The charge assessed by the Division is \$0.09 per unit sold and includes the 5-cent bottle deposit.

### Split Case \$1,575,192

A 'split case' fee is applied when liquor is sold to a retailer as a single bottle. The split case fee is \$0.50 per bottle.

### Wine Tax \$8,166,553

All wine sold at wholesale in the state, as well as wine directly shipped to consumers within Iowa, is assessed a tax at the rate of \$1.75 per gallon. All regular wine tax is collected by the Division.

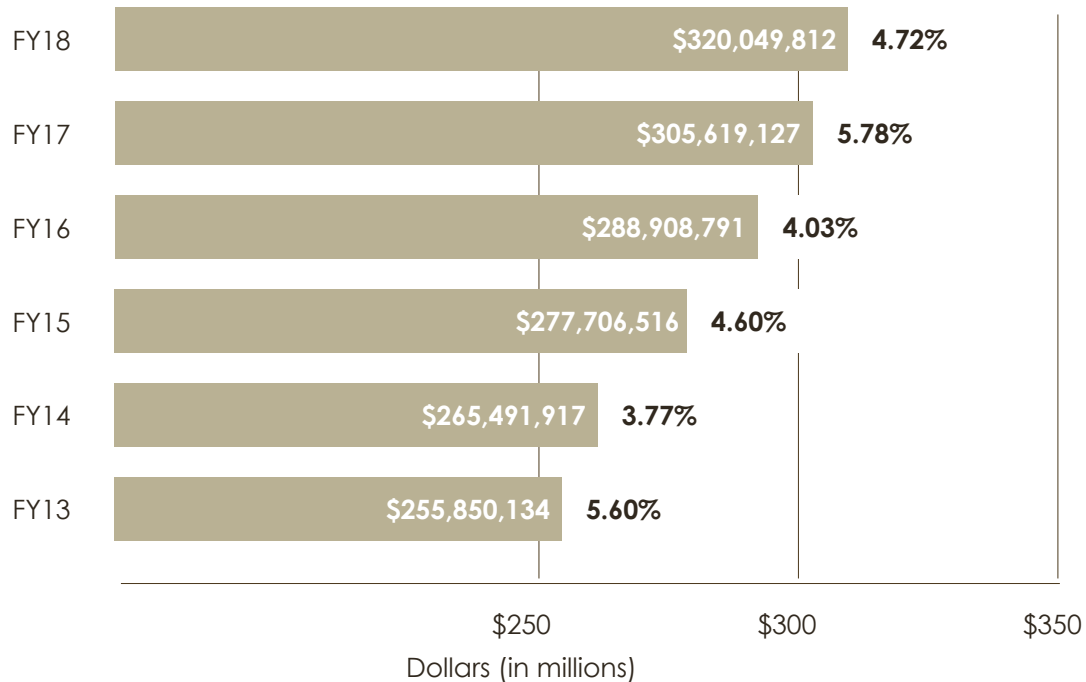
### License Fees \$16,613,682

Fees collected are for the licenses, permits, and certificates required for the manufacturing, importing, and sale of liquor, beer, and wine in the state.



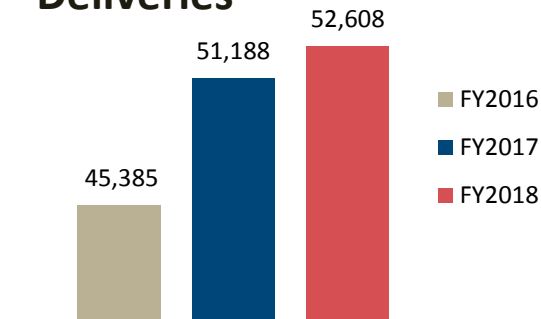
# Business Operations Bureau

## Annual Liquor Sales Comparison

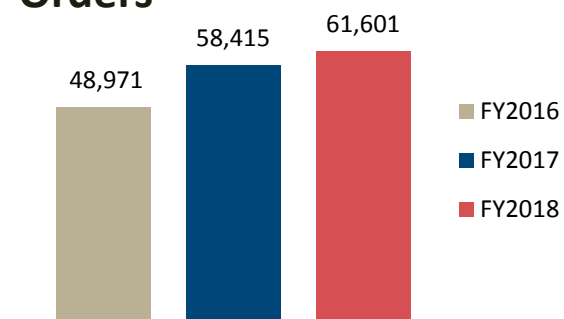


## Annual Delivery Comparison

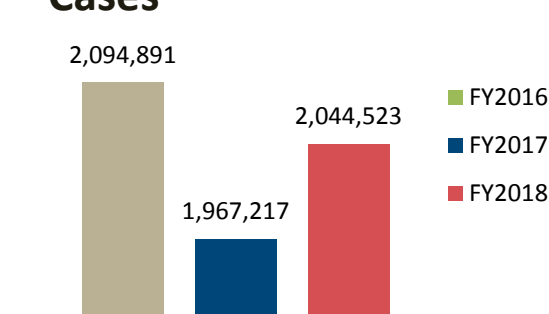
### Deliveries



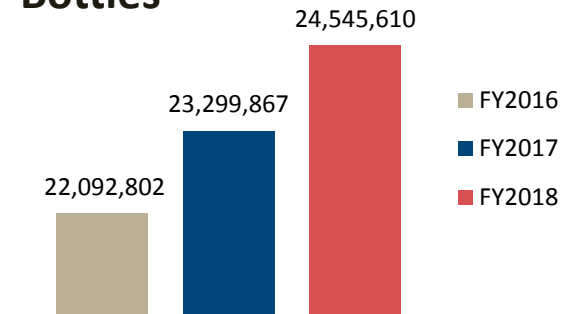
### Orders



### Cases



### Bottles



## Where the Profits Go

### Revenue Transferred

#### General Fund Reversion \$97,537,820

Payments made to the State General Fund come from several sources within the Division, with the main resources being liquor sales and license revenues. The funds are appropriated by the Legislature to different departments and programs throughout the state.

#### State Aid to Cities and Counties \$3,536,759

A percentage of revenue collected from sales of licenses are remitted to the local authorities (cities and counties) involved in the issuance of licenses.

#### Iowa Department of Public Health:

##### Substance Abuse \$22,513,750

The Division transfers 7% of gross sales of liquor to the State General Fund for specific appropriation to the Iowa Department of Public Health for administering of substance abuse and prevention education programs.

##### Sunday Sales \$911,293

The Department of Public Health receives Sunday Sales license fees, of which 50% are to be earmarked for grants to counties for operating substance abuse programs involving education, prevention, referral or post-treatment services.

### Revenue Processed

#### General Fund:

##### Beer Tax \$13,592,912

All beer sold at wholesale in the State of Iowa is assessed a tax at the rate of \$0.19 per gallon. Beer tax is processed and deposited into the State General Fund to be appropriated by the Legislature to different departments and programs throughout the state.

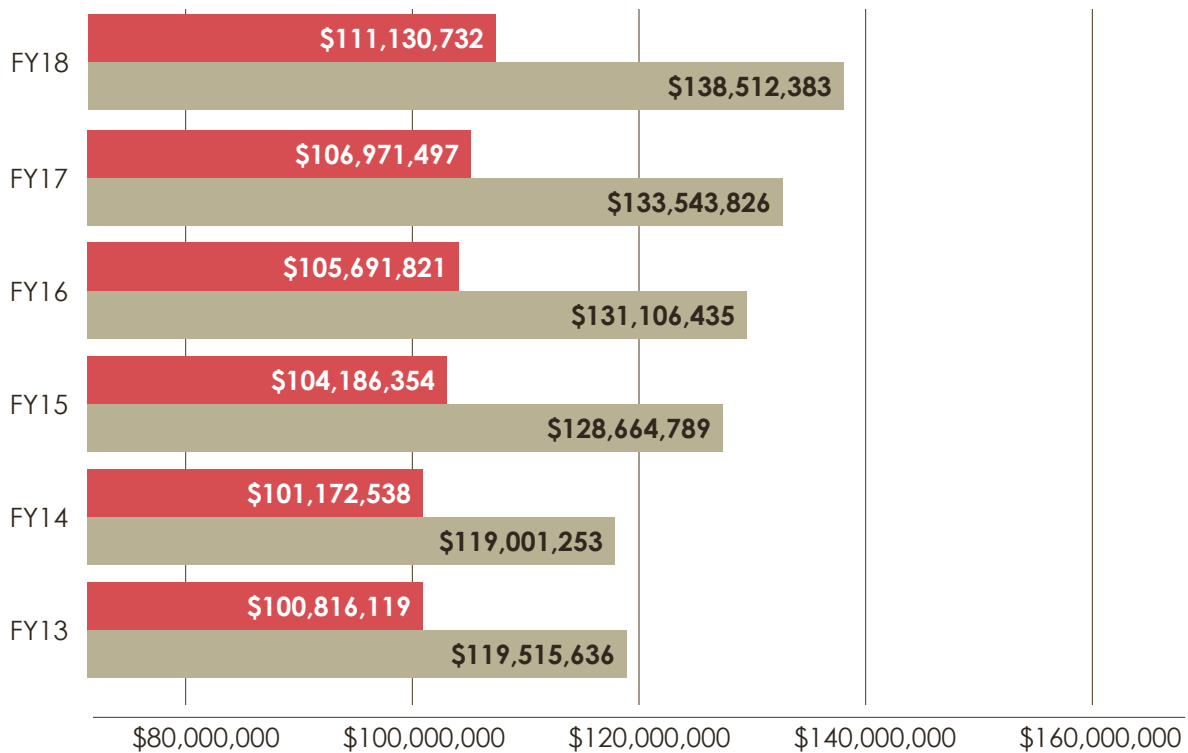
#### Iowa Economic Development Authority:

##### \$419,849

Tax revenues collected from native Iowa wine producers (\$289,916) and native breweries (\$129,933) are directed to the Iowa Economic Development Authority's Beer and Wine Promotion Board. Funds collected are used for research and development of training programs within the native wine, beer, and liquor industries.

# Business Operations Bureau

## Distributed / Reverted Funds



**Total Funds Reverted**

Total Funds Reverted is the amount transferred to the State General Fund for appropriation by the Legislature.

**Total Funds Distributed**

Total Funds Distributed refers to funds sent to all recipients, including the Iowa Economic Development Authority, Iowa Department of Public Health and local authorities.

