



A component unit of the Commonwealth of Virginia



Virginia Alcoholic Beverage Control Authority

A COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2019



ACCOUNTABILITY · SERVICE · INTEGRITY · PERFORMANCE EXCELLENCE

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**Virginia Alcoholic Beverage
Control Authority**

A COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2019

Prepared by Financial Management Services

This year was a year of celebration.

Virginia ABC fully transitioned to its status as an Authority on Jan. 1, 2019, when all employees transferred from the Department of Alcoholic Beverage Control to the Virginia Alcoholic Beverage Control Authority. In addition, this day also marked the adoption of all new Authority policies. Virginia ABC reached a second historic milestone by eclipsing the \$1 billion revenue mark for the first time in the Authority's history. This achievement was made possible, bottle by bottle, by hard-working employees across the Commonwealth.

The \$1 billion revenue spurred the Authority to its 21st consecutive record-breaking fiscal year. Gross sales were over \$1.054 billion, up \$67 million from the previous year. Retail sales increased by 7.1% and licensee sales (sales to restaurants) grew 6.3%. Total cases shipped to Virginia ABC stores was up 5.03% to 5,316,778.

Virginia ABC disbursed a total of \$499.5 million to the Commonwealth, an increase of \$34.8 million over the previous year. These disbursements reflected \$196.7 million in profits from sales, \$223 million in retail taxes and \$79.8 million in wine and beer taxes. As required in the Appropriation Act, \$65.4 million of the disbursements were designated for the Virginia Department of Behavioral Health and Developmental Services.

The Authority's 2018 holiday season featured the most extensive retail and marketing effort in ABC's history. Its "Raise The Bar" campaign encompassed multiple promotions across the holiday season, including Black Friday, Cyber Monday, Door Buster Days and six category-specific Spirited Thursdays. It included the first-ever statewide media campaign and the first-ever use of TV advertising to educate customers about the promotions. The results of the campaign spoke for themselves as sales increased by 9.2% over 2017.

The Authority's education and prevention efforts expanded when it partnered with Mothers Against Drunk Driving Virginia to offer the Power of Parents program through online and classroom training along with free handbooks for parents of middle and high school students.

ABC's Bureau of Law Enforcement played a major role in providing a safe and orderly experience around the "Something in the Water" music festival in Virginia Beach. ABC special agents worked hand-in-hand with local, state and federal law enforcement agencies as well as the Retail Division and licensee community to ensure smooth operations during this first-time event.

During fiscal year 2019, Virginia ABC opened seven new stores which generated nearly \$8 million in sales. The Authority oversaw eight store remodels and four store relocations to improved market areas, enhancing customer service and accessibility. Sunday sales also continued to play a role in rising revenue, increasing by 7.4% in fiscal year 2019 to \$79 million. Cyber MOM-Day and Cyber DAD-Day, both new initiatives, combined for over \$1.6 million in sales.

The Authority reached a third milestone on June 10, 2019, when it signed a turnkey purchase, sale and development agreement with general contractor H & M for a new central office and warehouse facility. A 39.79-acre tract of land in Hanover County will be the site for a 315,000 square-foot-warehouse and a 95,000 square-foot central office, both with modern designs and updated capacities to further Virginia ABC's development and growth in the future.

Virginia ABC closed the fiscal year with the celebration of the \$1 billion revenue mark. This celebration, and others throughout the year, acknowledged the support of our industry partners, the dedication of our employees and the enthusiasm of ABC customers in stores throughout Virginia.



ABC Board Chairman Jeffrey L. Painter

MISSION

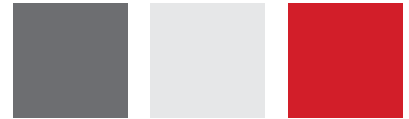
To generate a reliable stream of revenue for Virginia and promote public safety through the responsible sale and regulation of alcoholic beverages.

VISION

To bring good spirits and excellent service to Virginia.

VALUES

Accountability • Service
Integrity • Performance Excellence



2019 KEY AUTHORITY HIGHLIGHTS

Number of Stores	377
Total Employees	3,229
ABC Retail Licenses	19,870
ABC Profit Disbursements	\$196,657,876
Active Items on Price List	2,469
Total Gross Sales	\$1,054,141,782
Total Transfer to the Commonwealth	\$499,498,962



**Virginia Alcoholic Beverage
Control Authority**

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Cover photos (clockwise from top left): Flanked by board member Greg Holland and CEO Travis Hill at the Authority’s annual service awards program, Mary Keller, an administrative tech in the Bureau of Law Enforcement’s Alexandria office, is recognized for her five years of service to the Commonwealth. The average length of service for ABC’s 1,000 classified (full-time) employees is eight years.

Orlando Allen, an employee since 2004, operates a forklift in ABC’s 292,285 square foot warehouse. On an average day he moved more than 120 pallets holding as many as 80 cases of distilled spirits, mixers or Virginia wines, doing his part to ensure that product was efficiently received, stored and shipped to ABC’s 377 retail stores.

During its 21st consecutive record-breaking year Virginia ABC reached a milestone when it passed the \$1 billion revenue mark, enabling the Authority to disperse a total of \$499.5 million to the Commonwealth, benefitting all Virginians— those who purchase and consume distilled spirits and those who do not.

Robin Tipton, Bret Cole, Nehal Shah, and Vaishali Shah represent more than 3,200 full- and part-time Authority employees who embrace Virginia ABC’s core values of accountability, service, integrity and performance excellence.

VirginiaABC  SpiritedVirginia

 VirginiaABC

LETTER OF TRANSMITTAL

Virginia Alcoholic Beverage Control Authority

Chief Executive Officer

Travis G. Hill



Chairman

Jeffrey Painter

Board of Directors

Maria J. K. Everett

Gregory F. Holland

Beth Hungate-Noland

Mark Rubin

The Honorable Ralph S. Northam
Governor of the Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Northam:

It is my pleasure to present the comprehensive Annual Financial Report for the fiscal year ending June 30, 2019, in accordance with Section 4.1-101.07 of the Code of Virginia.

This report consists of management's representations concerning the Virginia Alcoholic Beverage Control Authority's (the "Virginia ABC" or "ABC") finances. Management assumes full responsibility for the completeness and reliability of all information presented. Data presented in this report is believed to be accurate in all material respects, and provides all disclosures that are necessary to enable the reader to obtain a thorough understanding of Virginia ABC's financial activities and results.

BACKGROUND

On March 22, 1934, the General Assembly voted to create the Alcoholic Beverage Control Board with three board members. The Virginia ABC opened its first four stores in Richmond on May 15, 1934, and continued to grow over the decades to 159 stores statewide by 1959.

In 1971, the ABC warehouse moved from Harrison and West Broad Streets in Richmond to its current location at 2901 Hermitage Road. By the end of the 1970's, ABC was operating over 250 stores and generating more than \$240 million in gross store sales. In 2009, when the Department celebrated its 75th anniversary, 332 stores were in operation statewide.

During fiscal year 2018, under Virginia Code Title 4.1, Virginia ABC transitioned from a Department to an Authority. ABC is currently considered a Blended Component Unit Enterprise Fund by the Commonwealth for financial reporting purposes in accordance with accounting principles generally accepted in the United States of America. Five part-time board members govern the Authority, which as of June 30, operated 377 stores and employed over 3,200 employees throughout the Commonwealth. The Authority works closely with the 11 public safety agencies under the Secretariat of Public Safety and Homeland Security for the Commonwealth. Virginia ABC administers ABC laws with an emphasis on public service and a focus on protecting citizens by ensuring a safe, orderly and regulated system for the convenient distribution and responsible consumption of alcohol.

ABC is a leading revenue producer for Virginia and a vital source of future economic growth and innovation for the Commonwealth. On the retail side, profits come from the sale of distilled spirits within ABC stores. The Authority's Bureau of Law Enforcement generates revenue from taxes collected on beer and wine sales, violation penalties and license fees. The money that Virginia ABC disperses to the Commonwealth provides much-needed funding for use in programs across all secretariats, thus benefitting citizens in all areas of the state. Since its establishment in 1934, Virginia ABC has dispersed \$10.9 billion to the Commonwealth's General Fund, which supports major education, health and transportation initiatives.

As one of 17 control states across the United States—where the state government manages the sale and distribution of distilled spirits at the wholesale level—ABC stores are the only retail outlets in Virginia where consumers may purchase distilled spirits.

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LETTER OF TRANSMITTAL

ECONOMIC CONDITION AND OUTLOOK

The economic outlook for the coming years suggests that both the national and Commonwealth economies will continue to grow, but at a slower rate than recent years (U.S. economy expanded by 2.9 percent in 2018). As the overall economy continues to grow at a stable rate, so does the sale of alcohol. The U.S. market for distilled spirits is expected to grow by 2.9% annually for the next several years.

ABC's profit, however, is a factor of two elements: sales performance and trends in expenses.

In fiscal year 2019, ABC's total operating revenue, excluding state tax on distilled spirits and wine, was \$902.7 million. Gross sales of alcoholic beverages in the retail stores accounted for 98% of this income. The remaining 2% of income was generated largely through the ABC's regulatory and licensing activities.

ABC contributed \$196.7 million of net profits to the Commonwealth and collected \$254.0 million of taxes on ABC store sales (distilled spirits and wine) and wine and beer wholesaler taxes, and an additional \$48.8 million of general sales tax totaling \$499.5 million.

The increase in profits over the prior year was primarily driven by increased sales, which in turn, was primarily driven by:

- *Sunday Sales*— In fiscal year 2019, Sunday sales grew to \$79.4 million, up \$5.5 million, or a 7.4% increase. This increase is partially attributed to having 52 Sundays in fiscal year 2019, up from 51 in fiscal year 2018.
- *New Stores*— During fiscal year 2019, Virginia ABC opened seven new stores across the state, generating \$7.8 million in sales. ABC also oversaw eight store remodels and four store relocations, enhancing customer service and accessibility.
- *Days of the Week*— During fiscal year 2019, sales from Fridays totaled \$254.6 million, up by \$11.7 million, despite having 52 Fridays in both fiscal year 2018 and 2019. Friday sales accounted for 24% of total sales.
- *Marketing & Merchandising*— During fiscal year 2019, Virginia ABC continued to expand its consumer engagement initiatives to increase sales. Efforts included the most extensive promotional holiday campaign in Virginia ABC history with two Virginia ABC “firsts”— the first ever statewide media campaign and the first ever use of TV in the campaign to educate Virginia residents about the upcoming holiday promotions. The results were outstanding. Sales increased over the previous year generating \$7.5 million in incremental revenue, which paid out the incremental media investment several times over. The spring of 2019 saw the first ever Cyber MOM-Day and Cyber DAD-Day promotions to coincide with Mother's Day and Father's Day gift giving. These promotions brought greater attention and awareness to Virginia ABC's e-commerce capabilities. These one-day offers (20% off all online purchases of \$100 or more) exceeded expectations. Cyber MOM-Day produced nearly 4,000 online orders for \$0.7 million in sales and Cyber DAD-Day produced nearly 5,600 online orders for almost \$1.0 million in sales.

The Authority's operating expenses increased 5.5% in fiscal year 2019. Personal service cost decreased by \$1.9 million from fiscal year 2018, primarily due to an increase in personnel turnover and a limited increase in benefit rates. In addition, contractual service cost increased by \$6.0 million primarily due to increased IT contractor support to assist with the implementation of internal projects, particularly the new financial management services (FMS) system.

On the expense side, ABC is faced with mandated salary and benefit costs, energy inflation, automatic rent escalation, technology and telecommunication costs and growth in credit card discount fees that are all very difficult to influence in the short run. Personnel costs account for 57% of ABC non-merchandise expenditures, 18% are for continuous charges such as rent and utilities, 21% are for contractual services such as credit cards fees, shipping product to stores and telecommunications, and 4% are for miscellaneous expenses such as supplies and materials, equipment and depreciation.

Increases in expenses are exacerbated by the need to make significant ongoing improvements in order to improve our IT infrastructure. Currently, several of ABC's systems are outdated and have reached their end-of-life. ABC must invest in upgrading its systems to maintain viability, increase efficiency, and provide service excellence to its internal and external

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LETTER OF TRANSMITTAL

customers. Upgrading the outdated systems also addresses a Commonwealth of Virginia's Auditor of Public Accounts' audit point, ensuring that ABC complies with state and industry security standards. Changes in salary and benefit cost rates, as well as mandated Appropriations Act disbursements, can also significantly impact the accuracy of ABC's expense forecasts.

For more detailed information regarding Virginia ABC's finances for the fiscal year, please see our Management's Discussion & Analysis section of this report found on pages 55-60.

FINANCIAL CONTROLS

The accounting system of the Authority is dependent upon a strong system of internal accounting controls to ensure that financial information is both accurate and reliable. The Authority's internal controls are designed to ensure that the assets of the Authority are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled for financial statements.

Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the objectives listed above are obtained. Reasonable assurance recognizes that the cost of the control should not exceed the benefits likely to be derived and the evaluation of costs and benefits is an estimate determined by management.

All internal control evaluations occur within the above framework. We believe the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording transactions. The Authority's internal controls are reviewed as necessary and tested annually as part of the Commonwealth's Agency Risk Management and Internal Control Standards program.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth for its CAFR for the fiscal year ended June 30, 2018. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report that conforms to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and all applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. Virginia ABC has received a Certificate of Achievement for the first time last fiscal year (fiscal year 2018). I believe that this year's report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

This report could not have been prepared without the full cooperation of all state agencies within the Executive Branch, the Legislature, the Judiciary, the Component Units, and especially the dedication and professionalism of the financial reporting staff in the Department of Accounts.

Respectfully submitted,



A. Jerome Fowlkes
Chief Administrative Officer



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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Virginia Alcoholic Beverage
Control Authority**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO



The Virginia ABC Board of Directors, clockwise from center: Chairman Jeffrey L. Painter, Board Members Beth G. Hungate-Noland, Gregory F. Holland, Mark E. Rubin and Vice Chair Maria J. K. Everett.

ABC BOARD OF DIRECTORS

Chairman	Jeffrey L. Painter
Vice Chair	Maria J. K. Everett
Board Member	Beth G. Hungate-Noland
Board Member	Mark E. Rubin
Board Member	Gregory F. Holland

EXECUTIVE STAFF

Chief Executive Officer	Travis G. Hill
Chief Administrative Officer	A. Jerome Fowlkes*
Deputy Secretary to the Board	S. Christopher Curtis
Chief Retail Operating Officer	Jeff Reeder
Chief Bureau of Law Enforcement	Tom Kirby
Chief Government Affairs Officer	John Daniel
Chief Communications & Research Officer	W. Eddie Wirt
Chief Information Officer	Paul Williams
Legislative & Fiscal Policy Officer	Paul Van Lenten Jr.



Governor Ralph S. Northam

DIVISION DIRECTORS

Communications	Nick Schimick*
Financial Management Services	Barry M. Wenzig
Hearings, Appeals and Judicial Services	John Patrick Griffin
Human Resources	Robin Wynn
Internal Audit	Nannette Williams
Logistics	Mark Dunham
Marketing	John Shiffer
Procurement and Support Services	Melissa Watts*
Real Estate & Facilities Management	Susan W. Johnson
Retail Operations	Jennifer Burke*

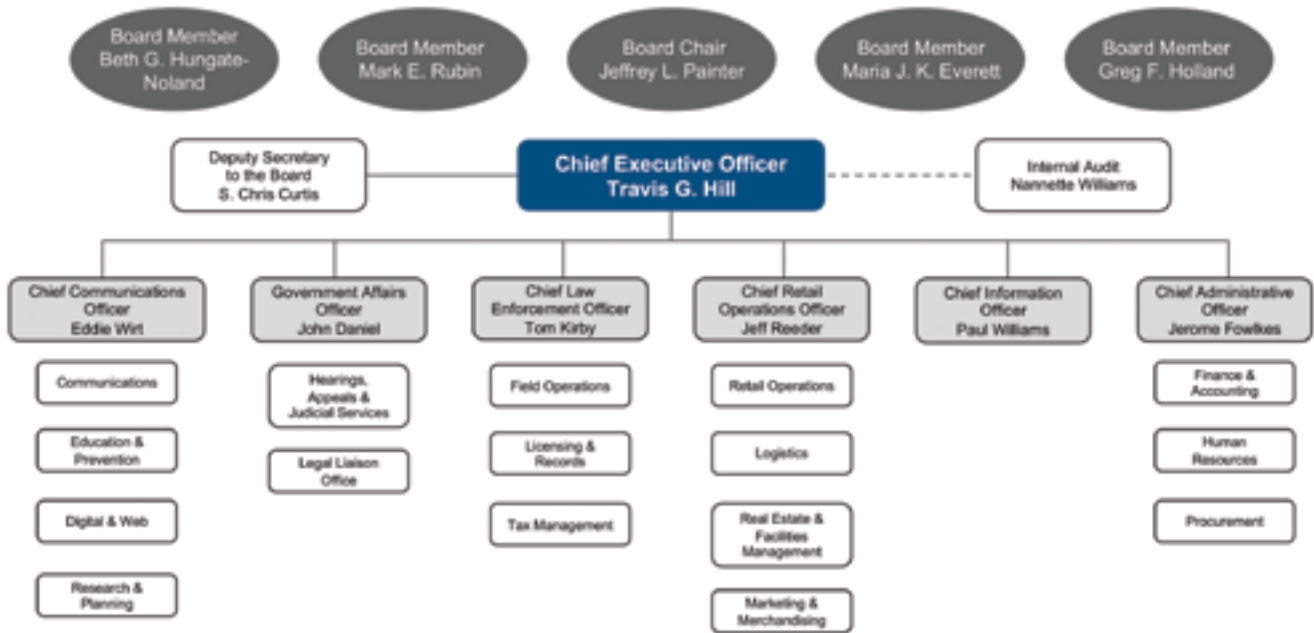


Secretary of Public Safety and Homeland Security Brian J. Moran

**All Board members, executive staff and division directors served throughout the fiscal year with the exception of the following: A. Jerome Fowlkes became Chief Administrative Officer in March 2019 after the resignation of Cort Kirkley. Nick Schimick became Communications Director in May 2019 after the resignation of Duriechee Friend. Jennifer Burke became the Director of Retail Operations in August 2018 after the retirement of Wilson Jones. Melissa Watts became Director of Procurement and Support Services in April 2019 after the retirement of Debra Corley.*

EXECUTIVE INFORMATION

Organizational Structure



The Virginia ABC Executive team, clockwise from center: Chief Executive Officer Travis Hill, Deputy Secretary to the Board Chris Curtis, Chief Government Affairs Officer John Daniel, Chief Law Enforcement Officer Tom Kirby, Chief Retail Operating Officer Jeff Reeder, Chief Information Officer Paul Williams, Chief Communications and Research Officer W. Eddie Wirt and Chief Administrative Officer Jerome Fowlkes.