# Business Operations Bureau

## Beer and Wine Gallons Sold

	<b>FY18 Gallons</b>	<b>FY17 Gallons</b>	<b>Increase (Decrease) + / -</b>
Beer Gallons	71,541,643	73,179,382	-2.24%
Native Beer Gallons	683,858	615,451	11.11%
<b>Total Beer Gallons</b>	<b>72,225,501</b>	<b>73,794,833</b>	<b>-2.13%</b>
Wine Gallons	4,666,602	4,616,025	1.10%
Native Wine Gallons	165,666	177,253	-6.54%
<b>Total Wine Gallons</b>	<b>4,832,268</b>	<b>4,793,278</b>	<b>0.81%</b>

### Taxes Processed

(year ended 6-30-18) (Includes penalties and adjusted for fiscal year collection and refunds)

	<b>FY18</b>	<b>FY17</b>	<b>+ or (-) % FY18 vs FY17</b>
Beer Tax	\$13,592,912	\$14,231,743	-4.49%
Native Beer Tax	\$129,933	\$108,887	19.33%
Wine Tax	\$8,166,553	\$7,648,753	6.77%
Native Wine Tax	\$289,916	\$320,516	-9.55%
<b>Total Taxes Processed</b>	<b>\$22,179,314</b>	<b>\$22,309,899</b>	<b>-0.59%</b>

### License Revenue

(year ended 6-30-18)

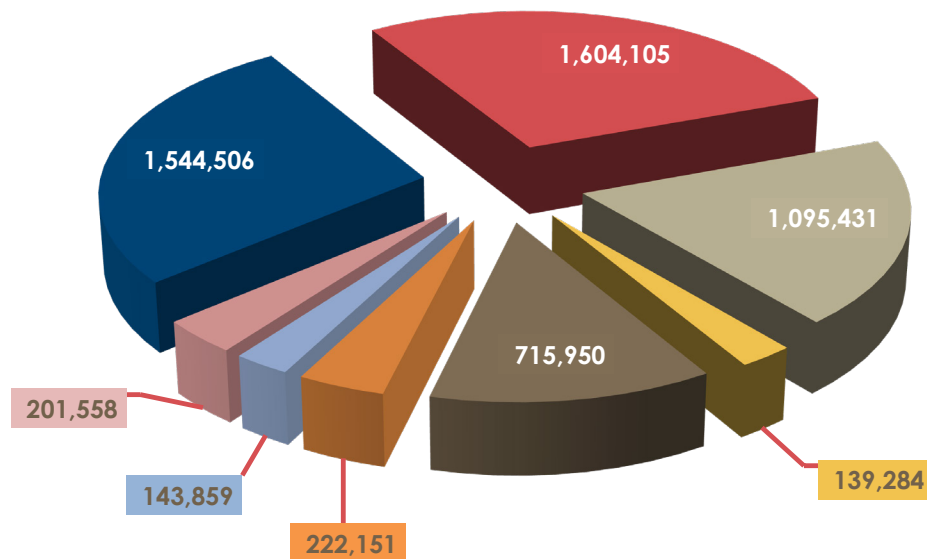
	<b>FY18</b>	<b>FY17</b>	<b>+ or (-) % FY18 vs FY17</b>
Liquor Permits	\$15,111,660	\$14,256,852	6.00%
Wine Permits	\$72,727	\$68,925	5.52%
Beer Permits	\$1,238,395	\$1,188,882	4.16%
Special Licenses *	\$9,900	\$7,885	25.55%
Compliance Licenses **	\$181,000	\$141,925	27.53%
<b>Total License Revenue</b>	<b>\$16,613,682</b>	<b>\$15,664,468</b>	<b>6.06%</b>

\* Charity Auction Permit, Broker's Permit

\*\* Vintner's Certificate of Compliance, Brewer's Certificate of Compliance, Distiller's Certificate of Compliance

# Business Operations Bureau

## Comparative Statement of Liquor Gallons Sold



■ Whiskey ■ Vodka ■ Cordials and Liqueurs ■ Brandy ■ Rum ■ Tequila ■ Gin ■ Cocktails

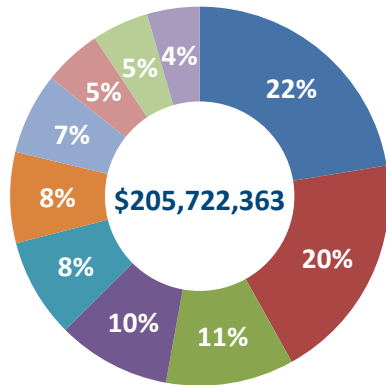
## Liquor Gallons Sold

DISTILLED SPIRITS	FY18 Gallons	FY17 Gallons	Increase (Decrease) + / -
Whiskey	1,544,506	1,525,835	1.22%
Vodka	1,604,105	1,517,853	5.68%
Cordials and Liqueurs	1,095,431	1,069,827	2.39%
Brandy	139,284	134,996	3.18%
Rum	715,950	704,551	1.62%
Tequila	222,151	217,211	2.27%
Gin	143,859	145,602	-1.20%
Cocktails	201,558	192,342	4.79%
<b>TOTAL DISTILLED GALLONS</b>	<b>5,666,844</b>	<b>5,508,217</b>	<b>2.88%</b>



# Business Operations Bureau

## Top 10 Product Categories

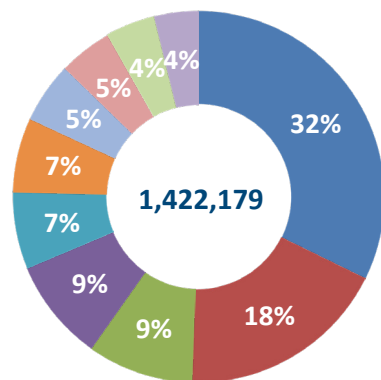


- American Vodkas
- Canadian Whiskies
- Spiced Rum
- Straight Bourbon Whiskies
- Imported Vodkas
- Whiskey Liqueur
- Tennessee Whiskies
- 100% Agave Tequila
- Imported Brandies
- American Flavored Vodka

## By Sales

1	American Vodkas	\$46,088,670
2	Canadian Whiskies	\$40,152,767
3	Spiced Rum	\$22,486,451
4	Straight Bourbon Whiskies	\$19,899,841
5	Imported Vodkas	\$17,448,973
6	Whiskey Liqueur	\$15,954,608
7	Tennessee Whiskies	\$14,259,988
8	100% Agave Tequila	\$10,253,610
9	Imported Brandies	\$9,952,636
10	American Flavored Vodka	\$9,224,819

**Total \$205,722,363**



- American Vodkas
- Canadian Whiskies
- Spiced Rum
- Whiskey Liqueur
- Imported Vodkas
- Straight Bourbon Whiskies
- Blended Whiskies
- Cocktails/RTD
- American Flavored Vodka
- White Rum

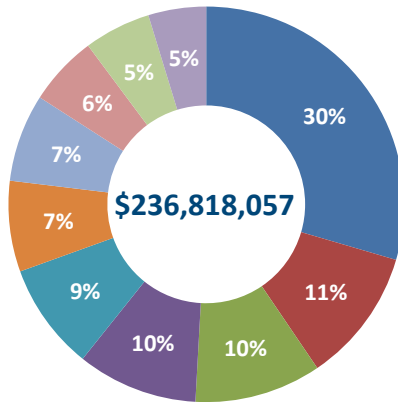
## By Cases

	Total Cases	
1	American Vodkas	458,945
2	Canadian Whiskies	259,798
3	Spiced Rum	131,382
4	Whiskey Liqueur	126,813
5	Imported Vodkas	95,175
6	Straight Bourbon Whiskies	92,716
7	Blended Whiskies	75,260
8	Cocktails/RTD	66,445
9	American Flavored Vodka	61,288
10	White Rum	54,357

**Total 1,422,179**

# Business Operations Bureau

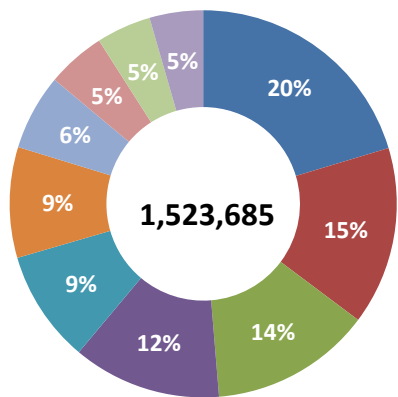
## Top 10 Suppliers



- Diageo Americas
- Sazerac Company Inc.
- Jim Beam Brands
- Pernod Richard USA
- Constellation Brands Inc.
- Luxco Inc.
- Brown Forman Corp.
- Bacardi USA Inc.
- Fifth Generation Inc.
- Sazerac North America

## By Sales

1	Diageo Americas	\$69,939,187
2	Sazerac Company Inc.	\$26,004,032
3	Jim Beam Brands	\$24,534,034
4	Pernod Richard USA	\$23,361,061
5	Constellation Brands Inc.	\$20,732,175
6	Luxco Inc.	\$17,576,056
7	Brown Forman Corp.	\$16,984,570
8	Bacardi USA Inc.	\$13,566,166
9	Fifth Generation Inc.	\$12,920,833
10	Sazerac North America	\$11,199,943
<b>Total</b>		<b>\$236,818,057</b>



- Diageo Americas
- Sazerac Company Inc.
- Luxco Inc.
- Constellation Brands Inc.
- Sazerac North America
- Jim Beam Brands
- Pernod Richard USA
- Laird & Company
- Bacardi USA Inc.
- Fifth Generation Inc.

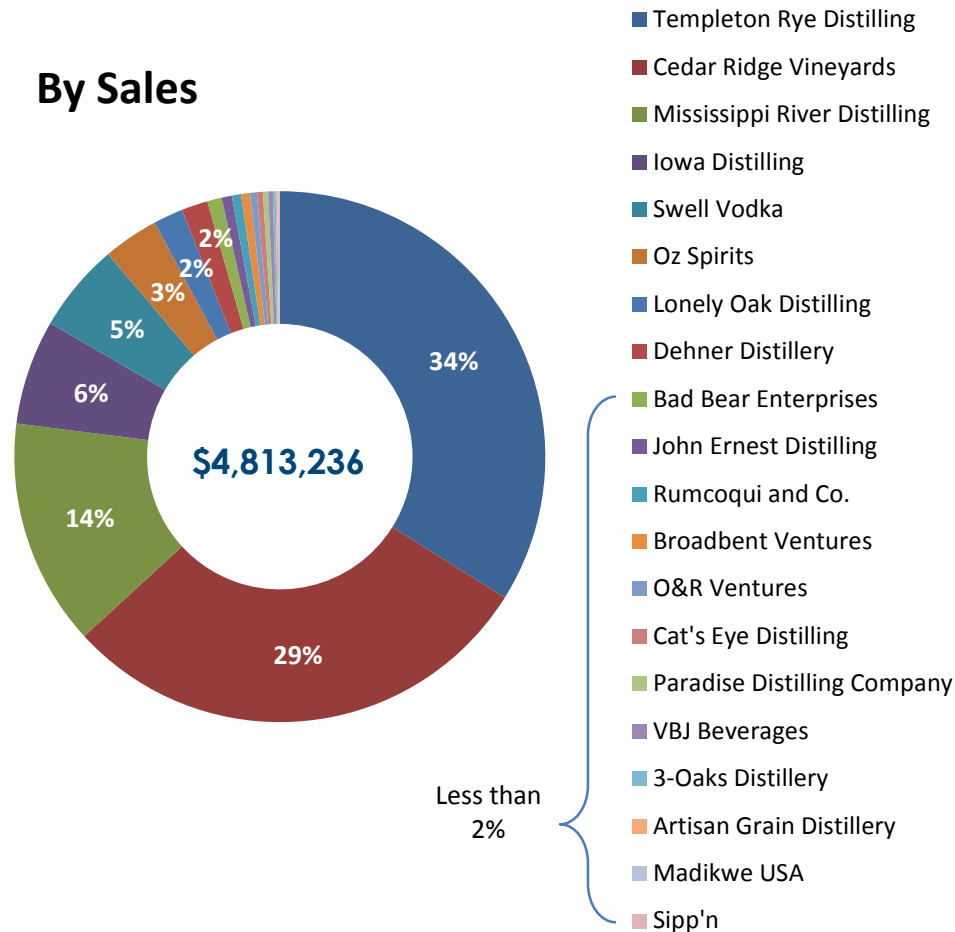
## By Cases

	Total Cases	
1	Diageo Americas	310,030
2	Sazerac Company Inc.	226,844
3	Luxco Inc.	205,070
4	Constellation Brands Inc.	189,062
5	Sazerac North America	143,124
6	Jim Beam Brands	140,866
7	Pernod Richard USA	96,527
8	Laird & Company	74,429
9	Bacardi USA Inc.	69,590
10	Fifth Generation Inc.	68,145
Total		1,523,685

# Business Operations Bureau

## Iowa Manufacturers

### By Sales

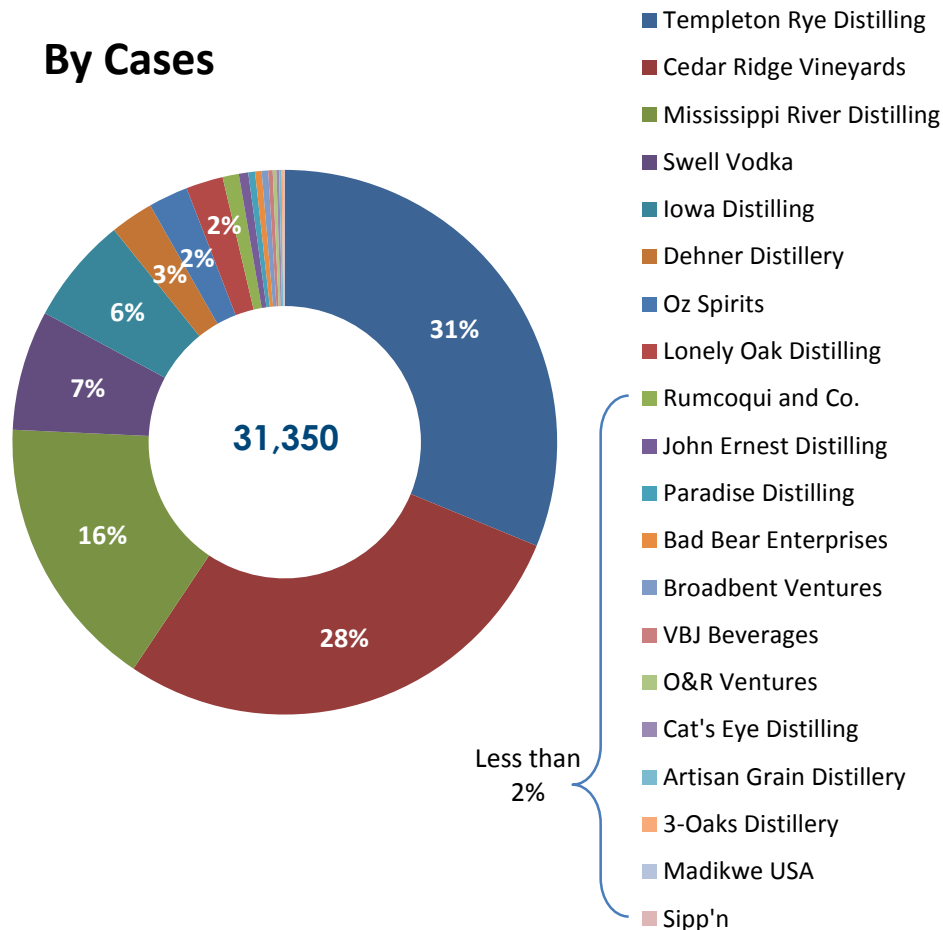


1	Templeton Rye Distilling	\$1,631,990	11	Rumcoqui and Co.	\$27,180
2	Cedar Ridge Vineyards	\$1,408,841	12	Broadbent Ventures	\$26,093
3	Mississippi River Distilling	\$665,115	13	O&R Ventures	\$19,577
4	Iowa Distilling	\$307,726	14	Cat's Eye Distilling	\$17,819
5	Swell Vodka	\$260,803	15	Paradise Distilling Company	\$15,189
6	Oz Spirits	\$162,804	16	VBJ Beverages	\$13,689
7	Lonely Oak Distilling	\$87,024	17	3-Oaks Distillery	\$8,101
8	Dehner Distillery	\$76,998	18	Artisan Grain Distillery	\$4,897
9	Bad Bear Enterprises	\$42,320	19	Madikwe USA	\$3,826
10	John Ernest Distilling	\$29,982	20	Sipp'n	\$3,262
			Total \$4,813,236		

# Business Operations Bureau

## Iowa Manufacturers

### By Cases



1	Templeton Rye Distilling	9,784	11	Paradise Distilling	125
2	Cedar Ridge Vineyards	8,830	12	Bad Bear Enterprises	122
3	Mississippi River Distilling	5,127	13	Broadbent Ventures	121
4	Swell Vodka	2,235	14	VBJ Beverages	83
5	Iowa Distilling	1,994	15	O&R Ventures	68
6	Dehner Distillery	801	16	Cat's Eye Distilling	51
7	Oz Spirits	738	17	Artisan Grain Distillery	46
8	Lonely Oak Distilling	691	18	3-Oaks Distillery	22
9	Rumcoqui and Co.	302	19	Madikwe USA	18
10	John Ernest Distilling	175	20	Sipp'n	17
					<b>Total</b>
					<b>31,350</b>

# Business Operations Bureau

## Top 50 Brands \*

Rank / Brand	Case Sales	Rank / Brand	Case Sales
1 Black Velvet Canadian Whiskey	141,877	25 Jameson Irish Whiskey	18,052
2 Fireball Cinnamon Whiskey	134,233	26 Paramount White Rum	17,987
3 Captain Morgan Original Spiced Rum	96,726	27 Svedka Imported Vodka (Swedish)	17,289
4 Hawkeye Vodka	90,251	28 New Amsterdam Vodka	16,996
5 Tito's Handmade Texas Vodka	71,010	29 Jagermeister	15,357
6 Five O'Clock Vodka	54,345	30 UV Blue Raspberry Flavored Vodka	14,981
7 McCormick Vodka	46,336	31 Nikolai 80 Proof Vodka	14,823
8 Smirnoff Vodka (Glass & Plastic)	41,236	32 Jose Cuervo Authentic Lime Margarita	14,358
9 Barton Vodka	40,658	33 Southern Comfort Whiskey Liqueur	14,038
10 Crown Royal Canadian Whiskey	40,415	34 Windsor Canadian Blended Whiskey	12,568
11 Jack Daniels Old #7 Black Label Tenn Whiskey	38,561	35 Dr McGillicuddys Cherry Schnapps	12,194
12 Admiral Nelson's Spiced Rum	28,527	36 Black Velvet Toasted Caramel Can Whiskey	11,979
13 Absolut Imported Vodka	26,474	37 Paul Masson Grape Brandy	11,978
14 Bacardi Light-Dry Rum	26,349	38 Skol Vodka	11,970
15 Seagram's Seven Crown Blended Whiskey	25,411	39 Kessler Blended Whiskey	11,593
16 Phillips Vodka	25,185	40 E & J VS Brandy	11,278
17 Jim Beam Kentucky Straight Bourbon Whiskey	23,355	41 Pinnacle Vodka France	11,268
18 Hennessy VS Imported Brandy	22,775	42 Ten High Kentucky Bourbon Whiskey	11,116
19 Grey Goose Imported Vodka	22,017	43 UV Silver Vodka	10,990
20 Malibu Rum Natural Coconut	21,284	44 Juarez Gold Tequila	10,847
21 G & W Five Star Blended Whiskey	19,481	45 Seagram's Extra Dry Gin	10,778
22 Crown Royal Regal AppleWhiskey	19,154	46 Bailey's Original Irish Cream	10,464
23 Cuervo Especial Gold Tequila	18,651	47 Fleischmann's Royal Vodka	10,386
24 Canadian LTD Whiskey	18,243	48 Canadian Club Original 1858	8,713
		49 Tanqueray Gin	8,433
		50 Fris 80 Vodka	8,333

\*Data from the National Alcoholic Beverage Control Association's Case Sales Report of Alcoholic Beverages.

All Cases Sold	2,044,523
Total Cases Top 50 Sold	1,421,322
Top 50 as Percent of Total Cases Sold	69.5%

Total Cases Sold FY2017	1,967,217
Difference in Case Total Year over Year	3.9%



# Business Operations Bureau

## Top 50 Iowa Brands \*

Rank / Brand	Case Sales	Rank / Brand	Case Sales
1 Templeton The Good Stuff 4 yr Rye Whiskey	8,506	26 River Baron Premium Vodka	199
2 Cedar Ridge Blended Bourbon	5,011	27 Clearheart 90 Proof Gin	190
3 Swell Vodka	2,221	28 Dehner Distillery Vodka	179
4 Iowish Cream Liqueur	1,695	29 John Ernest Distillery Holy Hell Rum	175
5 Templeton The Good Stuff 6 yr Rye Whiskey	1,277	30 Cedar Ridge Wheat Whiskey	171
6 Cody Road Bourbon Whiskey	812	31 Cody Road Single Barrel Bourbon	166
7 Prairie Fire Hot Cinnamon Flavored Whiskey	812	32 Cody Road Maple Flavored Whiskey	160
8 Ingenioz Vodka	738	33 Iowish Corn Whiskey	159
9 River Pilot Straight Vodka	584	34 Dehner Distillery 151 Grain Neutral Spirit	154
10 Cedar Ridge Malted Rye Whiskey	567	35 Cedar Ridge Barrel Malt Whiskey	149
11 North 40 Vodka	548	36 Saints'n Sinners Apple Pie	146
12 Short's Whiskey	537	37 North 40 Peach Flavored Vodka	143
13 Cody Road Rye	409	38 Cedar Ridge Barrel Ages 5yr Reserve Rum	120
14 Cedar Ridge Single Malt Whiskey	349	39 Queen Bee Honey Flavored Whiskey	115
15 Rocket Fuel Natural Spirits	332	40 Cedar Ridge Pear Brandy	96
16 Clearheart Vodka	317	41 Iowa Coffee Company Seasonal	86
17 Howdy's Apple Pie Liqueur	302	42 Cody Road Single Barrel Rye	77
18 Runcoqui Coconut Crème Rum	302	43 Cody Road Honey Flavored Whiskey	73
19 Iowa Distilling 2 yr Straight Bourbon Whiskey	292	44 Cedar Ridge Grape Brandy	72
20 River Bend Rose Premium Gin	272	45 Steel Drum Dark Rum	68
21 Cedar Ridge Cask Finish Bourbon Whiskey	254	46 Very Cherry Cobbler Flavored Whiskey	59
22 Swell Zone Vodka	254	47 Copper Cross Hybrid Whiskey	57
23 Cedar Ridge Apple Brandy	251	48 Bleu Original Blueberry Liqueur	56
24 Blue Ox Vodka	207	49 Iowa Distilling Caribbean Cask Rye Whiskey	53
25 Cedar Ridge Dark Rum	203	50 Cat's Eye Distillery Essence of Iowa Whiskey	51

\*Data from the National Alcoholic Beverage Control Association's Case Sales Report of Alcoholic Beverages.