LEGISLATIVE SYNOPSIS

New Alcohol-Related Laws—Effective July 1, 2019

HAPPY HOUR

House Bill (HB) 2073 and Senate Bill (SB) 1726 (*Chapters 29 and 7 of the 2019 Acts of Assembly*) allow retail on-premises ABC licensees to advertise both the alcoholic beverages featured during a happy hour and the beverage prices. Creative marketing techniques are permitted in advertisements as long as it does not promote over-consumption or underage drinking.

DISTILLER COMMISSION AND SUNDAY ABC STORE HOURS

HB 1770 and SB 1668 (*Chapters 810 and 811 of the 2019 Acts of Assembly*) provides a 20% commission on the retail price of spirits sold by licensed distillers operating a distillery store according to an agreement with Virginia ABC. In addition, the law permits certain ABC stores to open at 10 a.m. on Sundays, which is two hours earlier than the previously authorized opening time.

MIXED BEVERAGE REFERENDUM

HB 2634 and SB 1110 (*Chapters 178 and 37 of the 2019 Acts of Assembly*) is effective July 1, 2020. This law permits Virginia ABC to sell alcoholic beverages and restaurants to sell mixed beverages in all counties, cities, towns and supervisors' districts, unless 10% of the qualified voters in those jurisdictions petition the circuit court asking that a referendum be held on the question of whether the sale of alcoholic beverages by restaurants licensed by ABC should be prohibited within that jurisdiction. This law includes several enactment clauses: jurisdiction prohibition decisions determined by July 2019 become effective July 2020, previous referenda taken prior to July 1, 2019 will be effective for five years after the date of the referenda, and previous establishments exempt from local mixed beverage referenda will continue licensure.

SALE OF NICOTINE PRODUCTS TO PERSONS UNDER 21 PROHIBITED

SB 1727 (*Chapter 102 of the 2019 Acts of Assembly*) changes the age requirement for the purchase of tobacco, nicotine vapor and alternative nicotine products from 18 to 21 years old. Active duty military aged 18 or older are permitted to purchase nicotine products with a valid military ID.

ADDITIONAL MEASURES IMPACTING ALCOHOL LICENSES

SB 1171 (*Chapter 622 of the 2019 Acts of Assembly*) creates a local special events license that allows a locality, business improvement district or nonprofit organization to permit consumption of alcoholic beverages within an area designated by Virginia ABC for a special event. The alcoholic beverages must be purchased from a permanent, on-premises licensee located in the designated area and beverages must be served in disposable containers clearly marked with the licensee's name or logo. Local special events may only be held 12 times per year. With approval, alcoholic beverages may be taken into other businesses.

SB 1420 (*Chapter 628 of the 2019 Acts of Assembly*) creates a co-working establishment license that allows facilities that have at least 100 members and offer shared office space to serve wine and beer to members and up to two guests to consume lawfully acquired wine and beer from 4-8 p.m. on the premises as long as an employee of the licensee is present. The bill also creates a bespoke clothier establishment license that allows permanent retail establishments that offer, by appointment only, custom made apparel and that offer a membership program to customers to serve wine or beer for on-premises consumption upon the licensed premises approved by the Board to any member. A co-working establishment licensee and a bespoke clothier establishment licensee shall not give more than two five-ounce glasses of wine or two 12-ounce glasses of beer to any person, nor shall it sell or otherwise charge a fee for the wine or beer served or consumed.



\$1 Billion Reasons To Celebrate

Expressed in visual terms, it can be surprising to think about the magnitude of one billion things. It's 30 years, counted out in seconds. It's 96,900 miles of one dollar bills laid end-to-end. If you spent \$1 million dollars a month it would take you 83 years to spend \$1 billion. Remarkably, \$1 billion is also slightly less than Virginia ABC earned in fiscal year 2019.

In mid-June just weeks shy of the fiscal year end, Virginia ABC surpassed total gross sales in excess of \$1 billion. Reaching this revenue milestone in the 21st consecutive record-breaking year for ABC was cause for celebration. Appropriately, that celebration began by thanking the employees whose hard work every day made it possible for the authority to reach the \$1 billion mark.

The "A Billion Reasons to Celebrate" campaign launched on July 17, 2019, with a series of store visits dubbed Virginia ABC's \$1B Suite Success Tour. The tour involved members of the C-suite (ABC's executive leadership team) visiting with retail employees throughout the Commonwealth to deliver sweet treats and a personal thank you to employees.

First stops on the Suite Success Tour occurred at opposite ends of the Commonwealth—in Abingdon, in the far southwest, and in Cape Charles, on the Eastern Shore. Over the course of the ensuing weeks the tour made 44 stops where executive leaders visited with employees from ABC's 25 retail regions representing every ABC store. Each day of the tour included traveling to two stores and often popping in on other stores in the area between official visits.

Members of the Communications and Retail divisions accompanied the executive team on the tour and provided commemorative \$1B lapel pins for employees in attendance from stores in the surrounding vicinity. A representative from each store was provided lapel pins for every employee in their store.

Representatives from the Bureau of Law Enforcement's regional offices also attended some of the stops.

The final stops on the Suite Success Tour on September 9 were at the Central Office, where celebrations took place in the warehouse and hearings room.

News of the milestone reached beyond employees with a press briefing held on August 13 at the Central Office. Virginia Secretary of Public Safety and Homeland Security, Brian Moran, joined ABC leadership for the announcement followed by a warehouse tour. Broadcast media unable to attend in person participated virtually or via conference call.



Above: Virginia ABC CEO Travis Hill and Board Vice Chair Maria Everett engaged in conversation with warehouse employees during the Suite Success Tour's final stop at Central Office.

Below: Secretary of Public Safety and Homeland Security Brian Moran took the podium and addressed the assembled media during the \$1 Billion announcement at Central Office on Aug. 13.



Top: Chief Government Affairs Officer John Daniel and the rest of the Executive Leadership Team spoke with employees throughout the Commonwealth during the Suite Success Tour, telling retail employees about the \$1 billion milestone, upcoming initiatives from Virginia ABC and answering questions posed by employees.

Middle and bottom: These \$1 billion commemorative lapel pins and cards were available for each employee who attended the Suite Success Tour stops. Packets of more pins and cards were given to those store representatives at the stops to distribute among employees back at their respective stores as a thank you for their hard work and dedication every day at the store level.

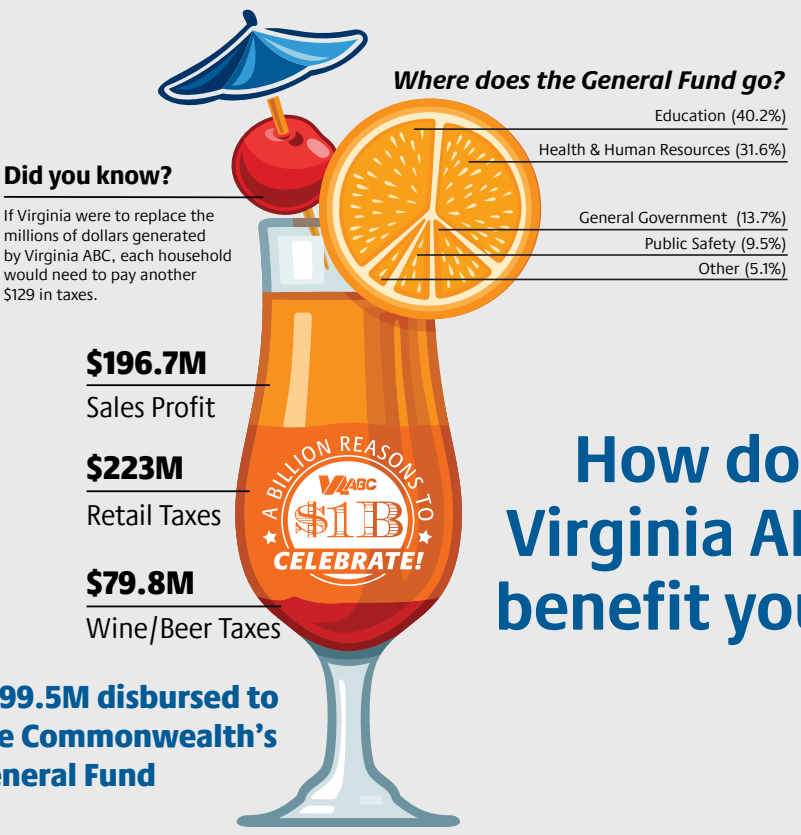
NOTES FROM THE TOP SHELF, *continued*

The Communications team created a \$1B icon that was used throughout the campaign as well as an infographic, Virginia ABC's 2019 Revenue Recipe, which explained where the \$1B came from and where the \$499.5 million was dispersed to in the Commonwealth's General Fund. The infographic was distributed to media and posted on the Authority's social media platforms, reaching nearly 8,000 people via Facebook.

ABC customers were thanked with the gift of reusable two-bottle tote bags. The bags were distributed in every store to customers who purchased any 750ml-sized bottle.

The \$1 billion campaign also recognized ABC's partners in the industry and community with a pair of videos produced by the Authority's Communications team. "Follow the Bottle," tracked the journey of a bottle of spirits from the distiller to celebrations at a licensed establishment and at a private home. Two additional videos were also created; the first featured interviews with store employees about working at ABC and the second showcased a licensee's experience in partnering with ABC. The videos were shared on the Authority's social media channels.

Virginia ABC benefits all Virginians, regardless of whether they shop in any of the Authority's stores. Surpassing \$1 billion in revenue in a single fiscal year was reason for all of us to celebrate. Cheers!



How does Virginia ABC benefit you?

Virginia ABC's 2019 Revenue Recipe

\$1 BILLION TOTAL REVENUE!

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

BUREAU OF LAW ENFORCEMENT

A few of the fiscal year highlights and accomplishments of the Bureau of Law Enforcement (Bureau) were a full integration into the Virginia ABC Authority, the continued success of the Authority's public safety investigation protocols and the implementation of a continuous hiring cycle to fill vacancies within its sworn ranks.

The Bureau is charged with enforcing the alcoholic beverage control laws and regulations governing the manufacture, distribution, sale and consumption of alcoholic beverages and tobacco while utilizing innovative education and community partnerships. Each of nine regional enforcement offices around the Commonwealth actively engaged with local law enforcement partners and other community coalitions in support of this mission.

Virginia ABC responded to the high turnover rates prevalent across the law enforcement profession by implementing a continuous hiring cycle for sworn personnel in April 2019. This new process enabled the Bureau to schedule definitive dates for required polygraph, physical and psychological tests with an end goal of successful candidates joining the Authority's sworn ranks or entering a basic academy. This hiring model set up the Bureau with an ongoing pipeline of candidates for the special agent positions as vacancies became available. The Bureau also restructured its leadership team and filled its open Deputy Chief of Operations position.

In the wake of several high-profile incidents involving death or serious bodily injury on the premises of ABC-licensed establishments, ABC special agents continued to provide rapid response investigative capabilities that allowed the Authority to initiate summary suspension proceedings against the offending businesses. For fiscal year 2019, agents conducted 35 initial investigations resulting in nine summary suspension orders. The success of the summary suspension program gained the attention of many other state alcohol-enforcement agencies and was discussed by CEO Travis Hill at the 2019 National Alcoholic Beverage Control Association (NABCA) annual conference.

In May 2019, special agents from Enforcement Regions 5, 6, 7 and 8 traveled to Virginia Beach to support the "Something in the Water" musical festival that brought tens of thousands of tourists to the oceanfront. Agents worked in concert with local, state and federal law enforcement agencies, as well as the Retail Division and the local licensee community to help ensure a safe and orderly event. This was a first-of-its-kind event and the Bureau's efforts were met with praise and support from all parties concerned. The event was considered a resounding success with discussions in progress to make it an annual occurrence.

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Sworn Enforcement Personnel Demographics

White / Caucasian (%)	72
Black / African American (%)	14
Hispanic (%)	.05
Asian / Pacific Islander (%)	.06
American Indian / Alaskan native (%)	.01
Total filled sworn positions	98
Non-minority (%)	72
Minority (%)	26

Professional Standards Summary

Internal affairs investigations conducted	8
Citizen complaints	4
Authority initiated	4
Findings	
Justified	0
No further action, citizen request	0
Not substantiated	0
Substantiated	6
Unfounded	1
Pending	1

Law Enforcement Activity

Criminal incidents	2,481
Arrests	629
Illegal still investigations	6
Inspections of licensed establishments	16,011
Observations of licensed establishments	669
Total training hours for sworn officers	884
Underage Buyer (UAB) compliance checks	4,526
Written warning reports	2,107
Written violation reports	696
Wine, beer and mixed-beverage application and state license fees collected (\$)	15,421,422.90

Tobacco Compliance

Synar compliance rate, May 1-September 30, 2018 (%) (1)	89.36
Total tobacco checks by ABC agents (2)	451
FDA retail compliance check inspections (3)	0

- (1) FY 17: 89.91%. Virginia ABC special agents conducted random, unannounced Synar inspections on behalf of the Virginia Department of Behavioral Health and Developmental Services (DBHDS).
- (2) FY 17: 513 checks. This includes attempted visits found not suitable for an underage buyer check.
- (3) The Bureau is no longer contracted to conduct Food and Drug Administration retail compliance check inspections.

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

BUREAU OF LAW ENFORCEMENT, *continued*

Major evolutions in training offerings impacted the Bureau’s ability to better respond to the needs of Virginia’s growing licensee community and the general public at-large. In December 2018, the Bureau’s Training Division concluded 10 separate sessions on business operations and licensing procedures for the entire non-sworn staff of the Bureau’s License Records Management (LRM) Division. LRM personnel have a better understanding of the myriad of requirements and regulations relating to operating an alcohol-licensed establishment in Virginia and can better assist with inquiries from those interested in applying for an ABC license.

Additionally, following the completion of the Bureau’s bi-annual first aid training certification, the Training Division acquired and distributed advanced trauma care first aid kits, which included tourniquets and hemostatic dressings, for every sworn member of the Bureau. As is increasingly the trend with law enforcement agencies around the country, Bureau agents are now better trained and prepared to render potentially life-saving first aid.

While Virginia’s alcohol industry continues to experience robust growth in virtually all sectors, the Bureau continued to develop innovative strategies to deal with the unique challenges of 21st century business practices and e-commerce. Once again, the Bureau’s Compliance Unit showed exceptional leadership and initiative, especially in the area of direct shipments. Through the efforts of the unit, Virginia saw a decrease in unlicensed shipments coming into the Commonwealth by almost 50%. The outreach and education provided by the Compliance Unit regarding the rules and regulations reduced the number of unlicensed shippers by two-thirds. Bureau of Law Enforcement Chief Tom Kirby spoke to many groups including the National Conference of State Liquor Administrators and NABCA throughout the fiscal year regarding the Bureau’s efforts related to this problem, as the issue is not isolated to Virginia.

The Bureau welcomed the Tax Management Division back under its purview during fiscal year 2019. Tax Management parted with the Bureau in the mid-2000s, but exponential growth in the industry coupled with the close working relationship the division had with the Bureau’s Compliance Unit made the realignment of Tax Management a logical move that promoted a more consistent customer service experience for industry partners.

The Bureau also manages License Records Management (LRM) which consists of 18 employees in two sections — Licensing and Records. These sections oversee the life of an ABC license from application submission through possible approval, suspension, revocation and surrender.

In fiscal year 2019, the Records section served more than 2,286 walk-in customers and handled more than 11,500 telephone calls. Transactions totaling more than \$5.2 million were cashiered including banquet and retail applications, license renewals and beer/wine tax payments. The section processed 15,917 renewal bills, 4,457 UAB investigation forms and 4,495 mixed beverage annual review packets.

The Records section also responded to 110 Freedom of Information Act requests. The Licensing section processed 1,932 new retail applications during the fiscal year. For each application, the section initiated first contact with the applicant within one business day of receiving the application from the licensing supervisor. The Licensing section assisted all applicants with the collection of required documents based on the application type and forwarded 1,859 completed applications to the appropriate regional office for investigation by an ABC Special Agent. During the first week of April 2019, the Licensing section set a new record for the unit when they forwarded 101 completed applications to the regions.

Licenses and Licensing

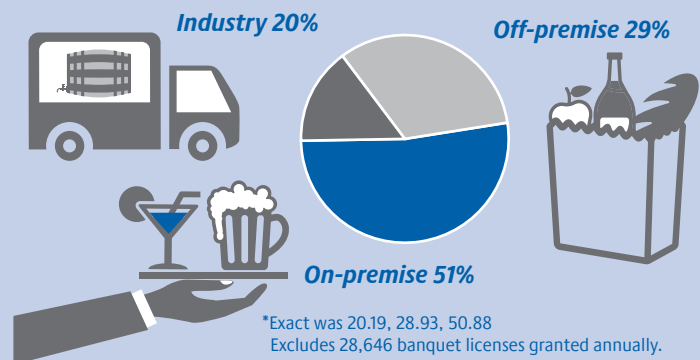
ABC retail licenses (1)	19,870
New retail, wholesale and special-permit licenses	2,164
Licensed retail establishments	18,473
Private or corporate owners	14,327
Alcohol compliance rates for retail licensees (%) (2)	88.61
Median processing time for new retail applications (in days) (3)	64
One-day banquet and special-event licenses	28,646

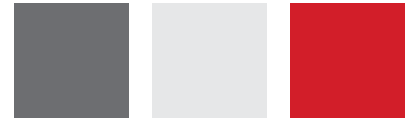
(1) Inclusive of licenses for sale and consumption of beer and wine, mixed beverages, on- or off-premises.

(2) FY 18 rate: 89.57%

(3) FY 18: 85 days. ABC targets a 60-day median.

Licenses Granted in 2019 by Type*





COMMUNICATIONS

Despite numerous personnel changes, the Communications Division had an active and productive year, becoming fully staffed in June 2018 with the hiring of a new director in May. The team made significant contributions throughout the fiscal year to ABC’s mission and vision while supporting the daily business functions of the Authority.