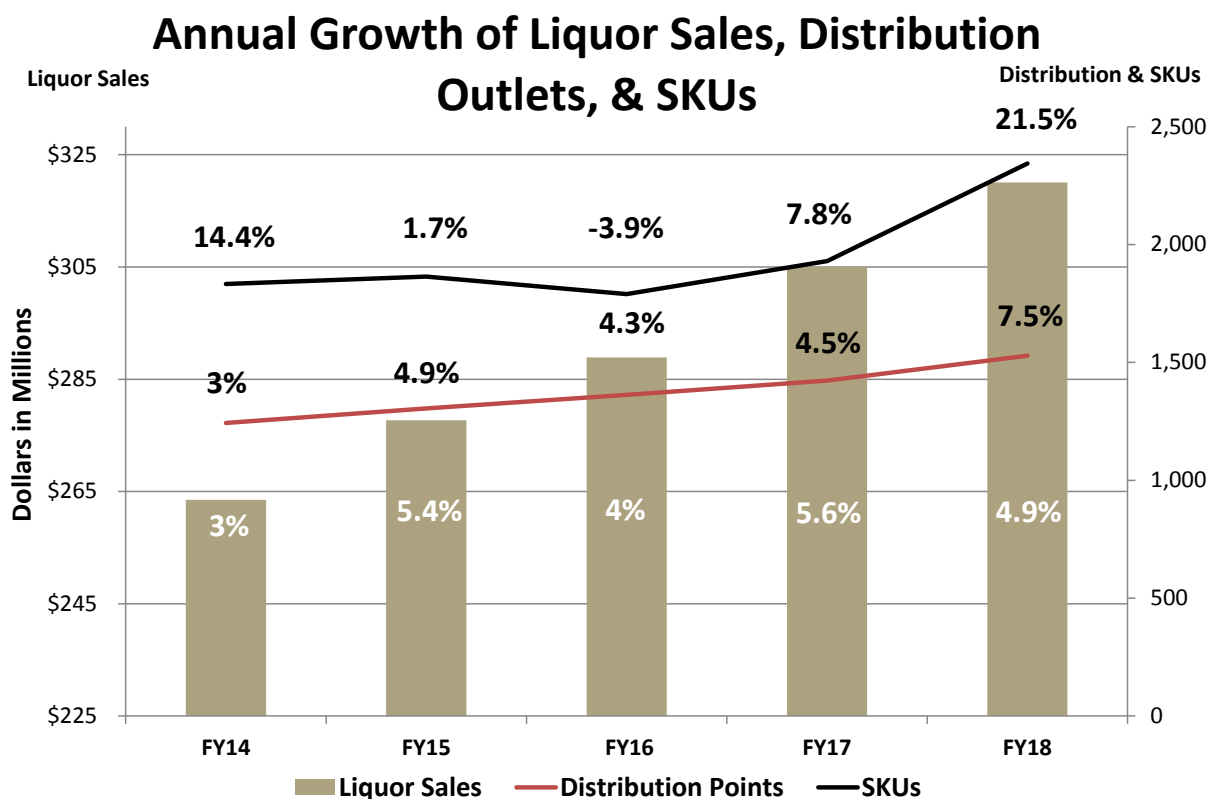
All Cases Sold	2,044,523
Total Cases Iowa Top 50 Sold	29,922
Top 50 as Percent of Total Cases Sold	1.5%

# Business Operations Bureau

## Class "E" License and SKU Growth

The Division has experienced growth in many aspects of the business model, including class "E" licensees and SKUs. More class "E" licensees increases the number of distribution points delivered to on a weekly basis. The number of SKUs refers to the diverse

catalog of products offered for distribution to class "E" licensees. The following graph depicts the growth of liquor sales as well as the distribution and SKU growth over the last 5 years.



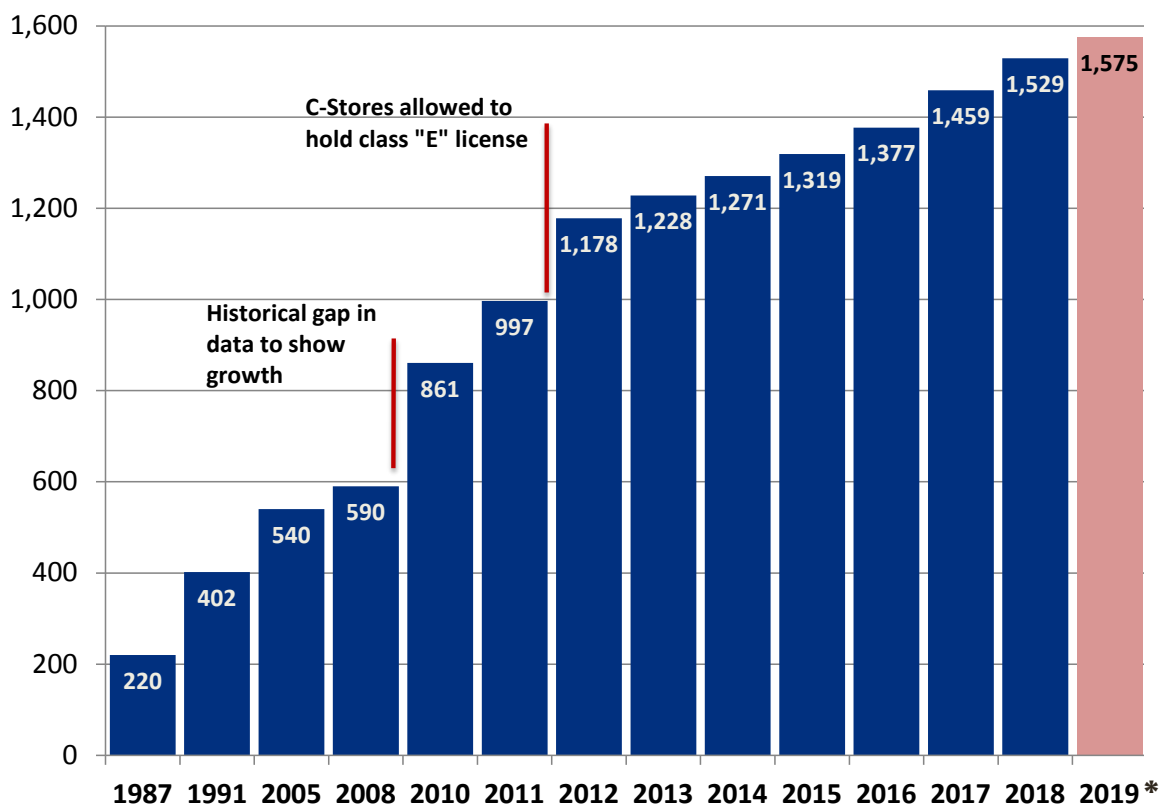
Fiscal Year	Liquor Sales	Distribution Points	SKUs
FY2014	\$263,495,000	1,243	1,833
FY2015	\$277,706,000	1,305	1,864
FY2016	\$288,908,000	1,362	1,790
FY2017	\$305,000,000	1,423	1,930
FY2018	\$320,049,812	1,529	2,344

# Business Operations Bureau

## Class "E" License Growth

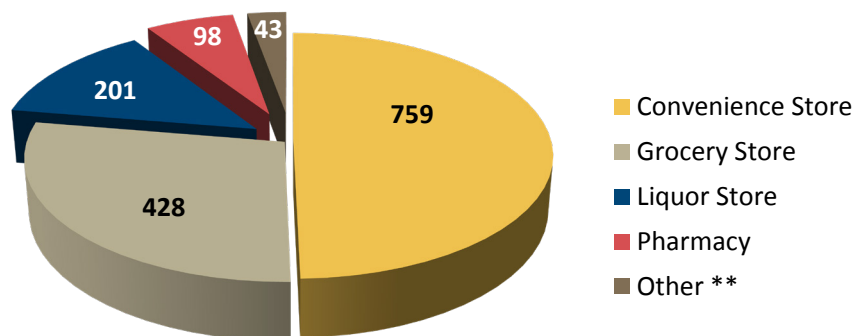
In 2012, there was an increase in the number of class "E" licensees due to a change in the law that allowed convenience stores to be licensed to sell liquor. Since that time, the number of class "E" licensees continues

to grow and increases the number of distribution points across the state. The Division is committed to serving these customers through the responsible and efficient distribution of alcohol.



\* Class "E" licensees for 2019 have been estimated based on current growth rate.

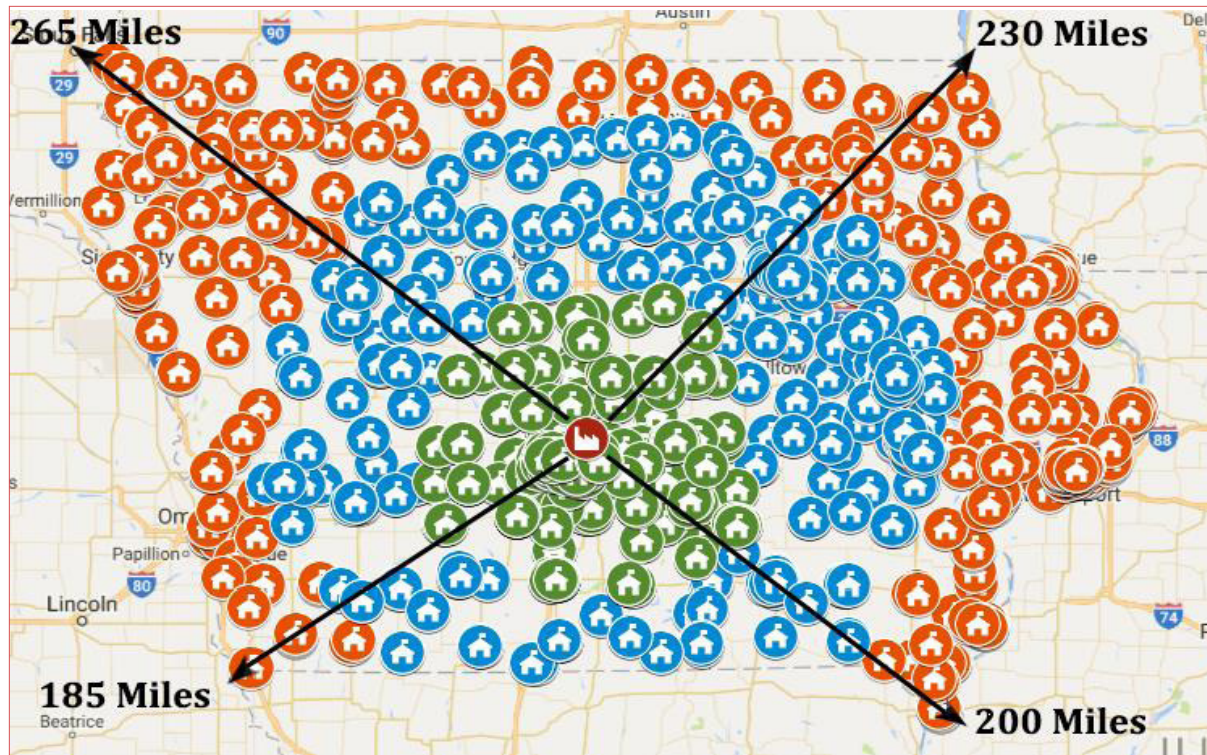
## Class "E" Premises Types







\*\* Other category represents Discount Store, Casino, Hotel, Redemption Center, Specialty Shop.

# Business Operations Bureau

## Class "E" License Radius Analysis

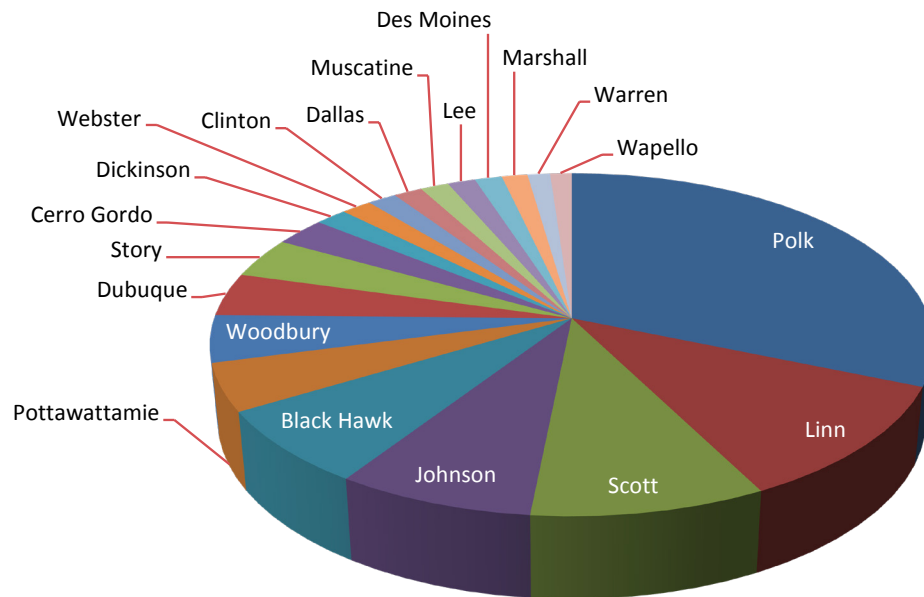


### LEGEND

-  Iowa Alcoholic Beverages Division distributed to 1,529 retailers in the State of Iowa through one central warehouse in Ankeny, Iowa.
-  413 licensees (27%) in 50 mile radius
-  487 licensees (32%) in 51 – 100 mile radius
-  629 licensees (41%) in 100+ mile radius

# Business Operations Bureau

## Sales by Class "E" Licensees



### TOP 20 COUNTIES FOR CLASS "E" LICENSEE LIQUOR SALES

	COUNTY	SALES		COUNTY	SALES
1	Polk	\$78,503,031	11	Dickinson	\$4,139,566
2	Linn	\$27,939,514	12	Webster	\$3,964,084
3	Scott	\$22,859,882	13	Clinton	\$3,763,018
4	Johnson	\$19,277,062	14	Dallas	\$3,721,438
5	Black Hawk	\$17,854,245	15	Muscatine	\$3,688,654
6	Pottawattamie	\$11,239,111	16	Lee	\$3,613,114
7	Woodbury	\$11,089,531	17	Des Moines	\$3,550,735
8	Dubuque	\$10,197,238	18	Marshall	\$3,342,253
9	Story	\$9,523,192	19	Warren	\$2,934,399
10	Cerro Gordo	\$6,713,676	20	Wapello	\$2,798,206

### TOP 20 CLASS "E" LICENSEE SALES BY LICENSEE GROUP

	LICENSEE	SALES		LICENSEE	SALES
1	Hy-Vee	\$80,345,851	11	Wilkie Liquors	\$1,797,091
2	Fareway Stores	\$16,952,844	12	Smokin Joes Tobacco and Liquor Outlet	\$1,656,886
3	Sam's Club	\$15,567,121	13	Lot-A-Spirits	\$1,386,097
4	Wal-Mart	\$12,816,426	14	Benz Distributing	\$1,344,581
5	Casey's	\$6,439,703	15	I-80 Liquor / Council Bluffs	\$1,289,088
6	Central City	\$5,183,614	16	Price Chopper	\$1,079,540
7	KUM & GO	\$4,755,156	17	Iowa Street Market, Inc.	\$1,048,927
8	Costco	\$4,694,813	18	Prime Mart	\$942,238
9	Walgreens	\$2,535,428	19	New Star	\$927,421
10	Target Store	\$1,803,863	20	Keokuk Spirits	\$872,588

# Business Operations Bureau

## Total Gallons Sold per County

Rank	County	Fiscal Year Gallons				Retailers Selling Spirits			
		FY17	FY18	+ / -	% + / -	FY17	FY18	+ / -	% + / -
1	Polk	1,234,761	1,287,132	52371	4%	210	215	5	2%
2	Linn	484,547	497,385	12838	3%	105	115	10	10%
3	Scott	376,231	379,673	3442	1%	76	78	2	3%
4	Johnson	314,737	318,077	3340	1%	56	61	5	9%
5	Black Hawk	291,609	304,219	12610	4%	68	75	7	10%
6	Pottawattamie	188,941	194,876	5935	3%	55	56	1	2%
7	Woodbury	183,521	190,063	6542	4%	41	41	0	0%
8	Dubuque	170,128	181,955	11827	7%	47	49	2	4%
9	Story	171,148	175,349	4201	2%	41	46	5	12%
10	Cerro Gordo	120,386	126,163	5777	5%	19	21	2	11%
11	Dickinson	79,664	77,608	(2056)	-3%	14	13	(1)	-7%
12	Webster	73,622	74,134	512	1%	20	25	5	25%
13	Clinton	69,935	71,895	1960	3%	19	22	3	16%
14	Muscatine	59,085	66,437	7352	12%	22	22	0	0%
15	Lee	64,254	64,609	355	1%	16	17	1	6%
16	Dallas	60,259	64,287	4028	7%	22	25	3	14%
17	Des Moines	64,530	63,186	(1344)	-2%	21	24	3	14%
18	Marshall	61,168	58,421	(2747)	-4%	22	22	0	0%
19	Warren	51,076	52,629	1553	3%	19	20	1	5%
20	Wapello	51,292	52,011	719	1%	14	14	0	0%
21	Carroll	48,149	46,855	(1294)	-3%	12	13	1	8%
22	Bremer	45,658	46,447	789	2%	11	11	0	0%
23	Marion	40,437	43,145	2708	7%	14	15	1	7%
24	Sioux	34,247	36,800	2553	7%	12	14	2	17%
25	Buena Vista	36,718	35,565	(1153)	-3%	15	14	(1)	-7%
26	Boone	32,741	34,737	1996	6%	12	15	3	25%
27	Jasper	35,548	34,287	(1261)	-4%	15	15	0	0%
28	Plymouth	34,077	33,623	(454)	-1%	9	13	4	44%
29	Clay	32,347	33,149	802	2%	9	9	0	0%
30	Kossuth	31,901	32,342	441	1%	7	9	2	29%
31	Washington	32,065	31,823	(242)	-1%	8	9	1	13%
32	Poweshiek	27,210	29,208	1998	7%	13	14	1	8%
33	O'Brien	27,860	29,203	1343	5%	13	11	(2)	-15%
34	Hardin	28,151	28,238	87	0%	14	14	0	0%
35	Jones	25,705	28,052	2347	9%	6	9	3	50%
36	Winneshiek	27,084	26,595	(489)	-2%	6	9	3	50%
37	Cass	24,463	26,530	2067	8%	9	11	2	22%
38	Fayette	28,447	26,432	(2015)	-7%	11	16	5	45%
39	Page	25,613	25,832	219	1%	8	8	0	0%
40	Jackson	24,578	25,295	717	3%	8	8	0	0%