The ten-member division served as the lead on planning and executing ABC’s “A Billion Reasons To Celebrate” campaign, utilizing the skills of both its internal and external teams as well as its two graphic designers. (See related story on page 11.)

Communications provided writing, editing, photography, graphic design and event planning services to numerous internal clients including Education and Prevention section, Retail Operations and Human Resources with tremendous support offered to the Marketing division.

Creative services included the design and production of all collateral materials for the 2018 “Raise The Bar” holiday campaign and the 2019 Cyber MOM- and Cyber DAD-day campaigns as well as a variety of posters, brochures, booklets and direct mail pieces that supported ABC initiatives. The division also produced the Authority’s annual report, quarterly Spirited Virginia magazine and Licensee e-newsletter and maintained the intranet news page, ABC Now, by updating the site daily with new content.

Utilizing tools such as news releases, e-newsletters, print collateral, social media, website content, Mixer (ABC’s Intranet) postings and more, the division remained committed to providing accurate and timely communications to the Authority’s employees, its customers, the media and other stakeholders. The Communications team continued to serve as an advisor to leadership in maintaining the Authority’s image and reputation by developing talking points for internal and external use on a variety of timely (and sometimes controversial) issues.

In the area of media relations, Communications wrote and distributed 41 news releases, responded to 187 media inquiries and provided talking points for numerous interviews.

The division also drafted speeches for board appearances, planned and executed six store grand opening events and wrote, edited and designed collateral pieces including posters, brochures, booklets and direct mail pieces. Communications supported the Authority’s Mixer intranet platform by developing and posting 236 articles on ABC Now and managed the Authority’s social media presence by posting regularly on Facebook and Twitter.

In April 2019, the division contracted with Talkwalker, a social/news media monitoring and analysis service. The service provides a comprehensive, real-time assessment of ABC’s brand and public sentiment across multiple online news outlets and social media platforms. Users have the ability to create reports showing the effectiveness of ABC’s outreach efforts.

Communications maintained the quarterly publication of the Licensee e-newsletter which during fiscal year 2019 grew by 290 subscribers and had an average open rate of 43.9% and a click rate of 12.8%, surpassing the industry standard rates of 14.2% and 1.8%, respectively.

The division published a fourth consecutive year of Spirited Virginia, the Authority’s flagship magazine, undergoing a request for proposals process that led to a contract renewal in May 2019 with Leisure Publishing 360 as the vendor to facilitate this publication. The magazine was recognized for a second year in a row with the top honor in the magazine category at the Virginia Public Relations Awards in May 2019.

Communications provided photographic support for the Authority by producing images for printed and digital use and continued to maintain a Flickr account to facilitate the sharing of these photos.

The division also provided support to the Digital and Web unit by generating content and images for the Authority website.

Social Media Statistics

Virginia ABC Twitter Account	
New Twitter followers	280
Tweet impressions	673,000
Retweets	133
Likes	658
Virginia ABC Facebook Account	
New Facebook likes	1,892
New Facebook followers	2,010
Spirited Virginia Facebook Account	
New Facebook likes	4,134
New Facebook followers	4,604
Images posted to Flickr	640

673,000 TWEET IMPRESSIONS
236 MIXER ARTICLES



VIRGINIA ABC AT A GLANCE



AUTHORITY RECEIVES FOUR PUBLIC RELATIONS AWARDS

Virginia ABC was recognized with four awards at the 72nd Annual Virginia Public Relations Awards in May 2019 for its continued efforts in the field of public relations (PR) and communications.

The Communications and Marketing Divisions accepted two Awards of Excellence and two Awards of Merit on behalf of the Authority at an awards banquet held at the John Marshall Hotel in Richmond. The awards competition garnered more than 300 entries from PR professionals representing governments, organizations and companies across the Commonwealth.

The Authority received a Capital Award of Excellence in the brochure category for its quarterly magazine *Spirited Virginia* and a Capital Award of Excellence for a feature story “Saluting Our Military” in the quarterly magazine, as well as the Commonwealth Award of Merit in the government communications category for its 2018 Holiday Campaign and the Capital Award of Merit in the publications category for its Annual Report for fiscal year 2018.

Spirited Virginia Magazine is a 64-page color publication published quarterly at no cost to Virginia taxpayers and distributed free to customers at every ABC store. The press run is 60,000 magazines per quarter. This was the second time the publication has claimed this top PR award, having won the category in 2018. ABC’s annual report was also a previous winner, taking home an Award of Excellence last year as well.



The Communications Division submitted entries to the 72nd Annual Virginia Public Relations Awards, four of which were selected for awards. Two entries, in the Brochure Category for *Spirited Virginia Magazine*, and Features Category for “Saluting the Military” were each honored with a Capital Award of Excellence. Virginia ABC’s Communications Division is an active member of the Richmond Chapter of the Public Relations Society of American (PRSA).

MISS VIRGINIA PARTNERS WITH VIRGINIA ABC

Miss Virginia 2019 Emili McPhail partnered with the Authority to promote the importance of making healthy choices to students in elementary schools across the Commonwealth in fall 2018.

Virginia ABC has had a long-standing relationship with the Miss Virginia Organization and the Authority’s Education and Prevention Section continued the partnership with a Miss Virginia School Tour in 2018-19.

McPhail, a resident of Roanoke and a 2018 graduate of Hollins University, was crowned Miss Virginia in June 2018. During her presentations at elementary schools she encouraged students to make healthy, smart and informed decisions. Her focus was ending hunger in the United States and breaking the cycle of poverty, hunger and substance use that affects many communities and families.

The Miss Virginia Organization and Virginia ABC share the mission of educating today’s youth to make positive decisions for a successful future.

Participants in the school program learned how to identify what is safe and healthy for their bodies, what positive choices are and how to make them, how to say “no” to unhealthy choices, what it means to be a leader in their community and among their friends, how to identify a trusted adult and the role they play in their lives.



Miss Virginia Emili McPhail continued the long-standing partnership between Miss Virginia and Virginia ABC as she traveled the Commonwealth to speak with students in Virginia elementary schools about making healthy, smart and informed decisions. Through the partnership with Virginia ABC, McPhail teaches students how to identify what is safe and healthy for their bodies, what positive choices are and how to make them, as well as how to say no to unhealthy choices and what it means to be a leader in their community and among their friends.

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

DIGITAL AND WEB UNIT

During fiscal year 2019, the Digital and Web Unit continued work in content, e-commerce and digital development. While Cyber Monday 2018 was again an area of focus, the scope of e-commerce work expanded beyond a single event, encompassing usability and content, web system software and infrastructure, internal communication and omnichannel capabilities. Through all this, the Digital Unit continued in a key internal partnership with IT's Digital Development Group, conducting regular monthly releases of enhancements to the website and e-commerce.

From July through November 2018, the digital groups continued to examine and improve the online ordering experience, based on feedback from Cyber Monday 2017 and new testing. Notably, staff improved the integration of store and warehouse ordering and created alternate pickup capabilities and better email messaging. Cyber Monday 2018 on November 26, 2018, exceeded Cyber Monday 2017 in both performance and results. With a discount of 20% off orders of \$100 or more, more than 4,800 orders were received, and a total of 27,609 bottles were sold online that day. The average order total was \$167.

Following this success, the digital teams identified the need for additional cyber events to continue to improve the ordering framework. Along with Marketing, the digital teams staged two new e-commerce events in early 2019. On April 29, Cyber MOM-day saw over 3,900 orders, an average order total of \$170 and 23,324 bottles sold. Following this, on June 3, Cyber DAD-day outpaced all previous e-commerce events at Virginia ABC, with 5,565 orders, an average order total of \$174 and 33,165 bottles sold.

Customer experience (CX) drives improvements to the website and e-commerce. The three dedicated e-commerce events held during fiscal year 2019 provided invaluable CX feedback. To prioritize and validate perceived needs, the Digital Unit worked year-round in the area of usability, improving the presentation of the checkout and shopping cart screens, inventory display, emails and product detail page. This culminated in formal usability testing in June 2019. A list of thirteen discrete enhancements was generated, but overall results showed success in major use cases.

Another major area of work was the migration of Coveo Search to the cloud. This migration greatly improved ABC's capacity to accommodate higher levels of user traffic, and it resulted in substantial efficiencies for users during the Cyber MOM- and Cyber DAD-day promotions. Beyond this, Coveo Cloud opened up possibilities for machine learning and relevance tuning. In mid-2018, the Digital Unit led the development of a formal personalization strategy, based on extensive customer inter-

Website Statistics

	FY 2019	FY 2018
Unique visitors	1,916,458	1,551,603
Page views	15,649,557	10,621,607
Online orders placed	21,545	4,630
Bottles sold	104,000	19,490
Total Online Sales	\$3,140,314	\$621,704

views at stores and online surveys. This strategy will inform continued development of Coveo capabilities and the e-commerce platform.

Among the lessons learned from the cyber events was the importance of effective communication with stores and other internal stakeholders about online ordering and e-commerce. Working closely with the Retail Operations Division, the Digital Unit created a Retail Store Portal and online ordering page on the SharePoint platform. The Digital Unit also reached out directly to stores, both in formal and informal initiatives. This work is ongoing and underscores the important role that stores play in e-commerce success.

Overarching all of this was the development of a formal omnichannel business plan in early 2019. Led by executive stakeholders, the Digital Unit crafted a multi-year plan that focused on achieving a seamless user experience across all channels relevant to the buyer's journey. The omnichannel plan approaches Virginia ABC's e-commerce and store capabilities from the perspective of customers and seeks the full availability of products, frictionless e-commerce and a rich content experience. Nine broad areas of development were identified, and work in these areas was prioritized and began early in 2019. Notable was the increase in products available to order from the warehouse, which was jointly undertaken by Logistics, Marketing and the Digital Unit. Warehouse-orderable products increased from approximately 250 in summer 2018 to more than 2,000 in spring 2019. Year-over-year increases in online ordering are attributable not only to the cyber events, but also to greater availability from the warehouse. The omnichannel business plan will continue to inform future development of e-commerce and the web systems.

Fiscal year 2019 statistics increased dramatically over fiscal year 2018, and staged Virginia ABC for significant digital and e-commerce development in the next two years that will increase content relevance and capabilities in ordering, fulfillment, analytics and digital marketing.

EDUCATION & PREVENTION SECTION

The Education and Prevention Section (EPS) continued its mission of preventing underage and high-risk drinking by building the capacity of communities to educate individuals, prevent substance misuse and noted three major successes during the fiscal year.

First, EPS increased the amount of grant funding provided to the Miss Virginia Organization allowing the Miss Virginia School Tour to visit and promote the importance of making healthy choices at an additional 32 elementary schools.

Secondly, the division partnered with Mothers Against Drunk Driving Virginia to offer the Power of Parents program through online and classroom trainings along with free handbooks for parents of middle and high school students.

Finally, EPS established a structure for the Virginia Higher Education Substance Use Advisory Committee (VHESUAC)

and appointed members to both the Executive Council and Workgroup, which include individuals from public and private institutions of higher education, state agencies, and statewide partners in substance misuse prevention. The committee also began work on a statewide strategic plan by compiling data on current policies and programs, conducting stakeholder analyses, identifying future state, creating gap analyses and a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. View VHESUAC's 2019 Annual Report, available at www.abc.virginia.gov.



Virginia Higher Education Substance Use Advisory Committee

Youth Prevention Programming

Elementary School:

Miss Virginia School Tour	
Miss Virginia School Tour stops	72
Miss Virginia School Tour participants	19,232
Elementary School reach (%) (1)	5.21

Middle School:

Middle School reach (%) (2)	12.94
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High School:

Youth Alcohol and Drug Abuse Prevention Project (YADAPP) 2018	
YADAPP participants (3)	400
YADAPP 2018 individuals reached	18,680
High School reach (%) (4)	9.39

Alcohol Seller, Server and Manager Training

Responsible Sellers & Servers: Virginia's Program (RSVP)	
RSVP classroom trainings	88
RSVP classroom participants	1,267
RSVP online training participants	2,384
Managers' Alcohol Responsibility Training (MART)	
MART classroom trainings	23
MART classroom participants	202
MART online training participants	740

Adult Education and Prevention Programming

Institutions of Higher Education:

Higher Education Alcohol and Drug Strategic Unified Prevention (HEADS UP)	
HEADS UP educational materials distributed	11,645
HEADS UP individuals reached	11,405
HEADS UP online resource downloads:	3,144
Institutions of Higher Education reach (%) (5)	62.12

Adults 21 years old and older:

Project Sticker Shock events	15
Project Sticker Shock participants	208
Project Sticker Shock individuals reached	18,985

Capacity Building Resources

Education and Prevention publications distributed	33,209
Education and Prevention publications downloaded	17,543
Education and Prevention toolkits downloaded	853
Education and Prevention social media reach	152,347
YADAPP 2018 grants presented (6)	22
YADAPP 2018 grants awarded (\$)	5,500
YADAPP 2018 grants individuals reached	19,686
Alcohol Education and Prevention grants (7)	15
Alcohol Education and Prevention grants awarded (\$)	117,226
Alcohol Education and Prevention grants individuals reached	3,923,150

(1) Reached or partnered with 60 out of 1,191 public elementary schools across Virginia.
 (2) Reached or partnered with 40 out of 309 public middle schools across Virginia.
 (3) YADAPP annual kick off conference held at Longwood University, July 16-20, 2018 where 74 teams of students and adult sponsors represented schools and communities across Virginia.
 (4) Reached or partnered with 29 out of 309 public high schools across Virginia.
 (5) Reached or partnered with 41 out of 66 institutions of higher education across Virginia.

(6) These include both YADAPP mini-grants (\$250 each) and Wheeler Award (\$500). The 2018 Wheeler Award recipient was the City of Newport News Youth Services.
 (7) Alcohol Education and Prevention grantees: City of Portsmouth Police Department, Emory & Henry College, Ferrum College, Hanover Cares, Lord Fairfax Community College Police Department, Nia Incorporated of Greater Richmond, Radford University, Radford Youth Adult Partnership, Region Ten Community Services Board, Rockbridge Area Community Services, SAFE Inc., Substance Abuse Prevention Coalition of Alexandria, University of Richmond, University of Virginia Office of Health Promotion, Virginia College Alcohol Leadership Council.

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

EDUCATION & PREVENTION SECTION (continued)

The following is a list of education and prevention programs. For more information, please visit www.abc.virginia.gov/education or www.facebook.com/VirginiaABCEducationandPrevention, call (804) 977-7440 or email education@abc.virginia.gov

MISS VIRGINIA SCHOOL TOUR: Under grant funding provided by Virginia ABC, Miss Virginia travels to elementary schools across the Commonwealth and shares a message of health, wellness and prevention with students and teachers.

BEING OUTSTANDING LEADERS TOGETHER AGAINST DRUGS AND ALCOHOL (BOLT): Targeted for middle school students and their parents, BOLT provides drug and alcohol prevention knowledge through regional community collaboration and high school peer leadership.

YOUTH ALCOHOL AND DRUG ABUSE PREVENTION PROJECT (YADAPP): YADAPP is a leadership program for high school students to address underage substance use through implementation of strategic prevention plans at their schools and in their communities.

POWER OF PARENTS (PoP): The Power of Parents program is designed to empower parents of middle and high school students through resources and training to have ongoing, intentional conversations about the dangers and consequences of underage drinking.

HIGHER EDUCATION ALCOHOL AND DRUG STRATEGIC UNIFIED PREVENTION (HEADS UP): HEADS UP provides educational materials and training to increase knowledge of substance misuse and high-risk drinking among faculty/staff, students and their parents, and for faculty/staff to build the capacity of student leaders to hold substance misuse education or awareness events.

PROJECT STICKER SHOCK: Project Sticker Shock aims to prevent adults 21 or older from purchasing and providing alcohol to underage youth by raising community awareness about Virginia laws. During an event, stickers and window clings that warn about the penalties for providing alcohol to minors and using a fake ID to purchase alcohol are placed on cases and coolers of alcohol at local retailers.

RESPONSIBLE SELLERS AND SERVERS: VIRGINIA'S PROGRAM (RSVP) / MANAGERS' ALCOHOL RESPONSIBILITY TRAINING (MART): Trainings are conducted by ABC special agents in classroom settings to help licensees become more responsible and to better understand Virginia laws, rules and regulations. These trainings are also available on line.

VIRGINIA OFFICE FOR SUBSTANCE ABUSE PREVENTION (VOSAP): In collaboration with state and local agencies, organizations, coalitions and faith communities, this group addresses underage substance abuse prevention.

VIRGINIA HIGHER EDUCATION SUBSTANCE USE ADVISORY COMMITTEE (VHESUAC): Pursuant to COV 4.1-103.02, VHESUAC aims to create a statewide environment and culture that values student health and safety as evidenced by reduced student substance misuse on college campuses throughout the Commonwealth.

SELLER/SERVER TRAINING APPROVAL PROGRAM (STAP): Pursuant to COV 4.1-227(E), STAP reviews and approves alcohol seller and server training programs external to Virginia ABC for approved use by licensed establishments in Virginia.

GRANT PROGRAM: Alcohol education and prevention grants assist community partners to develop and enhance initiatives related to alcohol education and prevention. The grant cycle is July through June with applications due in the spring.

PUBLICATION SERIES: Available free of charge, these publications offer education and prevention messages for a variety of age ranges including elementary school, middle school, high school, college, 21 years old and over, parents, older adults and licensees.

FINANCIAL MANAGEMENT SERVICES

The Financial Management Services (FMS) Division is comprised of multiple departments based on business function. These departments consist of Accounting, Accounts Payable, Sales Audit, Financial Reporting, Payroll, and Process & Controls.

In addition to processing the financial transactions, financial reporting, and Agency Risk Management and Internal Control Standards (ARMICS) of the Authority during fiscal year 2019, FMS focused on the implementation of a new financial system.

Work on the Financial Management System, the backbone of the Authority's company-wide system modernization initiatives, began in July 2018. The goal of the project was to implement the financial management system in a software-as-a-service (SaaS) environment that allowed for the realization of business process optimization, IT efficiency, fully integrated data pipelines and business-leading practices for the Authority. A 121-person team comprised of ABC and contract partner personnel successfully implemented the Cloud-based Oracle financial Enterprise Resource Planning (ERP) system. The rollout of BAR (Budgeting, Accounting and Records) began in March 2019 with go-live of the Planning and Budgeting Cloud Service application and continued in July 2019 with the remaining nine modules spanning general ledger, fixed assets, accounts payable and accounts receivable.