Continued on page 33

# Business Operations Bureau

## Total Gallons Sold per County

Continued from page 32

Rank	County	Fiscal Year Gallons				Retailers Selling Spirits			
		FY17	FY18	+ / -	% + / -	FY17	FY18	+ / -	% + / -
41	Crawford	26,884	25,230	(1654)	-6%	5	5	0	0%
42	Floyd	24,979	24,541	(438)	-2%	7	9	2	29%
43	Mahaska	24,128	24,457	329	1%	7	9	2	29%
44	Henry	22,116	22,616	500	2%	6	6	0	0%
45	Buchanan	20,987	22,004	1017	5%	10	12	2	20%
46	Benton	19,314	20,058	744	4%	10	13	3	30%
47	Union	19,720	19,377	(343)	-2%	6	6	0	0%
48	Greene	16,577	19,046	2469	15%	6	6	0	0%
49	Shelby	18,091	18,986	895	5%	8	7	(1)	-13%
50	Hamilton	18,772	18,879	107	1%	12	10	(2)	-17%
51	Allamakee	19,255	18,617	(638)	-3%	7	7	0	0%
52	Madison	17,194	17,933	739	4%	9	9	0	0%
53	Jefferson	17,380	17,402	22	0%	4	4	0	0%
54	Appanoose	17,643	17,226	(417)	-2%	7	7	0	0%
55	Winnebago	16,961	17,220	259	2%	8	7	(1)	-13%
56	Humboldt	15,387	16,966	1579	10%	5	5	0	0%
57	Howard	15,688	16,476	788	5%	5	6	1	20%
58	Palo Alto	16,463	16,141	(322)	-2%	8	8	0	0%
59	Wright	15,668	16,133	465	3%	13	12	(1)	-8%
60	Emmet	15,389	15,456	67	0%	4	4	0	0%
61	Tama	14,631	15,394	763	5%	10	9	(1)	-10%
62	Iowa	14,577	15,369	792	5%	9	12	3	33%
63	Cherokee	15,515	15,223	(292)	-2%	7	7	0	0%
64	Lyon	14,539	14,521	(18)	0%	11	11	0	0%
65	Montgomery	13,083	14,280	1197	9%	6	7	1	17%
66	Clayton	12,117	12,916	799	7%	12	13	1	8%
67	Delaware	11,635	12,770	1135	10%	4	5	1	25%
68	Cedar	11,366	12,646	1280	11%	9	9	0	0%
69	Ida	12,388	12,362	(26)	0%	4	4	0	0%
70	Clarke	12,375	12,045	(330)	-3%	6	7	1	17%
71	Sac	12,580	11,738	(842)	-7%	9	8	(1)	-11%
72	Guthrie	10,701	11,447	746	7%	7	8	1	14%
73	Harrison	9,459	11,408	1949	21%	8	8	0	0%
74	Mills	9,926	11,060	1134	11%	7	7	0	0%
75	Franklin	10,968	10,580	(388)	-4%	7	8	1	14%
76	Monona	10,489	10,527	38	0%	5	5	0	0%
77	Mitchell	9,704	10,208	504	5%	5	6	1	20%
78	Lucas	8,947	9,751	804	9%	3	3	0	0%
79	Chickasaw	8,348	8,482	134	2%	5	6	1	20%
80	Hancock	8,101	8,203	102	1%	4	5	1	25%

Continued on page 34



# Business Operations Bureau

## Total Gallons Sold per County

Continued from page 33

Rank	County	Fiscal Year Gallons				Retailers Selling Spirits			
		FY17	FY18	+ / -	% + / -	FY17	FY18	+ / -	% + / -
81	Grundy	8,100	8,165	65	1%	8	7	(1)	-13%
82	Calhoun	7,635	8,102	467	6%	7	12	5	71%
83	Pocahontas	7,646	7,744	98	1%	5	6	1	20%
84	Butler	7,270	7,633	363	5%	8	8	0	0%
85	Monroe	7,209	7,194	(15)	0%	3	3	0	0%
86	Worth	5,583	6,085	502	9%	6	5	(1)	-17%
87	Osceola	5,370	5,350	(20)	0%	2	2	0	0%
88	Louisa	4,558	5,199	641	14%	4	7	3	75%
89	Adair	4,292	4,532	240	6%	5	4	(1)	-20%
90	Keokuk	3,656	3,909	253	7%	5	3	(2)	-40%
91	Van Buren	3,643	3,539	(104)	-3%	3	3	0	0%
92	Audubon	3,273	3,360	87	3%	3	3	0	0%
93	Decatur	3,160	3,357	197	6%	5	6	1	20%
94	Ringgold	3,198	3,224	26	1%	3	3	0	0%
95	Wayne	2,517	2,430	(87)	-3%	4	4	0	0%
96	Taylor	2,313	2,277	(36)	-2%	2	4	2	100%
97	Davis	2,206	2,267	61	3%	1	1	0	0%
98	Adams	1,632	1,393	(239)	-15%	1	2	1	100%
99	Fremont	1,019	1,125	106	10%	2	2	0	0%
TOTALS		5,508,218	5,666,846	158,628.00	2.88%	1481	1583	102	6.89%



“In an ever-evolving industry of product diversity and technological advancement, it is imperative for the financial management team to remain focused on efficiency, accuracy, and accountability.”

— Leisa Bertram,  
Comptroller

## Our Financial Growth

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### FINANCIAL HIGHLIGHTS

#### Revenue Analysis

The Division once again experienced growth in relation to overall revenues from several different key areas within the business model. Gross liquor sales increased by over **4.7%** compared to Fiscal Year 2017, equating to a sale amount of over **\$320 million** dollars.

The increase in liquor sales has been continually growing and is a major source of funding for the State General Fund. Though the liquor sales total was the greatest portion of the **\$352.4 million** dollars brought in as total revenue, a **4.4%** growth over the previous fiscal year, other revenues hit record growth as well.

Along with the increase in sales, there was growth in license revenue of over **\$1 million** dollars, and an increase in the total number of licenses sold to various business models across the State of Iowa, and to suppliers and manufacturers across the country. This healthy growth in revenues allowed the Division to transfer or distribute over **\$138 million** dollars to various funds and departments throughout the state.

As the Division continues to see growth in revenues, so too will the State General Fund see growth in transfers and distributions directly from the Division.

#### Expense Analysis

Total expenses for the Division totaled **\$352.4 million** dollars. All revenues collected that were not used for daily operations were transferred back to the State General Fund. The Substance Abuse and Liquor Sales transfer reached a record high of **\$120 million** dollars, a **4.7%** increase over the previous fiscal year.

Other funds transferred by the Division included the Native Beer, Native Wine, and Beer tax, which are processed on a monthly basis and deposited directly into several different funds for other state agencies.

The Division expended over **\$3.7 million** dollars to local authorities throughout Iowa for their partnership in the licensing approval process. These funds are collected by the Division as a portion of the license fee and then paid back to local authorities on a monthly basis.

Inventory purchases of spirits were **\$210 million** dollars and equated to over **2,200** cases purchased from **198** suppliers. As the Division expands its product catalog, the number of suppliers and SKUs are assured to continue to grow. This will allow greater selection and product availability to all consumers. ■

# Financial Statements

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## Introduction

The following summary of the Division's financial performance provides a brief overview of financial activities for Fiscal Year 2018. The financial data is extracted from the State of Iowa accounting system.

Except as noted, all financial information presented reflects financial transactions for the reported fiscal year, including the State of Iowa's hold open period (July 1, 2018 – August 31, 2018). While the Division's operations are audited, the following pages are audited internally only.

	Page
Liquor Sales by Month .....	37
Liquor Control Trust Fund Summary ....	38
Reversion Analysis .....	39
Profit & Loss Statement .....	40
Net Income Statement .....	41
Statement of Cash Flow .....	42
Balance Sheet .....	43
Notes to Financial Statements .....	44

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## OVERVIEW OF FINANCIAL STATEMENTS

The Fiscal Year 2018 Annual Report consists of a series of proprietary financial statements. The Division operates out of the State of Iowa General Fund and the Liquor Control Trust Fund. The Net income Statement provides financial information as of June 30, 2018, in comparison to the Division's financial position as of June 30, 2017. The Balance Sheet provides information about the Division's assets and liabilities.

The Profit and Loss Statement reflects the Division's financial performance with respect to wholesale operations and revenues and expenditures directly related to the Liquor Control Trust Fund. The Net Income Statement outlines a Fiscal Year 2018 and

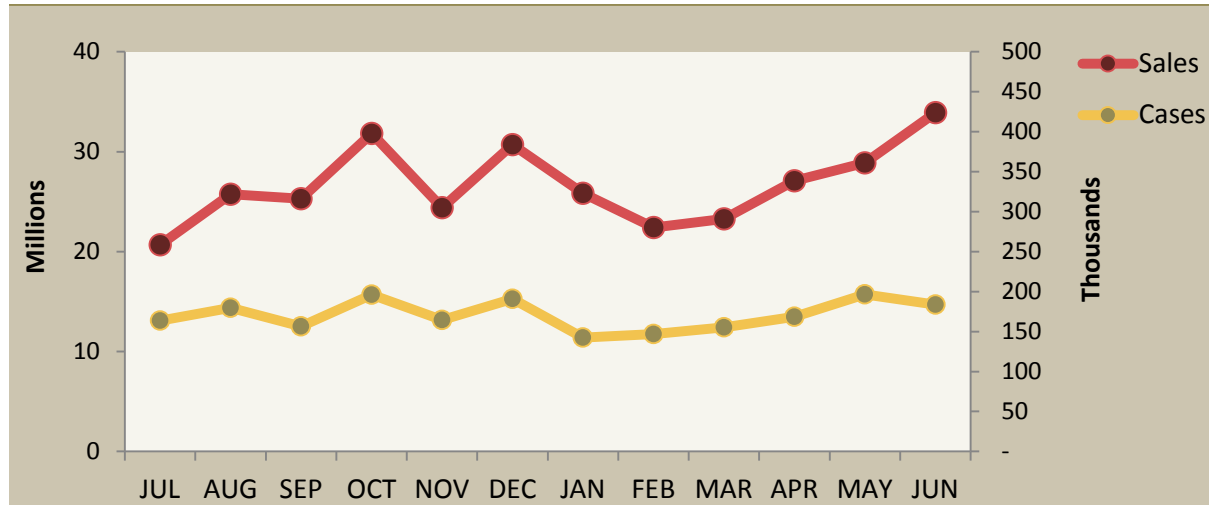
Fiscal Year 2017 comparison of the Division's operations and performance relating to Iowa Code chapter 123, including distribution and administrative revenues and expenditures.

The Statement of Cash Flow represents cash flow for Fiscal Years 2018 and 2017 to the Liquor Control Trust Fund. The Balance Sheet includes revenues and expenditures in the fiscal year hold-open period, July 1, 2018 through September 30, 2018.