This mammoth project was designed, tested and launched as the division provided uninterrupted financial services that supported ABC's billion dollar business.

The Accounting Department ensured the Authority's financial records were maintained in accordance to Generally Accepted Accounting Principles (GAAP). As an Enterprise Fund Component Unit, GAAP requires the Authority to follow the accrual basis of accounting. The Accounting Department ensured revenues were recorded when they were earned and expenses were recorded when incurred. This department also performed reconciliations of the Authority's general ledger accounts to supporting documentation and the Authority's supporting transactional systems.

The Accounts Payable Department processed payments to the Authority's vendors, as well as to employees for reimbursement of Authority related expenses. The Authority paid alcohol vendors for the purchase of product sold in ABC stores throughout the fiscal year. In addition, Accounts Payable processed all other non-payroll disbursements made by the Authority including monthly rent and utilities for many store locations. They also issued 1099s to all reportable vendors as required by the Internal Revenue Service.

The Sales Audit Department served several key functions within FMS. Their primary function was to balance all retail store cash and credit card receipts every day. Sales Audit also recorded and reconciled all mailed licensee payments. Finally, the team worked diligently with the Authority's Bureau of Law Enforcement to monitor online and retail store credit card activity to prevent fraudulent transactions.

The Financial Reporting Department prepared the Authority's annual financial statements. This included preparing the footnotes to the financial statements, as well as the management discussion and analysis. The department was also responsible for developing the Authority's annual budget in conjunction with other Authority directors and the Department of Planning and Budget (DPB). Finally, the department provided ad-hoc financial reporting and analysis based on the needs of various Authority stakeholders.

The Payroll Department processed salary and wage paychecks for Authority employees. It ensured all deductions, adjustments, and employee leave balances were properly accounted. Additionally, this department reconciled and certified the accuracy of all Authority payroll records at the close of each pay period.

The Processes and Controls Department was primarily responsible for ensuring the Authority had a strong internal control structure to mitigate the risk of financial misstatement due to fraud or error. In order to carry out this responsibility the department ensured compliance with the Commonwealth's ARMICS, the Commonwealth's Accounting Policies and Procedures (CAPP) manual and the Authority's financial policies.

FMS was instrumental in the monumental task of providing comprehensive, in-depth financial information for inclusion in ABC's 2018 Annual Report. On behalf of the Authority, ABC's Director of Finance submitted the completed report for evaluation by the Government Finance Officers Association.

The 2018 Annual Report received a Certificate of Achievement for Excellence in Financial Reporting (CAFR), the highest form of recognition in the area of government accounting and financial reporting. A panel of judges determined Virginia ABC's 2018 Annual Report demonstrated a constructive "spirit of full disclosure" to clearly communicate ABC's financial story.



Right: A 121-person team comprised of ABC and contract partner personnel from Accenture, the chosen services firm for the financial system project, successfully implemented the Cloud-based Oracle financial ERP system.



BAR Out Performs Performance as Authority’s New Financial Management System

When it comes to all things finance, Performance was the go-to system for ABC. When the system was installed more than two decades ago, Performance handled accounting, budgeting, reporting and procurement.

Much has changed during the past 20+ years and the system was no longer the most efficient way for ABC to handle these business processes. In July 2018, procurement processes were moved to eVA, and after five years of planning, the Authority embarked on the journey of updating the financial system to a new platform.

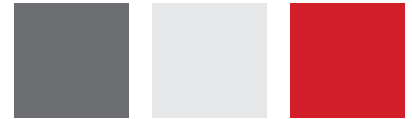
On March 15, 2019, a new budgeting system brought a more standardized system to ABC along with improved analytics and reporting. Implementation of the new financial management system, dubbed BAR for Budgeting, Accounting and Reporting, was the backbone of the Authority’s company-wide system of modernization initiatives. The goal of the project was to implement the financial management system in a software-as-a-service (SaaS) environment that allows for the realization of business process optimization, IT efficiency, fully integrated data pipelines, and business-leading practices for the Authority.

The rollout of BAR began in March 2019 and continued into the following fiscal year with the introduction of the remaining nine modules spanning general ledger, fixed assets, accounts payable and accounts receivable.

The users’ engagement with the new system provides a roadmap to continue to enhance Virginia ABC’s business in the future.

The new Oracle system eliminates the risks that were associated with the aging Performance system and offers best practices for financial and budgeting business processes to meet all of the Authority’s critical requirements.

Other benefits of BAR include standardized budgeting, the automation of basic accounting functions, improved analytics and reporting and simplified month-end processing.



HEARINGS, APPEALS AND JUDICIAL SERVICES

As a part of its continuing partnership with the licensee community, ABC’s Hearings, Appeals and Judicial Services Division (HAJS) introduced alternate dispute resolution (ADR) procedures during fiscal year 2019.

The division continued to conduct four types of hearings: application hearings (for resolving contested requests for ABC licenses), disciplinary hearings (for determining if a licensee violated an ABC law or regulation), summary suspension hearings (for considering measures to protect the public safety) and franchise hearings (for resolving disputes arising under distribution agreements between wine or beer manufacturers and their wholesalers).

ADR offers applicants, licensees and citizens additional options to reach a resolution in ABC hearings. Licensees that chose ADR over a disciplinary hearing accepted expedited (10-day) or regular (21-day) consent settlements rather than go to the hearing. Licensees who did not want expedited or regular consent settlements opted to negotiate with ABC’s legal liaisons to reach agreed-upon resolutions. A third option, mediation, was

a popular option in all franchise matters and in most application and disciplinary cases. Mediation was chosen only upon the request of all parties.

The expansion of these new procedures enabled HAJS to provide fair, unbiased hearings and other dispute resolution options to ABC stakeholders, including applicants, licensees and citizens throughout the Commonwealth.

The division continues to conduct all procedures impartially to ensure the hearing officer reaches a reasoned decision based on all relevant and material evidence. Initial disciplinary and summary suspension formal hearings take place at the ABC regional office that serves the licensee. Contested applications/ hearings are held in the regional office for the premises to be licensed or a nearby state or local facility that can accommodate the number of interested parties, with video conferencing being a potential option.

All appeals and franchise disputes are heard at the Richmond Central Office.

Cases Referred for Hearings

Case Activity	Count
Violation/disciplinary reports	598
Contested applications	15
• Approved	8
• Denied	2
• Withdrawn before hearing	5
Contested banquet applications	8
• Approved	1
• Denied	5
• Withdrawn before hearing	2
Summary Suspensions (all surrendered as revoked)	10
Wine and beer franchise cases	14
Total hearings requested	645

Hearings Dispositions

Case Activity	Count	Percentage of Total Cases Received (%)
Settled by consent settlement offer	496	70.35
Heard by ABC hearing officer (1)	41	5.82
Negotiated settlement	131	18.58
Settled by mediation	3	.43
Heard by ABC Board on appeal	3	.43
Withdrawn or dismissed prior to hearing (2)	31	4.39
Total hearings dispositions (3)	705	100

(1) 41 hearings were held on 66 charges/objections filed. Single cases with multiple charges are heard in one hearing. Three of these were appealed to the Board for a second hearing.
 (2) Cases may be withdrawn or dismissed prior to a hearing, but after docketing for a variety of reasons, e.g., license surrendered; application withdrawn; settlement through mediation.
 (3) 148 cases were in process at the end of FY 18 and completed during FY 19.

Average Case Turnaround Time (in Days)

Activity	2016*	2016	2017*	2017	2018*	2018	FY 19*	FY 19
Violations	102.9	89.2	89.7	84.1	218	86.83	70.25	69.34
Applications	164.3	135.8	121.6	120.8	n/a	155.86	146.15	134.33

Unless otherwise noted, turnaround times do not include continuances.

* This column shows turnaround times with continuances included. This shows how parties’ requests for continuances increase turnaround time.

Case Decisions Appealed

Activity	Count	Percentage of Total (%)
Initial decision of hearing officer to ABC Board (1)	3	.43
Final decision of ABC Board to circuit court (2)	1	33.33

(1) Percentage of all cases referred
 (2) Percentage of all cases appealed to the Board

Civil Penalties Collected

Activity	
Civil penalties collected (\$)	1,149,306.46
Average civil penalty per case (\$)	1685.20
Average suspension period per case (days) (1)	18.26

(1) Most ABC cases result in the imposition of a civil penalty and/or suspension period. This average reflects the results of all civil penalties or suspension periods from all case decisions, consent settlement offers, and negotiations for FY 19. The Board may allow licensees to choose between a civil penalty or suspension period. Some penalties, however, contain civil penalties and mandatory suspension periods.

HUMAN RESOURCES

The Human Resources (HR) Division supported ABC's business objectives during fiscal year 2019 by providing service in the areas of recruitment and selection, employee relations, compensation, benefits, compliance with federal and state laws, policy development, human resource information systems and training and development.

The HR Division conducted an employee survey in Dec. 2018 to better understand employee engagement. Recognizing that employees are a business's greatest asset, the HR division created an Employee Experience Team. This team was tasked with improving efforts related to the workplace with the goal of creating a more welcoming, positive and inspiring place where employees can thrive. The team overhauled ABC's onboarding process and played a large role in the successful execution of Employee Appreciation Week in the Central Office. The week featured casual dress days, dessert trucks, a picnic lunch and a candy cart that brought treats to employees. The team will continue to work on areas such as recognition, diversity and inclusion, employee retention and employee appreciation.

Employees and Hiring

Total employees (as of June 30, 2019)	3,229
Total classified employees	1,070
Total wage employees	2,159
Classified employees hired in FY 19	203
Wage employees hired in FY 19	1,437

ABC employs a diverse workforce, with approximately 1,070 classified (full-time) employees, 2,159 wage (part-time) employees, and 50 contractual workers supplementing ABC's workforce. These 3,229 Authority employees work throughout the Commonwealth operating 376 retail stores and 9 regional offices. Approximately 412 ABC employees and 50 contractual workers are physically located in Richmond at the central office and warehouse facility.

Tuition and Training Assistance

Description of Training	Course Types	Units* (1)
Tuition Assistance Program (TAP)	21	21
Instructor-led (Authority) (1)	14	153
Supervisory Academy Courses	6	246
New hire orientation	14	219
Authority/state mandates (online)		
Retail/warehouse employees	30	35,954
Non-retail/warehouse employees	25	5,900
HPM supervisor (online)	14	1,011
Enforcement (online)	1*	821
Enforcement Instructor-Led (Certification Program)	2	20

*"Units completed" represents the units (modules) of training completed by ABC employees. One employee may account for more than one unit of participation.

(1) *Special Online Course offered to Enforcement Employees only

The Learning and Development Team also contributed to the overall success of the division this fiscal year. From new hire orientation to tuition assistance, this team created a gamut of opportunities for employees to hone and learn new skills while improving their productivity measures. The Supervisor Academy, first piloted in March 2016, trained a third cohort and maintained its mission of enabling supervisors and managers to network with one another in a shared learning experience. Around 45 employees participated this fiscal year and represented divisions across the Authority.

The Authority recognized 192 employees at four service awards luncheons in fiscal year 2019. At the luncheons in Northern Virginia, Richmond and Roanoke, employees were presented with a celebration kit which included a personalized certificate and lapel pin based upon their years of service to the Commonwealth. Members of the executive team also delivered divisional updates during these service celebrations.

Employee Demographics

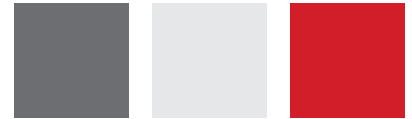
Average age (years) (1)	46
Average years of service, classified employees (2)	8
Gender: male (%) (3)	53
Gender: female (%) (3)	47
Minority (%) (4)	33.5

The demographics of ABC's workforce are generally consistent with the overall state workforce. The average age of an ABC classified employee is 46 years, with an average length of service of 8 years. Approximately 7% of employees are eligible for an unreduced retirement as of June 30, 2019 and 10% will be eligible in 5 years.

- (1) Average age (all state employees): 46.5 years
- (2) Average years of service (all state employees): 11.4 years
- (3) Gender (all state employees): male, 46.2%; female, 53.8%
- (4) Minority (all state employees): 36.0%



Chief Administrative Officer Jerome Fowlkes and Chief Information Officer Paul Williams at left bring by a complimentary snack cart for employees during Employee Appreciation Week.



INFORMATION TECHNOLOGY

In keeping with the Authority directive to operate more in the model of a commercial business, the Information Technology (IT) had a busy and productive fiscal year.

The largest major accomplishment, both for IT and the wider ABC business was the successful migration from a core system Performance to a SaaS-hosted modern ERP suite, which went live for budget in March 2019 and for all financial transactions and management at the end of the fiscal year. This was an impressive effort with a huge collaboration between IT and FMS. The project, in the planning mode for five years, was contracted, executed and launched within 12 months—on time and significantly under budget.

The division demonstrated it is capable of delivering the pace and scale of change ABC needs to meet customer expectations when it worked with other divisions to complete the pre-project work for new point of sale (POS) and sales audit systems through requirements, procurement and planning in under two years.

The Authority's Cyber DAD-day promotion was the highest volume e-commerce day since online sales were launched four years ago. IT improved capacity and efficiency by achieving one-million-dollar-per-day capacity which provided a more responsive, seamless and effective customer experience. This

work also supported a record lottery demand of more than 40,000 entries.

The division contracted for the replacement of ABC's inventory management and warehouse systems as part of the Authority's building move project.

During the fiscal year, VITA changed its operating model to break services out from Northrop Grumman into separate tier service providers. Part of this move included the Commonwealth planning to exit its primary data center in Chesterfield before the end of 2021. ABC's IT Division migrated several systems to AISn and SaaS hosting companies—a direction compliant with the Governor's EO19 directive and will continue migration—with a goal to be out of CESC (the VITA data Center) by June 2020.

The focus of the ABC Modernization and the IT Reinvestment program, which kicked off in fiscal year 2016, is to continue to update ABC's core legacy systems to improve customer service, return on investment, reliability, compliance and flexibility. The milestones achieved in fiscal year 2019 were a significant contribution to these goals and paved the way for the Authority to go live with a new on-line licensing system, roll out a new POS system, move the e-commerce environment to Azure and make significant progress on the new building and warehouse project in the upcoming fiscal year.

AUTHORITY MOVES TOWARDS NEW HANOVER COUNTY FACILITY

Virginia ABC continued forward movement on its journey to a new headquarters and warehouse facility in fiscal year 2019. The Authority's need for a new building is critical. At fiscal year-end, ABC's current central office was in need of expensive future repairs. In the warehouse, material handling equipment was near end of life and at risk for costly unexpected downtimes or a compromised ability to adequately ship product. In addition, depending on promotions and seasonal fluctuation, the warehouse was at 95-100% capacity.

The property project, managed by the Authority's Business Transformation Office, functioned with a project team of ABC executive leaders and division managers and representatives from the Commonwealth's Department of General Services (DGS).

During June 2019, ABC worked with DGS to issue Request for Proposals asking developers to submit plans for a turnkey solution. ABC and DGS selected H&M as the turnkey developer who would provide not only the building construction but also include vendors such as Manhattan, who would provide the warehouse management system (WMS).



An artist's draft rendering of the proposed Virginia ABC Headquarters and Warehouse facility in Hanover.

CEO Travis Hill held two town hall meetings for Central Office employees in April and June to offer project updates and provide a forum for questions and answers.

ABC signed a turnkey purchase, sale and development agreement with H&M for a 315,000 square-foot warehouse and a 95,000 square-foot Central Office on June 10.

The new Hanover County facility, when completed in 2021, will include a modern design and updated capacities to further Virginia ABC's development and growth in the future, allowing ABC to continue to provide reliable revenues to the General Fund.

**VIRGINIA ABC
AT A GLANCE**

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

INTERNAL AUDIT

The Internal Audit Division, responsible for both the internal audit and the information security functions at Virginia ABC, focuses on identifying agency risks to ensure that an adequate system of internal controls is in place to mitigate identified risks and maintain compliance with applicable standards, policies and procedures.

Audit maintained a robust store audit program, completing 92 store reviews and 45 distillery store reviews during the fiscal year. Staff completed seven State Fraud, Waste and Abuse Hotline complaint investigations and one internal fraud investigation. Internal Audit also oversaw efforts for compliance with Virginia Information Technologies Agency (VITA) SEC 502 information security audits and the information security audit program.

Information Security (InfoSec) embarked on a year long effort to stand up Virginia ABC's own internal information security program, separate and apart from VITA as we transitioned into our first year as an Authority. This effort included selecting a

new information security standard and risk framework, and developing and implementing policies. For a fourth consecutive year, InfoSec ensured ABC passed its mandatory Payment Card Industry Data Services Standard (PCI DSS) compliance review ensuring that the authority was able to continue to accept credit cards and to avoid costly fines from the payment card issuers.

InfoSec also monitored the Authority's information security policies and procedures and provided expertise to implement its IT Security Program. InfoSec completed third party risk assessments and provided information security requirements for multiple procurements and project teams, to include those using cloud solutions. In collaboration with the procurement team, InfoSec reviewed contract language to ensure appropriate security controls and risk transfer options designed to protect the Authority's investments were in place.

REGION 9 OFFICE COMPLETES MOVE

For the past two decades, restaurant owners, distillers, vineyard owners and the occasional caterer and father of the bride looking for help with ABC licenses in the Charlottesville area found ready assistance at the Authority's Bureau of Law Enforcement Region 9 office on Natural Resources Drive.

In December 2018, the office found a new home.

The hub for ABC's Enforcement Bureau in nine counties—Albemarle, Culpeper, Fauquier, Fluvanna, Greene, Louisa, Madison, Orange and Rappahannock and the City of Charlottesville—relocated its operations to 630 Peter Jefferson Parkway, Suite 260 in Charlottesville.

The new, 4,651-square-foot location includes nine office spaces, to accommodate the region's five enforcement special agents, a special agent in charge, an administrative staff member and a part-time evidence custodian. Additional office space is available for visiting enforcement agents and private meetings.

The new Region 9 office, conveniently located in the Pantops area, also provides a waiting area for customers and a multi-purpose area that is used for trainings, hearings and meetings for ABC enforcement, local law enforcement and other state agencies.

The new location provides the much needed space and amenities to serve Charlottesville and is easily accessible to the public, community and travelers from the region with plenty of parking and a more professional environment.



(From left) Special Agent in Charge Joseph Cannon, Virginia ABC CEO Travis Hill, Deputy Secretary of Public Safety and Homeland Security Jae Davenport, Deputy Chief Donnie Brown, Special Agent Kyle Meador, Chief Tom Kirby, Assistant Special Agent in Charge Sergey Solodyankin, Administrative Technician Brandie Cielakie, Special Agent Brendan Reed and Senior Special Agent Jonathan Pine were on hand to celebrate the relocation of the Region 9 office in Charlottesville.

VIRGINIA ABC
AT A GLANCE

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

LOGISTICS

The Logistics Division continued to streamline processes in the warehouse that increased throughput capacity.

During fiscal year 2019, the warehouse staff produced record shipping days during the 2018 holiday season. The warehouse had nine days where more than 28,000 cases of product were shipped. The high-water mark of this run was a peak day of 31,420 cases, with the average peak day of 29,800 cases. Both of these marks surpassed the marks of 2017, which had a peak day of 27,788 and an average peak day of 27,000 cases.

The division also made improvements to the special order process by turning warehouse inventory replenishment over to the suppliers. This allowed for automatic recognition of inventory arrival to the warehouse and subsequent release to the customer. Special orders could be forecasted and these

products were able to be replenished. This streamlined effort resulted in a 33.9% increase in retail special order sales.

Individual bottle orders shipped to ABC retail stores has increased dramatically due to making more products available for online ordering and streamlining the special order process.

Updating the retail forecasting methodology made it possible to separate base from promotional sales and to add out-of-stock lost sales into future forecasts. This separation allows for more accurate future forecasting for stores. Future item sales were also included, or removed, in the promotional sales forecasts based on marketing and promotional plans. Adding out-of-stock items back into the forecast enabled stores to have the appropriate inventory available for customers.

ABC Shipment to Stores

	FY 19	FY 18	FY 17
Average weekly bottles shipped from Bottle Pick Room*	11,719	7,834	7,492
Average delivery cost to ABC stores (\$ per case)	.92	.91	.89
Total shipments to ABC stores (cases)	5,316,778	5,070,262.75	4,840,855.87
Total shipments to ABC stores (weight, in lbs)	162,615,202.38	156,654,119.49	150,495,117.36

*Bottle Pick includes special orders, online orders, or limited availability products.

STATEWAYS PRESENTS ABC WITH BEST DISTRIBUTION INNOVATION AWARD

ABC rewrote the playbook on warehouse efficiency, and these game changing efforts were recognized when the Authority accepted the 2018 Best Distribution Innovation Award at the National Alcohol Beverage Control Association (NABCA) conference in October 2018.

This award, presented annually by StateWays Magazine, recognizes control state agencies that are leading the industry in innovation. ABC was featured in the 2018 September/October issue of the magazine in an article that identified specific practices the authority implemented to produce highly impressive results in its warehouse.

ABC's Logistics Division introduced process improvements and set productivity goals for its 292,285 square-foot warehouse that saw more than \$52 million worth of products move through it during peak season. New training for supervisors and an employee incentive plan also contributed to increased efficiency which led to the StateWays recognition.



VIRGINIA ABC
AT A GLANCE



Raise The Bar: 2018 Holiday Campaign Generates \$7.5 million

The Authority coordinated its most comprehensive holiday campaign to date in fiscal year 2019. Its “Raise The Bar” campaign, which ran from mid-October through December 31, 2018, encompassed four promotions and generated \$7.5 million in incremental revenue. The campaign repeated successful Door Buster Days, Black Friday and Cyber Monday promotions from the previous holiday season and introduced a fourth promotion, Spirited Thursdays.

ABC developed a multi-faceted marketing communications plan for the campaign that included information on the Authority’s website, printed materials for stores, a news release and paid advertising. In-store promotions were accompanied by a \$75,000 paid social media campaign and web feature. Ten different Facebook ad campaigns were created for each promotional event, including a separate ad for each Spirited Thursday and an ad for an online sweepstakes to win a vacation package.



A statewide radio campaign featured several versions of 30- and 15-second ads as well as weather sponsorships in multiple broadcast markets, reaching a variety of demographics. For the first time in Virginia ABC’s 85-year history, statewide television retail ads were developed and executed. Two 15-second ads were broadcast on the Food Network, Hallmark, HGTV and the NFL Network channels.

The campaign’s first promotion began November 1. Door Buster Days offered 10 products at a 20% discount for three consecutive days. The Spirited Thursday promotion followed with ABC offering five different popular, premium products at 20% off in the 750 ml size both in stores and online for six Thursdays during the holiday season. The promotion covered rums, gins, cordials, tequilas, scotches and American whiskeys; 30 products were discounted in total. A Black Friday promotion featured

20% off purchases of \$100 or more in stores, and a Cyber Monday promotion featured the same discount for online purchases only.

The resulting press coverage across the state earned approximately 1,044,543 media impressions. The social media campaign generated an equally overwhelming response. The 10 Facebook ads combined reached 2,259,921 people and generated 8,371,757 impressions. The ads garnered 74,112 unique link clicks to the Authority’s website. Over the same time period, the Spirited Virginia Facebook page earned more than 1,600 new page likes.

The Raise the Bar Campaign was a multi-platform effort in coordinating marketing acumen in stores, over TV and radio waves, and in the digital space. The campaign was the most comprehensive campaign in Virginia ABC’s history and featured the first-ever Virginia ABC television retail ads. Raise the Bar certainly lived up to its name as it generated \$7.5 million in incremental revenue with the success of Door Buster Days, Cyber Monday, Black Friday and Spirited Thursdays, the latter of which was new for fiscal year 2019.

continued on next page

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

MARKETING

The efforts of the Marketing Division during fiscal year 2019 continued to yield positive results for the Authority. The division developed and implemented consumer engagement, retail merchandising and product management strategies and plans that grew Virginia ABC sales and profits.

In fall 2018, Marketing implemented the most extensive holiday campaign in Virginia ABC history, with multiple promotions throughout the holiday season, including Black Friday, Cyber Monday, Door Buster Days and six category-specific Spirited Thursdays.

The key goals for the holiday campaign were to increase overall sales for the holiday shopping period over the previous year, to drive store traffic and to encourage customers to stock up on spirits in preparation for holiday entertaining and gift giving.

The campaign included two Virginia ABC “firsts”—the first-ever statewide media campaign and the first-ever use of TV advertising in the campaign to inform Virginia residents about the upcoming holiday promotions. In addition to TV, the statewide media campaign included broadcast radio, digital radio, social media, email, news releases and in-store point of sale materials. See story on previous page.

In spring 2019, Marketing launched ABC’s first-ever Cyber MOM-day and DAD-day promotions with the goal of bringing greater attention and awareness to Virginia ABC’s e-commerce capabilities. Similar to Cyber Monday, Cyber MOM and DAD-days offered a 20% discount for all online purchases of \$100 or more. The promotions were timed so that online purchases would be available for pick up prior to Mother’s Day and Father’s Day. See page 49 for more information.

The results exceeded expectations as Cyber MOM-day produced nearly 4,000 online orders for \$664,000 in sales and Cyber DAD-day produced nearly 5,600 online orders for almost \$1 million in sales.

In partnership with Retail Operations and Logistics Divisions, the Marketing Division continued to refine and enhance its promotional merchandising program with a goal of growing sales through targeted store displays focused on consumer consumption occasions, recipes, incremental purchases, promotions and education.

In January 2019, Marketing launched several enhancements with the intention of making displays more visible and meaningful to customers—creating with the intention of making displays more visible and meaningful to customers. Enhancements included creating defined display locations in each store resulting in a 50% reduction in displays, automating the forecasting of display inventory and targeting fewer products and price points per display. Proving that less is more, these changes resulted in achieving 83% of the total incremental dollars earned in 2018 after only two promotion periods in 2019.

The division continued to leverage traditional media, social media, email, promotional programs and other vehicles to connect with, inform and educate customers about Virginia ABC products and services. The Spirited Virginia email distribution list approached 62,000 subscribers—a 101% increase and the Spirited Virginia Facebook page boasted more than 11,000 followers, a 70% increase from last year.

NOTES FROM THE TOP SHELF, *continued from previous page*



The “Raise The Bar” campaign also generated an incredible response from customers. Total sales for the holiday shopping period (November 1-December 31) increased by 9.2% compared to the previous year with sales of the 10 Door Buster Day products increasing by 801.5% over the previous year. Total sales for the three Door Buster Days reached nearly \$12.7 million, a 17.9% increase over the same three days the previous year. Black Friday sales increased by 25%, and Cyber Monday sales increased by 110% from 2017 numbers. Additionally, sales for all the Spirited Thursday products increased dramatically, ranging from 414% to 1746% over usual sales, and premium products in general saw a sustained growth throughout the rest of the holiday season.

The 2018 holiday campaign was possible because of the coordinated efforts of multiple divisions. “Raise The Bar” was a stellar success generating \$7.5 million in incremental revenue that had a significant impact on the Authority achieving \$1 billion in revenue for fiscal year 2019.

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

PROCUREMENT

The Procurement and Support Services Division's responsibility is to support Virginia ABC's business units by ethically, prudently, competitively and strategically managing agency funds outlay for the purpose of obtaining quality goods and services. The division continued to assist internal customers in achieving their goals and maximizing value for the taxpayer's dollar while improving response time when and where applicable and ensuring compliance with state and federal laws. New Virginia ABC Authority procurement policies—put into place in May 2018 to govern general (non-technology) procurement—continued to provide a level of decentralization during the 2019 fiscal year enabling more flexibility and allowing the organization to operate more like a private business.

The division added a supplier relationship manager to its staff to strategically plan and manage all interactions with third party organizations that supply goods and services to Virginia ABC. With the goal of maximizing the value of these relationships,

the manager took responsibility for an enterprise-wide assessment of suppliers' assets and capabilities with respect to the Authority's overall business strategy.

Procurement processed more than 1,151 purchase orders, including eVA direct orders and Small Purchase Card Charge (SPCC) transactions with an estimated value of \$31,721,450.08. The division monitored the activities of 126 cardholders that facilitated 8,534 transactions totaling \$4,695,795.97. In June 2019, Bank of America WORKS, a web-based application providing real-time administration of purchasing cards and approval work flows went live for Authority SPCC holders. The WORKS application also features a post-purchase reconciliation process that adheres to Authority policies.

Procurement remained committed to expanding opportunities for Virginia's small-, women-, minority-, (SWaM) and service disabled veteran-owned businesses and achieved 23.93% (\$7,592,197.94) in SWaM spending.

REAL ESTATE AND FACILITIES MANAGEMENT

The Real Estate and Facilities Management Division responsibly managed ABC's Central Office, warehouse and 377 retail stores during fiscal year 2019. The division focused on these major areas of responsibility: initial site selection, negotiation, leasing and lease administration; facility management and maintenance of the Central Office, retail stores and regional offices; and construction/fixture installation for new stores, relocations and modernizations. This work was accomplished by a staff of 28 individuals with many combined years of ABC service and experience. During fiscal year 2019, the division was responsible for 18 owned properties, 359 leased retail outlets and 10 offices for ABC's Bureau of Law Enforcement.

The director chaired the real estate committee and worked with Virginia's commercial retail brokerage community and landlords (as well as ABC's Retail Operations, Logistics, Marketing and Finance divisions, and its Research & Planning Section) to discuss new store and lease activity in an effort to make sound recommendations to Virginia ABC's Board of Directors.

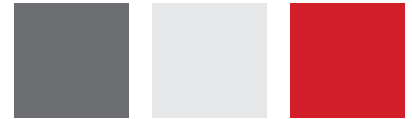
It was a busy year for the division as it worked to find new store locations, modernize and maintain ABC's current retail locations, and create office space and parking for new central office employees. Virginia ABC opened seven new stores,

with four in Northern Virginia, two in Tidewater and one in Lebanon. There were eight store modernizations/expansions and four relocations. All were done in an effort to enhance convenience and the shopping experience for customers. Much of the division's fiscal year 2019 work was in preparation for the opening of more than a dozen new stores in fiscal year 2020.

Store Activities: July 1, 2018–June 30, 2019

Store	Location	Activity	Closed	Opened	Total*
424	Loudoun	new store	n/a	7-9-18	371
412	Stafford	new store	n/a	7-12-18	372
427	Lebanon	new store	n/a	7-19-18	373
437	Chesapeake	new store	n/a	7-20-18	374
258	Hampton	modernization	7-7-18	7-21-18	374
281	Madison heights	relocation	7-21-18	7-27-18	374
200	Garrisonville	expansion	5-21-18	8-14-18	374
041	Herndon	relocation	8-18-18	8-22-18	374
189	Scottsville	modernization	n/a	8-24-18	374
136	Leesburg	relocation	10-14-18	10-16-18	374
309	Roanoke	modernization	9-22-18	10-7-18	374
104	Chesterfield	expansion	9-3-18	10-28-18	374
448	Short Pump Mall	new store	n/a	11-7-18	375
429	Virginia Beach	new store	n/a	1-5-19	376
425	Fairfax	new store	n/a	1-21-19	377
300	Hanover	modernization	1-20-19	1-25-19	377
389	Glen Allen	relocation	2-16-19	2-19-19	377
362	Sterling	expansion	1-4-19	3-2-19	377
228	Alexandria	modernization	5-4-19	5-16-19	377

* total number of stores as of that date



RESEARCH & PLANNING

The Research & Planning section (R&P, formerly known as Policy, Planning & Analysis) provided program, analytical and decision support services to internal and external customers of the Authority.

In fiscal year 2019, R&P continued ongoing efforts to support the Authority in terms of providing weekly sales performance reporting, delivered on 18 Freedom of Information Act (FOIA) requests and collaborated across the Authority on an additional 125 FOIA requests, provided external customer satisfaction survey research, fielded 20 employee suggestions, coordinated several subpoenas, established an enhanced records management program, and launched a process to update the Authority’s strategic plan.

Also in fiscal year 2019, R&P kicked off the Authority’s License Reform Initiative at the request of the Legislature. This initia-

tive is designed to update the existing structure of licenses in the Code of Virginia in order to simplify, streamline, and consolidate the structure to make it easier on the business community and the Authority. This project resulted in a Conceptual Design that was released in May, and will culminate in a Final Report to be released in November in fiscal year 2020.

In fiscal year 2019, R&P expanded its focus on independent and objective analysis of the Authority’s Retail business. R&P evaluated the 2018 pilot Holiday Pop Up Store campaign and made recommendations for 2019 locations, evaluated the effectiveness of three online cyber sales campaigns, analyzed the impact of the Authority’s expanded Holiday Sales Campaign, and evaluated 79 locations for either new store placement or lease renewal.

HOLIDAY POP UP STORES

Virginia ABC explored another first with the launch of “pop-up” stores in November 2018. The five seasonal retail sites provided convenient options for holiday shoppers in three areas of the state to buy liquor gift sets.

Kiosks were rented in Tysons Corner Center and Dulles Town Center in Northern Virginia, in Chesterfield Towne Center in Richmond and in Lynnhaven Mall in Virginia Beach. The Authority rented a temporary storefront in Short Pump Town Center in Richmond. Each location featured a limited selection of high-end, boxed liquors starting around \$50. The kiosks offered customers a selection of 15-to-20 premium spirits, depending on location. Some of these premium spirits included hard-to-find scotches such as Bowmore 15 Year Darkest and Lagavulin Distillers Edition in Northern Virginia or Bowmore and Talisker Distiller’s Edition in Richmond and Virginia Beach. The kiosk in Tysons Corner offered Remy Martin Louis XIII cognac for \$3,400 and The Macallan “M” whisky for \$5,000. The selection in the Short Pump store was a bit wider.

All five “pop-up” stores’ hours of operation mirrored the mall hours Monday through Saturdays. On Sundays, these locations opened after noon, when liquor is legally permitted to be sold in Virginia. The retail units were closed on Thanksgiving and Christmas days and remained open through News Year’s Eve. The exception was the Short Pump location which remained open through the fiscal year.

Shoppers in Virginia were treated to a new convenience during the 2018 holiday season with the pop-up kiosks and stores arriving in five different malls in the Richmond, Virginia Beach and northern Virginia areas. Four out of the five sold over 1,000 bottles during the holiday season and the program was renewed in different malls and areas for the 2019 holiday season.

Getting in front of the holiday shoppers certainly worked for all five locations. As of January 1, 2019 the five locations produced gross sales of \$294,742.26 with 6,965 bottles sold.

The Short Pump store had the highest volume of bottles sold with 2,417 items, while the Tyson’s Corner store was the highest in gross sales with \$108,372.09. Short Pump was second in sales, followed by Chesterfield, Lynnhaven and Dulles. Four out of the five locations sold over 1,000 bottles.



**VIRGINIA ABC
AT A GLANCE**

RETAIL OPERATIONS

ABC’s transition to an Authority was the impetus for significant change in Retail Operations. During the fiscal year, ABC recognized the retirement of its 40-year veteran director and recruited a new director who began in August 2018. The Authority’s new leadership model called for the creation of a Chief Retail Operations Officer position. The restructuring of the division clarified roles and responsibilities at a higher level to better align with the ABC mission and to strengthen the level of support provided to the stores. Retail Operations created and filled two new zone manager positions to provide direct supervision and support to the Authority’s 25 regional managers. These two field-based roles oversee an average of 188 stores in partnership with 12 or 13 regional managers with a focus on providing direct support and guidance to the Authority’s retail employees.

During the fiscal year, Retail Operations concentrated its overall efforts on enhancing the business acumen and growing the leadership skills of store managers and regional managers. The division was determined to make teams more successful, more customer focused and more efficient in operations. Retail implemented several key initiatives to drive success through the development of employees at all levels of the division.

The first critical step was to empower regional and zone managers to visit stores and focus on employee development coaching to enhance the customer experience instead of one focused on compliance. Regional managers were encouraged to grow their relationships with store managers and employees. This was the catalyst for Retail Operations to create a more consistent customer experience.

The next step was to give regional and store managers the knowledge and power to make business decisions. Retail Operations developed Compass, a comprehensive tool for analyzing store and region performance. The tool measures daily sales, shrink indicators, order overrides, labor utilization, store performance via the tracking of quality store visits, point of sale data and daily inventory activities. Compass measures a store’s current state versus expectations compared to last year’s performance. This critical information helps regional managers to be proactive, rather than reactive in the driving business forward. Produced and distributed to stores and regional managers on a weekly basis, Compass is displayed in the back work area of every store on a wall-mounted business center, making data accessible to all employees. Compass is also shared with other divisions to enhance Authority goals of increased revenue and customer service, while still maintaining a focus on the responsible sale of a controlled product.