Also presented in this report are Notes to Financial Statements that provide additional information to facilitate a better understanding of the data within each statement. ■

# Financial Statements

## Liquor Sales by Month for Fiscal Year 2018

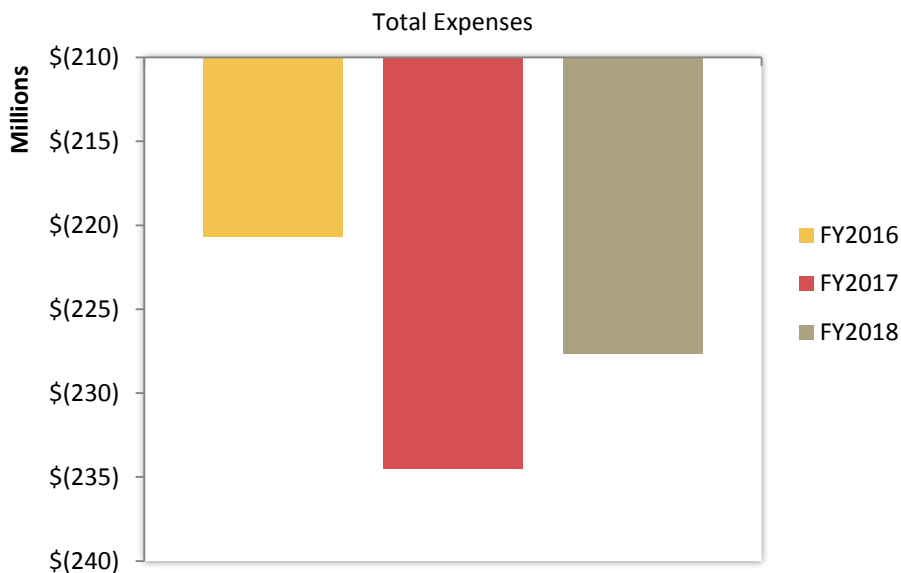
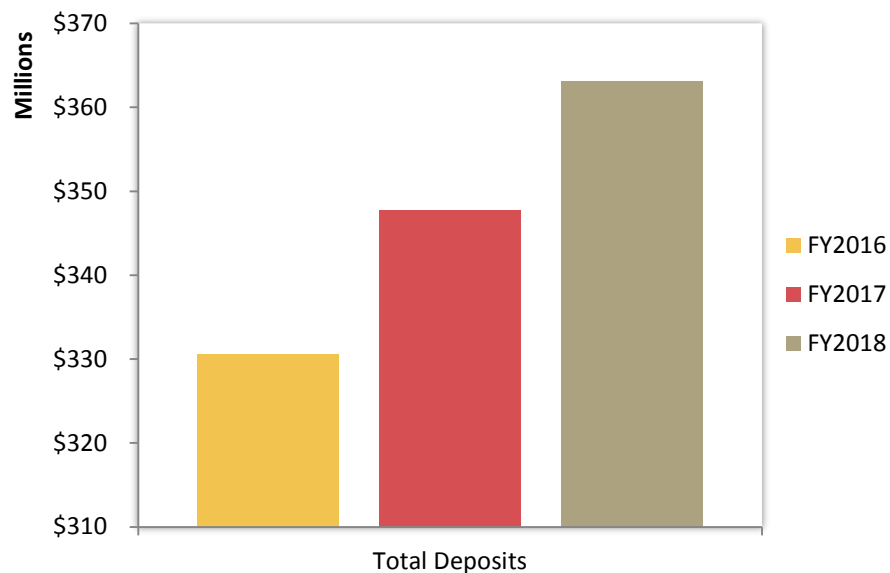


MONTH	Sales	Cases
JUL	\$20,683,447	163,627
AUG	\$25,737,770	179,689
SEP	\$25,306,777	156,621
OCT	\$31,832,047	196,188
NOV	\$24,401,342	164,586
DEC	\$30,720,457	190,820
JAN	\$25,828,473	142,300
FEB	\$22,403,643	146,986
MAR	\$23,260,973	155,109
APR	\$27,087,806	168,512
MAY	\$28,885,362	196,603
JUN	\$33,901,715	183,482
<b>TOTAL</b>	<b>\$320,049,811</b>	<b>2,044,523</b>

# Financial Statements

## Liquor Control Trust Fund Summary

	FY2016	FY2017	FY2018
Sale of Liquor	\$288,908,790	\$305,619,126	\$320,049,812
Sale of Licenses	\$15,608,360	\$15,664,468	\$16,613,682
Beer Tax Collected	\$14,231,744	\$13,904,082	\$13,592,912
Wine Tax Collected	\$7,648,753	\$8,078,043	\$8,166,553
Micellaneous Revenue	\$4,226,128	\$4,503,333	\$4,731,204
<b>Total Deposits</b>	<b>\$330,623,775</b>	<b>\$347,769,052</b>	<b>\$363,154,163</b>
Total Expenses	\$(220,699,907)	\$(234,511,967)	\$(227,665,459)
<b>Total Revenues</b>	<b>\$109,923,868</b>	<b>\$113,257,085</b>	<b>\$135,488,704</b>



# Financial Statements

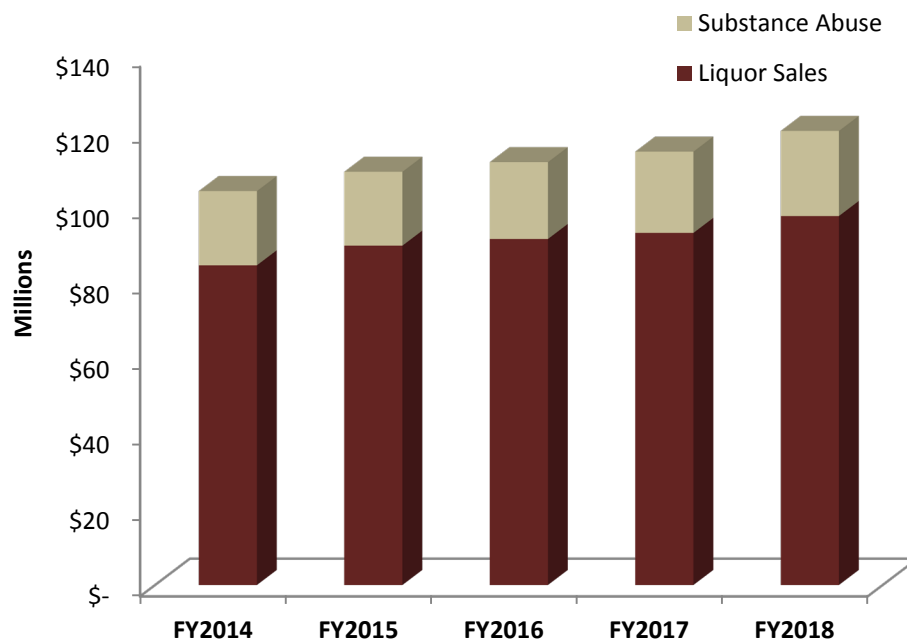
## Reversion Analysis

Each year the Division transfers a monthly reversion amount of all revenues from liquor sales, license fees, and other sources back to the State General Fund.

This reversion is then appropriated by the Legislature to other departments and agencies throughout the state. The Division provides an estimate of this total

number to be used in budgeting and is required to fulfill this estimated amount.

The estimate is derived using past and current sales and reflects the overall growth of the Division as it continues to serve lowans through the responsible regulation, sale and distribution of spirits. ■



	Liquor Sales	Substance Abuse	Total Reversion
FY2014	\$84,500,000	\$19,635,954	\$104,135,954
FY2015	\$89,697,323	\$19,539,339	\$109,236,662
FY2016	\$91,460,077	\$20,328,191	\$111,788,268
FY2017	\$93,067,415	\$21,502,071	\$114,569,486
FY2018	\$97,534,820	\$22,513,750	\$120,048,570

# Financials -- Profit & Loss Statement

	FY17	FY18	FY18 vs FY17 % Change	FY18 vs FY17 Amount Change
<b>Liquor Sales Revenue</b>	<b>305,619,127</b>	<b>320,049,812</b>	<b>4.72%</b>	<b>14,430,685</b>
<b>Cost of Sales</b>				
Bailment	203,464,785	<b>213,295,646</b>	4.83%	9,830,861
Less: Bailment Fees	(2,193,528)	<b>(2,292,151)</b>	4.50%	(98,623)
Less: Special Handling Fees	(187,505)	<b>(202,462)</b>	7.98%	(14,957)
Less: Defective Products	(17,848)	<b>(7,306)</b>	-59.07%	10,542 <sup>1</sup>
<b>Total Cost of Sales</b>	<b>201,065,905</b>	<b>210,793,728</b>	<b>4.84%</b>	<b>9,727,823</b>
<b>Gross Profit</b>	<b>104,553,222</b>	<b>109,256,084</b>	<b>4.50%</b>	<b>4,702,862</b>
<b>Gross Profit %</b>	<b>34.2%</b>	<b>34.1%</b>	<b>-0.21%</b>	<b>-0.07%</b>
<b>Operating Expenses</b>				
Freight Expenses	2,682,173	<b>2,713,888</b>	1.18%	31,715
Warehouse Expenses	2,340,695	<b>2,200,035</b>	-6.01%	(140,660)
Other Expenses Related To Distribution	37,514	<b>830,346</b>	2113.43%	792,832 <sup>2</sup>
<b>Total Operating Expenses</b>	<b>5,060,382</b>	<b>5,744,269</b>	<b>13.51%</b>	<b>683,887</b>
<b>General and Administrative Expenses</b>				
Warehouse Administration	579,165	<b>630,490</b>	8.86%	51,325
Product Administration	416,061	<b>312,780</b>	-24.82%	(103,281)
Accounting	493,539	<b>613,814</b>	24.37%	120,275
Information Technology	2,510,298	<b>2,094,223</b>	-16.57%	(416,075)
Buildings and Grounds	430,379	<b>409,964</b>	-4.74%	(20,415)
<b>General and Administrative Expenses Total</b>	<b>4,429,443</b>	<b>4,061,272</b>	<b>-8.31%</b>	<b>(368,171)</b>
<b>Income from Operations</b>	<b>95,063,397</b>	<b>99,450,543</b>	<b>4.61%</b>	<b>4,387,146</b>
<b>Other Revenues</b>				
Split Case Fee	1,553,315	<b>1,575,192</b>	1.41%	21,877
Bottle Deposit/Surcharge	2,834,706	<b>3,048,268</b>	7.53%	213,562
Recycling	24,611	<b>25,183</b>	2.32%	572
Fuel and Lease Reimbursement	10,758	<b>766</b>	-92.88%	(9,992) <sup>3</sup>
Lease Revenue	79,950	<b>81,795</b>	2.31%	1,845
<b>Total Other Revenues</b>	<b>4,503,340</b>	<b>4,731,204</b>	<b>5.06%</b>	<b>227,864</b>
<b>Other Expenses</b>				
Bottle Deposit Fee	629,882	<b>636,123</b>	0.99%	6,241
Recycle Surcharge Fee	1,408,415	<b>1,577,580</b>	12.01%	169,165
Liquor Refunds	1,267	<b>4,949</b>	290.61%	3,682 <sup>4</sup>
Substance Abuse Transfer	21,502,070	<b>22,513,750</b>	4.71%	1,011,680
<b>Total Other Expenses</b>	<b>23,541,634</b>	<b>24,732,402</b>	<b>5.06%</b>	<b>1,190,768</b>
<b>Net Profit</b>	<b>76,025,104</b>	<b>79,449,344</b>	<b>4.50%</b>	<b>3,424,241</b>
<b>Return on Sales</b>	<b>24.9%</b>	<b>24.8%</b>	<b>-0.21%</b>	<b>-0.05%</b>