ABC Stores

ABC store Gross Sales (\$)	1,046,843,614
ABC store Transactions	33,652,170
Alcohol compliance rate for ABC stores (%)	98.7
Total shipments to ABC stores (weight, in lbs)	162,615,202.38

(1) FY 18 rate: 99.13%

ABC Products

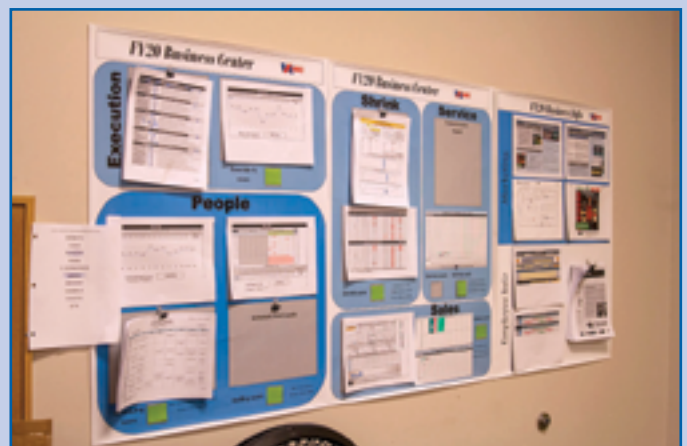
Price list

Active items on price list	2,469
Virginia wines on price list	77
Vermouths on price list	14
Non-Alcoholic on price list	62
Items de-listed from price list (1)	78

Special orders

Active items on special order catalog	1,142
Active items on special order noncatalog	591
Total special order purchases (cases) (2)	51,248
Total special order revenue (\$) (2)	11,558,048
• Catalog purchases (cases)	34,714
• Catalog revenue (\$)	8,480,141
• Noncatalog purchases (cases) (3)	16,534
• Noncatalog revenue (\$)	3,077,907
Total special order revenue increased (%)	33.9

- (1) De-listed items remain on the price list until all inventory has been depleted.
- (2) These totals include both catalog and noncatalog special orders.
- (3) Noncatalog special orders are for those items not included in the special order catalog.



In the backroom of each Virginia ABC store is Compass, seen here at Store 331. It is a comprehensive tool for analyzing store and region performance, while also providing critical information to all retail leaders and allows regional managers to be proactive in driving business forward. The data is open to all employees and organizes pertinent information in an accessible format.

continued on next page

RETAIL OPERATIONS, *continued*

While Retail Operations continued to produce increased year-over-year sales, the division identified additional efficiencies that will enable it to grow beyond the current model and move towards a service, sales and profit model allowing for future expansion and greater success. The division developed several tools and processes to improve efficiency, drive sales and increase profits for the organization as a whole.

Matrix, a scheduling tool developed in Retail Operations, enables store managers to quickly evaluate store staffing needs and optimize their labor during peak business hours as indicated by data pulled weekly from the point of sale system (POS). This new tool allowed Retail Operations to reduce labor and save millions in payroll costs. The savings were used to fund the Authority's first pay-for-performance incentive program.

In addition to scheduling and spending labor efficiently, Retail Operations focused its efforts on reducing or eliminating activities that diminished the customer service experience and instead increased the time staff spent on the sales floor assisting customers. The division rolled out several projects to assist store managers in improving efficiencies in task management at the store.

Changes included reducing administrative work and improving receiving and stocking processes. These improved processes stemmed from retail best practices already in use by many managers. Training guides were developed by the Authority's most-seasoned store and regional managers. These processes were rolled out in January 2019. Retail Operations leadership held a series of meetings in February and March to reinforce the new concepts and help store teams understand and embrace the new processes. These efficiencies allowed store teams to spend more time gaining valuable product knowledge and honing customer service skills on the sales floor. These processes are also intended to enhance and support the implementation of the new POS system in fiscal year 2020.

In an effort to continue profit margin improvement, Retail Operations developed several initiatives—shrink identification tools, adding licensee relationship managers in select stores with a high percentage of licensee business, and tracking negative sales and inventory losses at the POS. All of these tools allowed Retail Operations to identify opportunities for savings and become even more profitable and revenue minded.

In February 2019, the division launched a Stock Keeping Unit (SKU) optimization project. This effort included an in-depth analysis of market data, product assortment, store layout and shelf schematics on a store-by-store basis for 36 specific products to create a targeted SKU assortment and unique shelf set for each of the optimized stores. Using Nielsen market analytics and SPECTRA data from store-specific sales, the project identified sales opportunities and failures and provided recommendations for optimal product assortment.

Nearly 19% of retail sales come from licensee business. Retail Operations introduced a new licensee relationship manager position to support this customer group. Licensee relationship managers were placed in 21 stores with the highest licensee sales to focus on service of one of ABC's largest business segments. The Authority has seen improved efficiencies in a critical business category and received positive feedback from the licensee community as a result of the additional support.

Shrink process improvement and shrink identification tools were key initiatives for the Retail division in fiscal year 2019. Retail developed an improved inventory process that not only reduced the cost of taking inventory, but also created a centralized database for tracking store specific losses by item number, product size, and category. This new information gave Retail Operations the chance to identify shrink issues earlier and make changes to reduce problems going forward.

continued on next page



Virginia ABC Chairman of the Board Jeff Painter (center) and Virginia ABC CEO Travis Hill (right of Painter), along with other member of Virginia ABC's Executive Leadership Team, Central Office Staff and other employees and guests, open Store 427 in Lebanon in August 2018. This 3,000-square-foot store was one of seven to open in fiscal year 2019 and is the first ABC store in Russell County.

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

RETAIL OPERATIONS, *continued*

Due to improvements made in store stocking techniques, Retail was also able to improve the accuracy and control of on-hand inventory counts, which helped identify potential areas of loss at the SKU level for all products in all stores. This new process also enabled staff to improve in-stock levels—by getting on-hand amounts corrected quickly—and providing that information to Logistics on a weekly basis so the right products could be delivered to stores.

All of these tools created a more efficient and well-organized backroom as stores now receive only product that is needed. The final piece to the shrink improvement initiative came in the form of an inventory build report which identified possible issues by SKU, department, product size and truck shortage. By placing this information into the hands of the store and regional managers weekly, Retail Operations saw shrink results that were 30% below target and drove sales higher due to better in stock performance in all stores. These reports empowered managers to make proactive decisions to reduce losses and improve sales at every retail location.

In order to facilitate a smoother flow of information between stores and central office divisions, Retail Operations instituted a new policy requiring most communication intended for stores to be sent to a new email distribution group administered by the division. This policy made it easier for stores to know when and where to receive important information.



Store 425 in Alexandria opened in February 2019 with many employees in attendance, such as Lead Sales Associate Raeshawn Smith, Store Manager Christian Berntsen and Lead Sales Associate Chyrette Copeland. The store is the eighth store in Alexandria and is located near the Huntington Metro station in the Huntington Gateway shopping center.

Retail Operations also created two other email distribution groups—one for inquiries from external retail customers and one for licensee customers. By centralizing the point of contact for these inquiries, responses are faster and more consistent.

The final piece of the puzzle for Retail Operations to gain more efficiency was to evaluate the regional alignment including new stores planned for the following fiscal year. In order to do this effectively, it was vital to consider the travel time of the Regional Managers and also the complexity of each location under their leadership. The need for two additional Regional Managers was identified. In 2020, Retail will roll out a new alignment that benefits development needs as well as work life balance for both the regional and store managers.



Virginia ABC's Summer 2019 Campaign featured Door Buster Day discounts and other promotions. Pictured are campaign marketing materials and products at store 101 in Richmond.

DEPARTMENTAL HIGHLIGHTS

(alphabetical order)

RETAIL, continued

Top 50 Brands Sold in Fiscal Year 2019

Rank		BRAND	PRODUCT CATEGORY	Gross Dollars			Actual
FY 19	FY 18			FY 19 (\$)	FY 18 (\$)	CHANGE (%)	CHANGE (\$)
		Statewide Total		1,045,967,354	978,127,866	6.9	67,839,488
		Top 50 Brands		498,233,206	473,671,394	5.2	24,561,812
		All Others		547,734,148	504,456,472	8.6	43,277,676
1	1	Tito's Handmade	domestic vodka	42,122,282	33,451,056	25.9	8,671,226
2	2	Hennessy VS	cognac\armagnac	35,309,436	33,157,815	6.5	2,151,621
3	3	Jack Daniel's 7 Black	Tennessee whiskey	29,979,450	29,282,762	2.4	696,688
4	4	Jim Beam	straight bourbon	22,713,341	21,494,889	5.7	1,218,452
5	5	Fireball Cinnamon	cordials	19,224,053	18,749,122	2.5	474,931
6	6	Smirnoff 80	domestic vodka	17,759,218	18,598,281	(4.5)	(839,063)
7	10	Jameson Irish	Irish whiskey	17,555,255	15,493,731	13.3	2,061,524
8	9	Patron Silver	tequila	17,376,814	15,550,179	11.7	1,826,635
9	7	Crown Royal	Canadian whisky	17,315,036	17,288,992	0.2	26,044
10	8	Grey Goose	imported vodka	15,115,380	15,787,612	(4.3)	(672,232)
11	11	Maker's Mark	straight bourbon	15,114,073	14,408,186	4.9	705,887
12	12	Absolut	imported vodka	13,324,629	13,948,563	(4.5)	(623,934)
13	13	Bacardi Superior	rum	12,421,808	12,210,919	1.7	210,889
14	14	Captain Morgan's Spiced	rum	10,744,098	11,049,572	(2.8)	(305,474)
15	16	Pinnacle	imported vodka	9,978,426	9,540,675	4.6	437,751
16	15	Aristocrat	domestic vodka	9,812,287	10,635,240	(7.7)	(822,953)
17	18	Woodford Reserve	straight bourbon	9,481,344	7,672,936	23.6	1,808,408
18	17	Jose Cuervo Especial Gold	tequila	9,332,509	9,237,385	1.0	95,124
19	19	Crown Royal Regal Apple	Canadian whisky	8,902,422	7,629,693	16.7	1,272,729
20	21	Ketel One	imported vodka	7,876,741	7,367,060	6.9	509,681
21	20	Evan Williams Black	straight bourbon	7,485,922	7,448,582	0.5	37,340
22	22	Jägermeister	cordials	7,463,571	7,307,268	2.1	156,303
23	23	Tanqueray	imported gin	6,972,434	6,912,915	0.9	59,519
24	26	Skyv	domestic vodka	6,382,617	6,265,928	1.9	116,689
25	25	Burnett's	domestic vodka	6,311,249	6,339,566	(0.4)	(28,317)
26	24	Bowman's Virginia	domestic vodka	6,196,657	6,352,387	(2.5)	(155,730)
27	30	Malibu Coconut	rum	6,107,605	5,679,558	7.5	428,047
28	33	Svedka	imported vodka	6,075,901	5,301,691	14.6	774,210
29	27	Bailey's Original Irish Cream	cordials	6,069,159	5,849,834	3.7	219,325
30	34	1800 Silver	tequila	5,837,349	5,106,368	14.3	730,981
31	31	Paul Masson Grande Amber VS	brandy	5,833,822	5,589,993	4.4	243,829
32	28	Seagram's Extra Dry	domestic gin	5,610,248	5,749,065	(2.4)	(138,817)
33	29	Johnnie Walker Black	Scotch Whiskey	5,544,111	5,738,718	(3.4)	(194,607)
34	32	Bombay Sapphire	imported gin	5,465,633	5,312,067	2.9	153,566
35	39	Bulleit	straight bourbon	5,174,148	4,579,824	13.0	594,324
36	37	Grand Marnier Cordon Rouge	cordials	5,110,414	4,995,295	2.3	115,119
37	38	New Amsterdam	domestic vodka	5,018,243	4,691,471	7.0	326,772
38	35	Evan Williams Green	straight bourbon	4,965,145	5,087,019	(2.4)	(121,874)
39	36	Wild Turkey 101	straight bourbon	4,885,281	5,064,772	(3.5)	(179,491)
40	43	Courvoisier VS	cognac\armagnac	4,672,620	3,948,004	18.4	724,616
41	40	Dewar's White Label	Scotch whiskey	4,487,173	4,573,086	(1.9)	(85,913)
42	46	Gentleman Jack	Tennessee whiskey	4,191,018	3,815,336	9.8	375,682
43	42	Bacardi Gold	rum	4,078,412	4,108,161	(0.7)	(29,749)
44	44	Knob Creek	straight bourbon	3,977,446	3,917,327	1.5	60,119
45	41	Canadian Mist	Canadian whisky	3,952,832	4,145,979	(4.7)	(193,147)
46	49	Jack Daniel's Tennessee Honey	cordials	3,897,177	3,463,304	12.5	433,873
47	45	E & J VS	brandy	3,886,960	3,894,355	(0.2)	(7,395)
48	—	Belvedere	imported vodka	3,732,937	3,399,726	9.8	333,211
49	48	Kahlua Coffee	cordials	3,694,980	3,595,548	2.8	99,432
50	—	Basil Hayden's	straight bourbon	3,693,540	2,883,579	28.1	809,961

This table is based on fiscal year 2019 dollars and previous years' sales for these items. A dash (—) indicates items not included in the "Top 50 Brands" last year.

COMPARISON OF PRODUCTS SOLD/MARKET SHARE

FISCAL YEAR 2019 VS. FISCAL YEAR 2018



PRODUCTS	CASES SOLD		CHANGE	MARKET SHARE (%)	
	FY 19	FY 18	(%)	FY 19	FY 18
Vodka	1,556,615	1,505,294	3.4	29.3	30.1
Domestic	855,284	823,756	3.8		
Imported	363,835	355,140	2.4		
Flavored	337,496	326,398	3.4		
Straight Bourbon Whiskey	625,562	578,328	8.2	11.8	11.6
Cordials-Liqueurs-Specialties	517,337	488,640	5.9	9.7	9.8
Imported	331,695	314,610	5.4		
Domestic	185,642	174,030	6.7		
Rum	465,274	464,811	0.1	8.8	9.3
Domestic	26,818	25,955	3.3		
Imported	438,456	438,855	(0.1)		
Tequila	398,587	353,493	12.8	7.5	7.1
Gin	237,108	234,097	1.3	4.5	4.7
Domestic	134,651	137,315	(1.9)		
Imported	90,512	84,557	7.0		
Flavored	11,567	11,805	(2.0)		
Sloe	378	420	(9.9)		
Canadian Whisky	194,789	187,912	3.7	3.7	3.8
Brandy	161,568	161,060	0.3	3.0	3.2
Grape	118,775	118,082	0.6		
Imported	7,253	7,035	3.1		
Flavored	35,540	35,943	(1.1)		
Scotch Whiskey	159,248	149,585	6.5	3.0	3.0
Cognac\Armagnac	168,753	121,746	38.6	3.2	2.4
Tennessee Whiskey	116,350	112,392	3.5	2.2	2.2
Blended Whiskey	111,572	101,123	10.3	2.1	2.0
Cocktails	113,125	97,273	16.3	2.1	1.9
Domestic	71,435	61,056	17.0		
Imported	41,690	36,217	15.1		
Irish Whiskey	71,192	62,282	14.3	1.3	1.2
Domestic Whiskey	57,617	56,801	1.4	1.1	1.1
Specialty Bottles	51,732	45,534	13.6	1.0	0.9
Imported	31,760	29,448	7.9		
Domestic	19,973	16,086	24.2		
Moonshine (1)	39,811	34,585	15.1	0.7	0.7
Straight Rye Whiskey	39,986	32,505	23.0	0.8	0.6
Egg Nog	22,972	20,034	14.7	0.4	0.4
Rock & Rye	2,368	2,236	5.9	0.0	0.0
Alcohol(2)	1,250	1,227	1.8	0.0	0.0
Bottled in Bond Whiskey	629	561	12.1	0.0	0.0
Corn Whiskey	489	408	20.0	0.0	0.0
Vermouth	22,681	21,903	3.5	0.4	0.4
Virginia Wine	14,936	14,480	3.1	0.3	0.3
Non-Alcoholic Mixers	134,259	128,533	4.5	2.5	2.6
Non Beverage Item	27,587	29,272	(5.8)	0.5	0.6
Statewide totals*	5,313,398	5,006,115	6.1	100.0	100.0

(1) Moonshine is now reported separate from the Corn Whiskey category. (2) Grain alcohol 151 proof available for sale in select ABC stores.