# Financials -- Net Income Statement

	YTD FY17	YTD FY18	YTD FY18 vs FY17 % Change	YTD FY18 vs FY17 Amount Change
<b>REVENUES</b>				
<b>Operating Revenues</b>				
Liquor Sales	305,619,127	320,049,812	4.72%	14,430,686
Split Case Revenue	1,553,309	1,575,192	1.41%	21,883
Bottle Deposit/Surcharge	2,831,706	3,048,358	7.65%	216,652
Recycling Revenue	27,346	27,981	2.32%	635
Fuel and Lease Reimbursement	3,790	3,427	-9.58%	(363)
<b>Total Operating Revenues</b>	<b>310,035,278</b>	<b>324,704,770</b>	<b>4.73%</b>	<b>14,669,492</b>
<b>Non-Operating Revenues</b>				
Lease Revenue	82,709	87,065	5.27%	4,356
License Fees	15,664,469	16,613,682	6.06%	949,213
Wine Tax	8,078,044	8,166,553	1.10%	88,509
Fines/Penalties	40,541	37,274	-8.06%	(3,267)
Misc. Funding Sources	410,574	390,090	-4.99%	(20,483)
State Appropriations	1,201,153	996,391	(0.17)	(204,762)
Inter-Department Transfers	1,904,688	1,435,684	-24.62%	(469,004) <sup>1</sup>
Prior Year Liquor Control Fund Carry Forward	5,841	2,413	-58.69%	(3,428)
<b>Total Non-Operating Revenues</b>	<b>27,388,018</b>	<b>27,729,153</b>	<b>1.25%</b>	<b>341,135</b>
<b>Total Revenues</b>	<b>337,423,297</b>	<b>352,433,923</b>	<b>4.45%</b>	<b>15,010,626</b>
<b>EXPENSES</b>				
<b>Operating Expenses</b>				
Purchase of Liquor <sup>1</sup>	202,695,648	210,796,225	4.00%	8,100,577
Freight Expenses <sup>2</sup>	2,628,852	2,713,888	3.23%	85,036
Warehouse Expenses <sup>3</sup>	2,387,334	2,200,035	-7.85%	(187,299)
Other Expenses Related to Distribution <sup>4</sup>	37,514	830,346	2113.45%	792,832 <sup>2</sup>
Warehouse Administration <sup>5</sup>	585,439	630,490	7.70%	45,051
Product Administration <sup>5</sup>	416,061	312,780	-24.82%	(103,281)
Accounting <sup>5</sup>	322,764	613,814	90.17%	291,050 <sup>3</sup>
Information Technology <sup>5</sup>	2,900,776	2,094,223	-27.80%	(806,553)
Buildings and Grounds <sup>5</sup>	448,787	429,672	-4.26%	(19,114)
Bottle Deposit Fee	629,882	636,123	0.99%	6,241
Recycle Surcharge Fee	1,408,415	1,577,580	12.01%	169,165
Liquor Refunds	14,038	4,949	-64.75%	(9,090) <sup>4</sup>
Substance Abuse Transfer	21,502,071	22,513,750	4.71%	1,011,680
Liquor Profits Transfer	93,067,415	97,534,820	4.80%	4,467,405
<b>Total Operating Expenses</b>	<b>329,044,998</b>	<b>342,888,696</b>	<b>4.21%</b>	<b>13,843,699</b>
<b>Non-Operating Expenses</b>				
Sunday Sales Transfer	927,238	911,293	-1.72%	(15,945)
Payments to Cities and Counties	3,715,755	3,775,618	1.61%	59,864
Non-Operating Expenditures <sup>6</sup>	3,828,721	3,643,143	-4.85%	(185,578)
Inter-Department Transfers	1,470,000	1,425,000	-3.06%	(45,000)
<b>Non-Operating Expenses Total</b>	<b>9,941,713</b>	<b>9,755,054</b>	<b>-1.88%</b>	<b>(186,660)</b>
<b>Total Expenses</b>	<b>338,986,711</b>	<b>352,643,750</b>	<b>4.03%</b>	<b>13,657,039</b>
<b>Net Income</b>	<b>(1,563,414)</b>	<b>(209,827)</b>	<b>-86.58%</b>	<b>1,353,587</b>

## Financials -- Statement of Cash Flow

	FY 17	FY 18
<b>CASH IN</b>		
Liquor Sales	298,926,978	314,464,537
Wine Tax	7,310,855	7,433,269
License Fees	15,468,875	16,437,221
Split Case Fee	1,516,608	1,544,836
Bottle Deposit Fee	2,769,202	2,989,238
Other - Miscellaneous Income	1,617,550	66,333
Other - Fees, NSF	5,659	7,174
Lottery Lease	59,963	61,346
Other Sales / Service - Recycling	21,970	21,960
<b>TOTAL CASH IN</b>	<b>327,697,658</b>	<b>343,025,914</b>
<b>CASH OUT</b>		
Cities - Liquor Sales Dist	3,150,808	3,196,031
Counties - Liquor Sales Dist	217,312	225,058
Transfer to Liq Gen Fund (0001)	1,250,000	1,325,000
Sunday Sales	927,379	911,293
Substance Abuse	19,227,997	20,129,363
General Fund Transfer	85,700,000	88,300,000
Personal Expenses	4,517,437	4,399,695
Liquor Purchases	193,634,697	201,523,937
Bottle Deposit / Surcharge	1,833,454	2,032,521
Capitals	(37,514)	830,346
Miscellaneous Trust Fund Expenses	4,582,197	4,006,533
<b>TOTAL CASH OUT</b>	<b>315,003,767</b>	<b>326,879,777</b>
<b>TOTAL CHANGE IN CASH</b>	<b>12,693,892</b>	<b>16,146,137</b>

# Financials -- Balance Sheet

	FY17	FY18	% Change
<b>CURRENT ASSETS</b>			
<b>Cash</b>	12,693,882	16,146,13	27.2%
<b>Accounts Receivable</b>			
Liquor	6,692,148	5,585,275	-16.5%
Split Case Fees	36,702	30,356	-17.3%
Recycle Fee / Surcharge	65,505	59,120	-9.7%
Wine Tax	767,189	733,285	-4.4%
Licenses	195,594	176,460	-9.8%
Fines and Penalties	180	300	66.7%
Refunds and Reimbursements	2,642	881	-66.7%
Other Agency Billings	19,988	20,449	2.3%
<b>Inventory</b>			
Liquor	47,584	13,294	-72.1%
Gasoline / Fuel	14,317	2,295	-84.0%
<b>Total Current Assets</b>	<b>20,535,730</b>	<b>22,767,851</b>	<b>10.9%</b>
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>			
Machinery, Equipment and Vehicles	1,910,342	1,910,342	0.0%
Less: Accumulated Depreciation	(208,919)	(104,460)	-50.0%
Buildings and Improvements	4,232,598	4,232,598	0.0%
Capitals in Process	3,215,612	4,826,658	50.1%
Land	210,000	210,000	0.0%
<b>Total Assets</b>	<b>29,895,362</b>	<b>33,842,989</b>	<b>13.2%</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Wages and Benefits	235,171	233,150	-0.9%
Liquor Purchases	9,060,951	9,272,287	2.3%
Bottle Deposit Fee	63,302	52,064	-17.8%
Recycle Surcharge Fee	141,542	129,118	-8.8%
Substance Abuse Obligation	2,274,073	2,384,388	4.9%
General Fund Obligation	7,587,415	9,234,820	21.7%
License Fees to Cities/Counties	347,626	354,530	2.0%
License Refunds	5,203	1,162	-77.7%
Misc. Obligations	764,387	597,734	-21.8%
<b>TOTAL LIABILITIES</b>	<b>20,479,670</b>	<b>22,259,252</b>	<b>8.7%</b>
<b>TOTAL NET ASSETS</b>	<b>9,415,692</b>	<b>11,583,737</b>	<b>23.0%</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>29,895,362</b>	<b>33,842,989</b>	<b>13.2%</b>

## **NOTES TO FINANCIAL STATEMENTS refer to page 43**

1. Cost of goods sold is the total cost to purchase liquor. Per Iowa Code section 123.22, the Division utilizes a bailment inventory system. The Division charges a \$1.00 bailment fee per case sold to liquor suppliers for warehousing liquor. The bailment fee is deducted from payments to vendors. Bailment fees and special handling fees are not actual revenues received; rather they are a reduction in the purchase cost of liquor. The amount reported reflects the Division's liquor purchases minus the applicable amount of bailment fees and special handling fees.
2. Freight costs are comprised of the direct expense associated with delivering spirits to class "E" licensees throughout the State of Iowa. Major expenditures included in the freight category are wages and benefits of delivery drivers, fuel expense, and leasing of vehicles.
3. Warehouse costs are comprised of the direct expense associated with warehousing and order fulfillment of spirits. Major expenditures included in the warehouse category are wages and benefits of warehouse employees, shipping supplies such as shrink wrap and corrugated cartons, equipment, and maintenance on equipment.
4. Other expenses related to distribution are the indirect costs associated with warehousing and distribution of spirits. Major expenditures in this segment are large software purchases and capital improvements.
5. General and administrative expenditures are the combined total of each supporting unit's cost which is directly involved with the distribution of spirits. Salaries and wages reported are for warehouse management, product management, accounting, IT and human resource functions. Utilities, software, IT infrastructure and development, office equipment and supplies are included in this category.
6. Non-operating expenses are the Division's costs that are not associated with the physical distribution of spirits. This category includes salaries and costs of the administrative segment, licensing, compliance, as well as the portion of accounting, information technology, and maintenance not allocated to the operational segment supporting spirits distribution.

## **PROFIT and LOSS NOTES on TOTALS refer to page 42**

1. The decrease in defective product is a direct correlation to the way the Division is now reporting defective merchandise. As the defectives are vendor-owned inventory, the total is the defective fee only and does not include the value of the product.
2. In FY2018 the Division made upgrades to the warehouse and parking lot. These expenses were captured as capital improvements under Other Expenses Related to Distribution. These are one-time expenses for the Division.
3. The fuel reimbursement back to the Division was reduced in FY2018 due to issues with the internal operating fuel computer and reporting system. Improvements to this system are ongoing.
4. Liquor Refunds were increased due to more business types with COD status needing refunds for liquor orders. While ACH customers are given a credit to their electronic payment, COD customers are issued a check for their credit.

## **NET INCOME STATEMENT NOTES on TOTALS refer to page 42**

1. Transfers within the Division were decreased due to better budget overview and financial management of the General Fund.
2. In FY2018 the Division made upgrades to the warehouse and parking lot. These expenses were captured as capital improvements under Other Expenses Related to Distribution. These are one-time expenses for the Division.
3. The increase in Accounting expenditures correlates to the update in workforce for the financial management area with an increase in the positions hired for the Division.
4. In FY2017 there was a beer tax refund that was paid out by the Division for misrepresented tax owed to the state. There were no corrections to the beer tax for FY2018.

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