* Excludes miscellaneous records and confiscated items. Source: Research and Planning

ANALYSIS OF STORE PERFORMANCE • FISCAL YEAR 2019

ABC Stores by Planning District	Locality	Gallons Sold	Gross Sales (1)	Spirits & Wine Taxes (2)	Net Sales	Cost of Goods Sold	Gross Profit	Store Expenses (3)	Net Store Profit	Allocation of General & Administrative Expenses	Adjusted Net Profit	Rate of Return to Virginia (4)
Statewide Totals		12,683,214	\$1,046,843,614	\$170,361,457	\$876,482,157	\$499,780,997	\$376,701,161	\$117,216,887	\$259,484,274	\$59,386,090	\$200,098,184	35.39%
137 674 Hwy. 58 E.	Norton City	22,666	1,547,817	253,814	1,294,003	736,990	557,014	234,758	322,255	87,675	234,580	31.55
19416427-E Wise St.	Wise Co.	7,469	495,731	81,441	414,289	235,523	178,766	177,748	1,018	28,070	(27,052)	10.97
206 18 E. 4th St. S.	Wise Co.	12,312	821,517	135,460	686,056	391,574	294,483	156,898	137,585	46,484	91,101	27.58
218 3982 Hwy. 23 N.	Scott Co.	9,688	617,417	100,862	516,555	293,110	223,444	114,469	108,976	34,999	73,977	28.32
Far Southwest		52,135	3,482,482	571,579	2,910,903	1,657,197	1,253,707	683,872	569,834	197,228	372,606	27.11
87 4027 College Ave.	Tazewell Co.	26,116	1,896,614	311,242	1,585,372	905,140	680,232	290,752	389,480	107,417	282,063	31.28
174 One Plz. Dr.	Buchanan Co.	10,761	753,061	123,678	629,383	358,795	270,588	127,467	143,121	42,644	100,477	29.77
197 149 Clay Dr.	Tazewell Co.	18,267	1,286,640	210,219	1,076,421	613,914	462,507	217,551	244,956	72,933	172,023	29.71
230 722 E. Riverside Dr.	Tazewell Co.	8,359	579,863	95,186	484,676	276,219	208,457	121,040	87,417	32,839	54,578	25.83
365 340 Chase St.	Dickenson Co.	7,567	503,108	82,602	420,506	239,087	181,419	125,559	55,860	28,491	27,368	21.86
427 167 Pittston Rd.	Russell Co.	10,031	717,990	117,904	600,086	340,941	259,145	177,330	81,815	40,659	41,156	22.15
Southwest		81,101	5,737,276	940,832	4,796,444	2,734,097	2,062,347	1,059,699	1,002,648	324,983	677,665	28.21
58 3002 Lee Hwy.	Bristol City	28,667	2,121,151	347,339	1,773,811	1,010,440	763,371	289,558	473,813	120,185	353,629	33.05
96 974 E. Stuart Dr.	Galax City	26,790	1,739,960	284,641	1,455,319	827,901	627,418	252,482	374,936	98,605	276,331	32.24
135 1173-1177 N. Main St.	Smyth Co.	25,522	1,714,872	281,635	1,433,237	815,770	617,467	215,354	402,113	97,109	305,004	34.21
141 441 W. Stuart Dr.	Carroll Co.	17,661	1,154,946	189,029	965,917	549,593	416,324	178,658	237,666	65,446	172,220	31.28
153 325 W. Main St.	Wythe Co.	29,616	2,085,092	338,618	1,746,474	993,795	752,679	246,585	506,094	118,332	387,762	34.84
201 545 W. Main St.	Washington Co.	46,249	3,477,692	569,337	2,908,354	1,659,245	1,249,109	240,896	1,008,213	197,056	811,158	39.70
343 2123 Euclid Ave.	Bristol City	25,269	1,667,271	272,923	1,394,348	791,904	602,444	206,325	396,119	94,474	301,645	34.46
Wytheville/Hillsville		199,775	13,960,983	2,283,522	11,677,461	6,648,647	5,028,814	1,629,859	3,398,955	791,207	2,607,748	35.04
67 290 Peppers Ferry Rd.	Montgomery Co.	34,490	2,613,357	425,947	2,187,410	1,244,769	942,641	365,858	576,783	148,208	428,575	32.70
195 100 N. Franklin St.	Montgomery Co.	27,615	1,891,940	310,197	1,581,743	900,214	681,529	193,327	488,202	107,171	381,031	36.54
199 140 Kinter Way	Giles Co.	18,192	1,175,633	192,662	982,971	559,542	423,429	165,727	257,702	66,601	191,100	32.64
327 1332 S. Main St.	Montgomery Co.	67,384	4,639,040	760,345	3,878,696	2,212,400	1,666,296	419,055	1,247,241	262,801	984,439	37.61
345 5265 Alexander Rd.	Pulaski Co.	30,646	2,235,677	362,586	1,873,090	1,067,398	805,692	277,216	528,476	126,911	401,565	34.18
356 97 Walker St.	City of Radford	41,243	2,716,095	446,924	2,269,171	1,296,140	973,031	320,056	652,975	153,748	499,227	34.83
395 117 Parkview Rd. N.E.	Floyd Co.	14,270	1,004,770	164,192	840,578	479,405	361,173	128,234	232,939	56,953	195,986	33.86
414 765 University City Blvd.	Montgomery Co.	36,002	2,538,380	415,973	2,122,406	1,201,470	920,937	285,833	635,104	143,804	491,300	35.74
Radford/Blacksburg		269,842	18,814,892	3,078,827	15,736,066	8,961,339	6,774,727	2,155,306	4,619,421	1,066,198	3,553,223	35.25
115 1423 Williamson Rd., N.E.	Roanoke City	57,745	4,719,049	775,075	3,943,974	2,255,917	1,688,057	355,898	1,332,159	267,224	1,064,935	38.99
123 531 Main St.	Alleghany Co.	7,713	526,615	86,304	440,311	251,070	189,241	126,239	63,003	29,833	33,169	22.69
124 339 Thacker Ave.	Covington City	18,920	1,373,593	224,902	1,148,691	655,804	492,887	277,246	215,641	77,830	137,811	26.41
186 1483 W. Main St.	Salem City	53,035	3,812,465	624,375	3,188,090	1,813,703	1,374,387	312,562	1,061,825	216,009	845,816	38.56
229 3940 Valley Gateway Blvd.	Roanoke Co.	27,132	1,948,118	317,888	1,630,230	923,956	706,274	247,850	458,425	110,456	347,968	34.18
259 5050-C Rutgers St.	Roanoke City	60,311	4,573,719	748,966	3,824,753	2,179,081	1,645,671	418,848	1,226,824	259,146	967,677	37.53
269 646 Brandon Ave.	Roanoke City	77,802	6,353,811	1,019,916	5,333,896	3,027,425	2,306,470	551,334	1,755,136	361,398	1,393,738	37.99
289 3341 Melrose Ave., N.W.	Roanoke City	39,105	3,226,590	528,573	2,698,017	1,533,286	1,164,731	295,426	869,305	182,804	686,500	37.66
309 3901 Brambleton Ave., S.W.	Roanoke Co.	61,331	4,621,196	750,407	3,870,789	2,198,783	1,672,006	419,649	1,252,357	262,266	990,092	37.66
337 1113 Vinyard Rd.	Roanoke Co.	37,240	2,548,037	415,116	2,132,921	1,208,693	924,228	255,136	669,091	144,516	524,575	36.88
364 56 Kingston Dr.	Botetourt Co.	29,864	2,219,341	361,174	1,858,167	1,055,746	802,422	294,198	508,223	125,900	382,323	33.50
Roanoke		470,199	35,922,534	5,852,696	30,069,838	17,103,464	12,966,374	3,554,387	9,411,987	2,037,383	7,374,604	36.82
57 1028 Richmond Ave.	Staunton City	24,255	1,829,941	298,058	1,531,883	872,727	659,156	261,650	397,507	103,793	293,714	32.34
68 2196 John Wayland Hwy.	Rockingham Co.	31,272	2,206,661	360,005	1,846,656	1,052,175	794,481	247,612	546,869	125,120	421,748	35.43
113 2827 Main St.	Bath Co.	7,870	754,756	121,332	633,424	362,093	271,330	173,637	97,693	42,918	54,776	23.33

(1) Includes state taxes, but does not include 5% sales tax.

(2) State taxes on distilled spirits (20%) and wine (4%) sold in ABC stores.

(3) Store expenses include miscellaneous revenue and net cash overages.

(4) "Rate of return" = (adjusted net profit + state taxes) ÷ gross sales

(continued)

ANALYSIS OF STORE PERFORMANCE • FISCAL YEAR 2019

ABC Stores by Planning District	Locality	Gallons Sold	Gross Sales (1)	Spirits & Wine Taxes (2)	Net Sales	Cost of Goods Sold	Gross Profit	Store Expenses (3)	Net Store Profit	Allocation of General & Administrative Expenses	Adjusted Net Profit	Rate of Return to Virginia (4)	
122	201 State St.	Staunton City	34,920	2,703,643	440,849	2,262,794	1,291,806	970,987	231,453	739,534	153,316	586,218	37.99
140	445 E. Nelson St.	Lexington City	45,051	3,265,367	531,299	2,734,068	1,561,362	1,172,705	302,495	870,211	185,247	684,964	37.25
145	398 N. Main St.	Harrisonburg City	41,498	3,131,386	510,750	2,620,636	1,496,634	1,124,002	231,564	892,438	177,561	714,877	39.14
147	58 Water St.	Highland Co.	2,675	183,732	29,520	154,212	85,421	68,790	77,885	(9,095)	10,449	(19,543)	5.43
173	130 Downey Knolls Dr.	Rockingham Co.	17,905	1,309,847	213,043	1,096,805	624,728	472,077	197,272	274,805	74,314	200,490	31.57
184	2035 E. Market St.	Harrisonburg City	55,675	4,462,036	727,183	3,734,854	2,133,005	1,601,849	467,556	1,134,292	253,055	881,237	36.05
296	32 Windward Dr.	Augusta Co.	13,143	949,098	154,811	794,287	452,154	342,134	165,887	176,247	53,817	122,430	29.21
338	125 Lucy Lane	Waynesboro City	45,822	3,425,846	562,515	2,863,332	1,640,070	1,223,262	323,205	900,057	194,005	706,051	37.03
339	208 Laurel Hill Rd.	Augusta Co.	18,518	1,278,935	209,427	1,069,508	611,194	458,314	155,387	302,927	72,465	230,462	34.39
383	1037 Port Republic Rd.	Harrisonburg City	32,229	2,172,350	356,159	1,816,192	1,033,377	782,814	267,578	515,236	123,056	392,180	34.45
386	2576 Stuarts Draft Hwy.	Augusta Co.	17,163	1,217,843	198,823	1,019,020	579,271	439,748	169,279	270,469	69,044	201,426	32.87
396	12130 E. Lynchburg Salem Tpk.	Bedford Co.	9,517	754,056	123,081	630,975	358,118	272,857	123,851	149,000	42,752	106,254	30.41
411	85 Augusta Ave.	Augusta Co.	9,432	671,108	109,347	561,761	319,562	242,199	131,333	110,866	38,062	72,804	27.14
	Staunton/Waynesboro		406,943	30,316,606	4,946,201	25,370,405	14,473,698	10,896,707	3,527,645	7,369,061	1,718,973	5,650,088	34.95
47	380 Gateway Dr.	Frederick Co.	34,896	2,799,577	456,119	2,343,459	1,334,361	1,009,097	301,876	707,221	158,781	548,440	35.88
52	786 Shopping Ctr. Rd.	Shenandoah Co.	16,445	1,155,219	189,106	966,113	550,379	415,734	165,256	250,478	65,459	185,019	32.39
56	182 Delco Plz.	Frederick Co.	26,114	2,054,287	334,872	1,719,415	981,082	738,334	260,639	477,695	116,499	361,196	33.88
75	240 Elizabeth Dr.	Frederick Co.	29,026	2,276,795	368,493	1,908,302	1,097,200	811,102	261,352	549,750	129,297	420,453	34.65
139	160 Rivendell Ct.	Frederick Co.	46,758	3,534,164	577,665	2,956,499	1,689,126	1,267,374	300,717	966,657	200,318	766,339	38.03
142	411-F South St.	Warren Co.	42,033	3,102,845	506,702	2,596,143	1,487,481	1,108,663	293,320	815,343	175,902	639,441	36.94
167	21 Crow St.	Clarke Co.	18,730	1,453,845	236,661	1,217,183	693,496	523,687	205,906	317,781	82,470	235,311	32.46
193	1412 US Hwy. 211 W.	Page Co.	21,241	1,498,719	243,824	1,254,894	714,399	540,495	188,517	351,978	85,025	266,953	34.08
261	3 W. Jubal Early Dr.	Winchester City	46,845	3,642,551	593,074	3,049,478	1,741,506	1,307,972	318,861	989,111	206,617	782,493	37.76
293	5814 Main St.	Shenandoah Co.	14,579	1,003,149	164,174	838,975	477,145	361,830	150,173	211,657	56,845	154,812	31.80
318	1015 S. Main St.	Shenandoah Co.	23,504	1,669,016	272,211	1,396,805	796,672	600,133	212,995	387,138	94,641	292,497	33.83
387	135 Crooked Run Plz.	Warren Co.	27,274	2,118,369	344,842	1,773,526	1,012,347	761,179	276,668	484,511	120,165	364,346	33.48
	Winchester/Front Royal		347,444	26,308,536	4,287,743	22,020,793	12,575,194	9,445,599	2,936,280	6,509,319	1,492,020	5,017,299	35.37
33	12631 Galveston Ct.	Prince William Co.	27,708	2,510,485	408,908	2,101,577	1,198,990	902,587	413,431	489,156	142,392	346,763	30.10
36	8038/8044 Crescent Park Dr.	Prince William Co.	28,253	2,545,922	414,305	2,131,618	1,219,447	912,170	350,454	561,716	144,428	417,288	32.66
39	10410 Bristow Ctr. Dr.	Prince William Co.	36,033	3,200,760	521,741	2,679,019	1,530,348	1,148,671	389,595	759,076	181,517	577,559	34.34
40	22000 Dulles Retail Plz.	Loudoun Co.	25,316	2,727,840	443,893	2,283,947	1,308,645	975,302	384,080	591,222	154,749	436,473	32.27
41	12950 Highland Crossing Dr.	Fairfax Co.	21,674	2,351,771	380,389	1,971,381	1,124,223	847,159	416,243	430,915	133,571	297,344	28.82
42	7469/7471 Richmond Hwy.	Fairfax Co.	28,867	2,484,743	406,661	2,078,081	1,186,303	891,779	362,698	529,080	140,800	388,280	31.99
49	881 N. Quincy St.	Arlington Co.	42,690	4,310,932	694,676	3,616,256	2,068,745	1,547,511	535,017	1,012,495	245,020	767,475	33.92
54	42015 Village Ctr. Plz.	Loudoun Co.	27,836	2,831,594	457,251	2,374,343	1,352,355	1,021,988	387,074	634,914	160,874	474,040	32.89
55	9934 Liberia Ave.	Manassas City	52,290	4,671,508	758,563	3,912,945	2,235,798	1,677,147	468,181	1,208,966	265,122	943,844	36.44
61	22330 S. Sterling Blvd.	Loudoun Co.	27,040	2,448,468	402,055	2,046,414	1,171,156	875,258	412,885	462,372	138,655	323,717	29.64
63	8951 Ox Rd.	Fairfax Co.	20,297	1,902,977	308,698	1,594,280	911,405	682,874	239,158	443,716	108,020	335,696	33.86
73	43150 Broadlands Ctr. Plz.	Loudoun Co.	35,724	3,480,540	564,868	2,915,673	1,665,597	1,250,075	408,893	841,182	197,552	643,631	34.72
76	7121 Leesburg Pike	Falls Church City	27,720	2,761,827	440,744	2,321,082	1,315,287	1,005,795	458,447	547,348	157,265	390,083	30.08
78	5331 Merchants View Sq.	Prince William Co.	26,883	2,504,689	406,977	2,097,713	1,198,608	899,104	318,563	580,542	142,131	438,411	33.75
80	6206 Little River Tnpk.	Fairfax Co.	29,529	2,773,970	453,877	2,320,093	1,324,462	995,631	400,203	595,428	157,198	438,230	32.16
82	46930 Cedar Lakes Plz.	Loudoun Co.	54,075	5,381,582	869,254	4,512,327	2,585,005	1,927,322	519,453	1,407,869	305,733	1,102,136	36.63
83	7263-B Arlington Blvd.	Fairfax Co.	18,085	1,728,260	281,064	1,447,196	825,683	621,513	309,157	312,356	98,055	214,301	28.66
84	3903 Fair Ridge Dr.	Fairfax Co.	20,891	2,088,824	336,225	1,752,598	995,291	757,308	311,553	445,755	118,747	327,008	31.75
85	2930 Chain Bridge Rd.	Fairfax Co.	29,552	2,769,408	447,525	2,321,883	1,323,925	997,958	429,516	568,442	157,319	411,123	31.00
90	12965 Fair Lakes Shp. Ctr.	Fairfax Co.	43,329	4,095,761	657,467	3,438,294	1,956,740	1,481,554	410,480	1,071,074	232,962	838,112	36.52
93	6124 Rose Hill Dr.	Fairfax Co.	24,903	2,214,107	360,758	1,853,349	1,057,808	795,541	297,604	497,937	125,574	372,364	33.11
94	42385 Ryan Rd.	Loudoun Co.	23,296	2,551,067	413,159	2,137,908	1,217,519	920,389	329,908	590,481	144,854	445,627	33.66

(1) Includes state taxes, but does not include 5% sales tax.

(2) State taxes on distilled spirits (20%) and wine (4%) sold in ABC stores.

(3) Store expenses include miscellaneous revenue and net cash overages.

(4) "Rate of return" = (adjusted net profit + state taxes) ÷ gross sales

(continued)

ANALYSIS OF STORE PERFORMANCE • FISCAL YEAR 2019

ABC Stores by Planning District	Locality	Gallons Sold	Gross Sales (1)	Spirits & Wine Taxes (2)	Net Sales	Cost of Goods Sold	Gross Profit	Store Expenses (3)	Net Store Profit	Allocation of General & Administrative Expenses	Adjusted Net Profit	Rate of Return to Virginia (4)	
99	601 Post Dr.	Fairfax Co.	44,119	4,317,444	704,901	3,612,543	2,069,894	1,542,649	497,314	1,045,335	244,768	800,567	34.87
109	1922 Wilson Blvd.	Arlington Co.	40,623	4,021,884	645,431	3,376,453	1,928,917	1,447,536	470,761	976,775	228,772	748,004	34.65
111	5722 Union Mill Rd.	Fairfax Co.	39,781	3,493,357	561,167	2,932,190	1,656,889	1,275,301	437,279	838,022	198,671	639,351	34.37
120	5926 Kingstowne Ctr.	Fairfax Co.	39,918	3,979,172	647,273	3,331,899	1,880,446	1,451,453	452,129	999,324	225,753	773,571	35.71
127	13300-C Franklin Farm Rd.	Fairfax Co.	17,963	1,772,565	286,201	1,486,364	844,754	641,609	287,669	353,941	100,709	253,232	30.43
131	6920-E Bradlick Shp. Ctr.	Fairfax Co.	25,190	2,315,616	377,118	1,938,498	1,103,795	834,702	345,323	489,380	131,343	358,037	31.75
133	9130 Mathis Ave.	Manassas City	40,783	3,628,849	590,827	3,038,022	1,735,383	1,302,640	437,697	864,943	205,841	659,102	34.44
136	18 Fairfax St., S.E.	Loudoun Co.	50,321	4,578,787	748,896	3,829,891	2,197,814	1,632,077	450,516	1,181,561	259,494	922,067	36.49
166	506A Fort Evans Rd. N.E.	Loudoun Co.	57,729	5,679,192	916,798	4,762,394	2,716,248	2,046,146	549,924	1,496,222	322,676	1,173,546	36.81
168	1001 N. Fillmore St.	Arlington Co.	24,524	2,475,822	397,859	2,077,963	1,185,550	892,413	381,610	510,803	140,792	370,011	31.01
170	1238 Elden St.	Fairfax Co.	33,554	3,347,810	546,017	2,801,794	1,608,073	1,193,721	400,052	793,669	189,836	603,834	34.35
181	106 Washington St.	Loudoun Co.	10,444	1,180,879	190,246	990,634	569,106	421,528	182,750	278,778	67,120	211,658	34.03
203	3678 King St.	Alexandria City	42,222	4,308,828	693,907	3,614,921	2,062,161	1,552,760	469,358	1,083,402	244,929	838,473	35.56
208	44110 Ashburn Village Blvd	Loudoun Co.	30,086	2,906,979	471,956	2,435,023	1,389,803	1,045,220	373,154	672,067	164,985	507,082	33.68
210	11160-A S. Lakes Dr.	Fairfax Co.	28,156	2,823,984	459,011	2,364,973	1,350,490	1,014,482	370,598	643,885	160,239	483,646	33.38
212	167 Hillwood Ave.	Falls Church City	21,870	2,019,988	326,213	1,693,775	965,836	727,939	254,497	473,442	114,762	358,680	33.91
215	320 23rd St. S.	Arlington Co.	39,900	4,042,138	652,383	3,389,756	1,942,863	1,446,892	435,487	1,011,406	229,673	781,733	35.48
219	8413 Old Courthouse Rd.	Fairfax Co.	76,975	8,607,945	1,343,035	7,264,911	4,137,642	3,127,268	867,950	2,259,318	492,234	1,767,084	36.13
224	13944 Lee Jackson Hwy.	Fairfax Co.	38,223	3,528,296	565,751	2,962,545	1,685,701	1,276,844	428,167	848,677	200,727	647,949	34.40
228	1524 Belle View Blvd.	Fairfax Co.	57,585	5,732,066	930,820	4,801,245	2,756,355	2,044,890	499,382	1,545,508	325,309	1,220,199	37.53
231	436 E. Maple Ave.	Fairfax Co.	36,283	3,860,850	611,508	3,249,343	1,852,686	1,396,657	542,207	854,450	220,159	634,290	32.27
234	9574-76 Old Keene Mill Rd.	Fairfax Co.	38,813	3,500,732	569,846	2,930,887	1,669,084	1,261,803	421,523	840,279	198,582	641,697	34.61
235	8628-B Richmond Hwy.	Fairfax Co.	35,837	3,110,815	507,848	2,602,967	1,489,603	1,113,364	402,418	710,947	176,364	534,582	33.51
236	7200 Little River Tnpk.	Fairfax Co.	44,297	3,940,119	647,004	3,293,115	1,876,089	1,417,025	346,247	1,070,778	223,125	847,653	37.93
241	11260 James Swart Cir.	Fairfax Co.	30,346	3,001,069	480,870	2,520,199	1,439,823	1,080,375	376,393	703,982	170,756	533,226	33.79
248	4709-B Lee Hwy.	Arlington Co.	42,673	3,859,164	624,107	3,235,057	1,849,094	1,385,964	545,903	840,060	219,191	620,869	32.26
260	6284 Arlington Blvd.	Fairfax Co.	23,646	2,322,782	375,579	1,947,203	1,113,644	833,559	320,348	513,210	131,933	381,277	32.58
264	16661 River Ridge Blvd.	Prince William Co.	44,783	4,257,496	697,143	3,560,353	2,036,739	1,523,614	455,303	1,068,312	241,232	827,080	35.80
267	1445B Chain Bridge Rd.	Fairfax Co.	53,676	6,042,135	964,968	5,077,167	2,894,385	2,182,782	693,154	1,489,628	344,004	1,145,624	34.93
268	6400 Springfield Plz.	Fairfax Co.	70,308	6,712,402	1,093,428	5,618,974	3,213,251	2,405,723	658,904	1,746,819	380,714	1,366,105	36.64
271	13991 Jefferson Davis Hwy.	Prince William Co.	52,546	5,128,799	838,146	4,290,653	2,453,594	1,837,059	503,290	1,333,770	290,713	1,043,056	36.68
273	9421 Lorton Market St.	Fairfax Co.	32,992	2,995,714	487,351	2,508,363	1,430,729	1,077,634	345,196	732,438	169,954	562,484	35.04
286	7555 Linton Hall Rd.	Prince William Co.	59,177	5,619,758	914,446	4,705,313	2,690,817	2,014,496	536,143	1,478,352	318,809	1,159,544	36.91
294	3556E S. Jefferson St.	Fairfax Co.	52,272	5,262,149	857,995	4,404,153	2,527,149	1,877,004	633,506	1,243,498	298,404	945,094	34.27
295	8095 Sudley Rd.	Prince William Co.	58,497	5,301,409	867,647	4,433,762	2,538,860	1,894,902	620,549	1,274,353	300,410	973,943	34.74
301	4292 Merchants Plz.	Prince William Co.	40,792	3,752,289	605,915	3,146,374	1,795,692	1,350,682	471,605	879,077	213,183	665,894	33.89
316	4108 Fortuna Ctr. Plz.	Prince William Co.	37,729	3,452,665	561,271	2,891,395	1,649,234	1,242,160	419,484	822,676	195,907	626,769	34.41
317	9600E Main St.	Fairfax City	27,648	2,527,729	410,709	2,117,020	1,210,292	906,728	410,592	496,136	143,439	352,697	30.20
319	2507 N. Harrison St.	Arlington Co.	23,494	2,382,196	385,067	1,997,129	1,141,290	855,839	343,070	512,769	135,316	377,454	32.01
322	14151 St. Germain Dr.	Fairfax Co.	45,596	4,007,616	646,566	3,361,050	1,910,527	1,450,523	500,846	949,677	227,728	721,949	34.15
323	201 N. Maple St	Loudoun Co.	44,842	4,133,702	664,613	3,469,089	1,974,109	1,494,980	386,754	1,108,226	235,048	873,178	37.20
346	8105 Lee Hwy.	Fairfax Co.	45,665	4,469,553	727,809	3,741,744	2,142,414	1,599,330	515,755	1,083,575	253,522	830,053	34.85
352	2555 John Milton Dr.	Fairfax Co.	24,375	2,342,355	380,675	1,961,680	1,102,592	859,088	341,833	517,254	132,914	384,341	32.66
353	4255 Cheshire Plz.	Prince William Co.	65,821	5,852,683	946,616	4,906,067	2,802,349	2,103,717	677,148	1,426,569	332,411	1,094,158	34.87
357	1454 N. Point Village Shp. Cntr	Fairfax Co.	43,567	4,500,065	725,609	3,774,457	2,150,661	1,623,796	477,281	1,146,515	255,738	890,776	35.92
362	100 Edds Lane	Loudoun Co.	35,936	3,160,672	512,991	2,647,681	1,516,766	1,130,915	488,210	642,706	179,394	463,312	30.89
367	20070 Ashbrook Commons Plz.	Loudoun Co.	30,164	3,199,025	520,084	2,678,940	1,534,636	1,144,304	376,572	767,732	181,512	586,220	34.58
368	10308 Willard Way	Fairfax City	19,919	1,713,743	278,825	1,434,917	819,683	615,235	315,971	299,264	97,223	202,041	28.06
369	6343A Columbia Pike	Fairfax Co.	25,150	2,294,858	374,161	1,920,696	1,091,745	828,951	317,535	511,417	130,137	381,280	32.92
371	5739 Burke Centre Pkwy.	Fairfax Co.	26,885	2,510,511	408,616	2,101,895	1,200,167	901,728	299,786	601,942	142,414	459,528	34.58
372	3161 Duke St.	Alexandria City	30,282	2,965,094	483,591	2,481,503	1,423,015	1,058,488	356,899	701,589	168,134	533,455	34.30

(1) Includes state taxes, but does not include 5% sales tax.

(2) State taxes on distilled spirits (20%) and wine (4%) sold in ABC stores.

(3) Store expenses include miscellaneous revenue and net cash overages.

(4) "Rate of return" = (adjusted net profit + state taxes) ÷ gross sales

(continued)

ANALYSIS OF STORE PERFORMANCE • FISCAL YEAR 2019

ABC Stores by Planning District	Locality	Gallons Sold	Gross Sales (1)	Spirits & Wine Taxes (2)	Net Sales	Cost of Goods Sold	Gross Profit	Store Expenses (3)	Net Store Profit	Allocation of General & Administrative Expenses	Adjusted Net Profit	Rate of Return to Virginia (4)	
374	2955A S. Glebe Rd.	Arlington Co.	53,924	5,361,529	876,197	4,485,332	2,576,235	1,909,098	513,982	1,395,116	303,904	1,091,212	36.69
375	2225 Old Bridge Rd.	Prince William Co.	27,561	2,461,261	401,995	2,059,266	1,175,831	883,434	298,050	585,385	139,526	445,859	34.45
378	2940 Columbia Pike	Arlington Co.	26,653	2,598,843	423,304	2,175,538	1,244,457	931,082	388,149	542,933	147,404	395,529	31.51
380	Del Ray N. Shp. Ctr.	Alexandria City	19,541	1,839,397	300,996	1,538,401	878,938	659,463	375,953	283,510	104,234	179,275	26.11
384	5109 Westfields Blvd.	Fairfax Co.	30,549	2,835,547	453,639	2,381,908	1,354,287	1,027,621	380,433	647,188	161,386	485,802	33.13
385	9575 Braddock Rd.	Fairfax Co.	21,002	1,808,817	293,991	1,514,826	860,685	654,141	293,440	360,701	102,637	258,064	30.52
388	8150 Leesburg Pike	Fairfax Co.	10,644	1,646,081	256,329	1,389,752	784,342	605,411	251,884	353,527	94,163	259,364	31.33
393	10685 Braddock Rd.	Fairfax Co.	20,942	1,788,783	290,964	1,497,819	854,676	643,143	310,878	332,265	101,485	230,780	29.17
397	4349 Duke St.	Alexandria City	97,636	9,870,168	1,571,980	8,298,188	4,727,797	3,570,391	756,115	2,814,276	562,244	2,252,032	38.74
416	686 N. St. Asaph St.	Alexandria City	31,207	3,189,565	517,891	2,671,674	1,521,883	1,149,791	380,662	769,129	181,019	588,109	34.68
418	24570 Dulles Landing Dr.	Loudoun Co.	39,024	4,243,891	658,587	3,585,304	2,014,296	1,571,008	481,417	1,089,592	242,922	846,669	35.47
421	10140 Fairfax Blvd.	Fairfax Co.	14,105	1,305,386	211,378	1,094,009	621,181	472,828	327,958	144,869	74,125	70,745	21.61
424	44722 Brimfield Dr.	Loudoun Co.	16,314	1,782,627	287,550	1,495,077	851,867	643,210	319,606	323,603	101,299	222,304	28.60
425	5940 Richmond Hwy.	Alexandria City	7,623	734,232	119,051	615,181	350,219	264,962	172,741	92,221	41,682	50,540	23.10
445	Popul Dulles	Loudoun Co.	144	32,351	4,065	28,286	15,614	12,672	57,412	(44,739)	1,917	(46,656)	(131.66)
449	Popul Tysons	*Fairfax Co.	264	110,030	13,024	97,006	53,479	43,527	30,292	13,236	6,573	6,663	17.89
Northern Virginia			3,093,104	298,887,292	48,336,809	250,550,483	142,987,565	107,562,919	36,543,608	71,019,311	16,976,060	54,043,251	34.25
37	15149 Montanus Dr.	Culpeper Co.	36,037	2,795,320	454,033	2,341,287	1,338,701	1,002,587	284,806	717,781	158,634	559,147	36.25
51	265 Turkey Sag Trail	Fluvanna Co.	18,655	1,427,244	232,286	1,194,959	681,259	513,700	186,051	327,649	80,964	246,684	33.56
66	11083-E Marsh Rd.	Fauquier Co.	23,003	1,733,840	283,373	1,450,468	827,436	623,031	186,525	436,506	98,277	338,230	35.85
72	5390-A Lyndon Dr.	Orange Co.	33,244	2,482,962	403,369	2,079,592	1,186,729	892,863	257,522	635,342	140,903	494,439	36.16
88	4199-B Winchester Rd.	Fauquier Co.	20,584	1,781,497	290,652	1,490,845	854,110	636,735	227,548	409,187	101,012	308,174	33.61
163	583 N. Madison Rd	Orange Co.	18,936	1,392,594	227,686	1,164,907	661,584	503,323	189,743	313,580	78,928	234,652	33.20
227	200 S. Main St.	Orange Co.	9,187	656,475	106,820	549,655	312,661	236,994	95,683	141,312	37,242	104,070	32.12
274	28 Madison Plz. Dr.	Madison Co.	11,461	838,523	136,855	701,668	384,901	316,767	144,105	172,661	47,542	125,120	31.24
303	175 W. Lee Hwy.	Fauquier Co.	65,035	5,446,261	884,222	4,562,039	2,606,925	1,955,114	522,933	1,432,181	309,101	1,123,080	36.86
329	185 Southgate Shp. Ctr.	Culpeper Co.	29,850	2,279,309	370,877	1,908,432	1,088,577	819,855	236,405	583,451	129,306	454,145	36.20
Warrenton/Culpeper			265,993	20,834,026	3,390,173	17,443,853	9,942,883	7,500,970	2,331,321	5,169,649	1,181,909	3,987,740	35.41
46	183 Community St.	Albemarle Co.	24,656	2,163,899	350,138	1,813,761	1,034,724	779,037	264,137	514,900	122,891	392,009	34.30
50	325 Four Leaf Lane	Albemarle Co.	21,243	1,856,115	301,412	1,554,704	883,736	670,968	200,704	470,264	105,339	364,925	35.90
70	98 Stoneridge Dr. N.	Greene Co.	24,750	1,842,025	299,488	1,542,537	880,051	662,487	230,581	431,906	104,515	327,391	34.03
125	304 Pantops Ctr.	Albemarle Co.	36,623	2,992,336	486,903	2,505,433	1,428,477	1,076,956	287,074	789,882	169,756	620,127	37.00
126	2819 Rock Fish Valley Hwy.	Nelson Co.	10,960	912,398	146,176	766,222	437,840	328,382	131,213	197,170	51,915	145,254	31.94
138	502 E. Main St.	Louisa Co.	21,014	1,379,059	226,820	1,152,240	658,233	494,006	217,970	276,036	78,070	197,966	30.80
185	502 W. Main St.	Charlottesville City	41,227	3,614,934	580,618	3,034,316	1,726,720	1,307,596	293,716	1,013,880	205,590	808,289	38.42
189	138 Scottsville Village Sq.	Albemarle Co.	10,415	749,532	122,719	626,813	356,939	269,874	128,719	141,155	42,470	98,685	29.54
202	1902 Emmett St.	Charlottesville City	68,599	6,167,705	996,887	5,170,818	2,947,452	2,223,366	564,875	1,658,491	350,349	1,308,142	37.37
253	1169 Emmet St.	Charlottesville City	49,723	4,056,102	659,875	3,396,227	1,935,403	1,460,824	440,255	1,020,570	230,112	790,458	35.76
321	77 Callohill Dr.	Nelson Co.	12,171	868,811	142,270	726,541	414,500	312,041	182,904	129,137	49,227	79,910	25.57
359	1872 Rio Hill Ctr.	Albemarle Co.	27,935	2,258,147	368,054	1,890,093	1,078,855	811,238	278,427	532,811	128,063	404,747	34.22
376	11016 Kentucky Springs Rd.	Louisa Co.	25,280	1,905,863	309,839	1,596,024	911,775	684,249	210,927	473,322	108,139	365,183	35.42
392	415 Merchant Walk Sq.	Albemarle Co.	34,086	2,945,514	479,812	2,465,702	1,404,356	1,061,347	299,333	762,014	167,064	594,950	36.49
408	45 Market St.	Louisa Co.	25,505	2,013,074	324,606	1,688,469	959,106	729,362	276,221	453,141	114,402	338,739	32.95
Charlottesville			434,188	35,725,516	5,795,616	29,929,900	17,058,167	12,871,732	4,007,055	8,864,677	2,027,902	6,836,776	35.36
117	309 Twelfth St.	Lynchburg City	43,840	3,383,517	552,928	2,830,589	1,610,770	1,219,818	272,947	946,871	191,787	755,084	38.66
160	1128 E. Lynchburg Salem Tnpk.	Bedford Co.	24,373	1,672,837	273,641	1,399,196	797,375	601,821	240,293	361,528	94,803	266,726	32.30
176	Hwy. 501, 416 Lusardi Dr.	Campbell Co.	9,521	608,411	99,676	508,734	290,107	218,627	128,380	90,247	34,469	55,778	25.55
262	20401 Timberlake Rd.	Campbell Co.	40,999	2,960,677	484,603	2,476,074	1,409,103	1,066,971	280,135	786,836	167,767	619,070	37.28

(1) Includes state taxes, but does not include 5% sales tax.

(2) State taxes on distilled spirits (20%) and wine (4%) sold in ABC stores.

(3) Store expenses include miscellaneous revenue and net cash overages.

(4) "Rate of return" = (adjusted net profit + state taxes) ÷ gross sales

(continued)

ANALYSIS OF STORE PERFORMANCE • FISCAL YEAR 2019

ABC Stores by Planning District	Locality	Gallons Sold	Gross Sales (1)	Spirits & Wine Taxes (2)	Net Sales	Cost of Goods Sold	Gross Profit	Store Expenses (3)	Net Store Profit	Allocation of General & Administrative Expenses	Adjusted Net Profit	Rate of Return to Virginia (4)
320 1244 Richmond Rd.	Williamsburg City	47,317	4,102,625	663,000	3,439,625	1,966,093	1,473,532	420,360	1,053,172	233,052	820,120	36.15
335 801-F Merrimac Trail	York Co.	28,927	2,267,954	371,953	1,896,000	1,084,113	811,887	252,221	559,666	128,464	431,203	35.41
340 309-A Oyster Point Rd.	Newport News City	32,149	2,695,305	440,810	2,254,495	1,286,673	967,821	357,248	610,573	152,753	457,820	33.34
341 621 Stoney Creek Lane	Newport News City	50,626	4,318,782	708,874	3,609,908	2,064,458	1,545,450	448,648	1,096,802	244,589	852,212	36.15
342 10872 Warwick Blvd.	Newport News City	23,158	1,826,470	298,883	1,527,587	870,126	657,461	254,371	403,090	103,502	299,588	32.77
381 1480-3C Quarterpath Rd.	Williamsburg City	18,990	1,611,561	262,713	1,348,848	772,615	576,233	201,575	374,658	91,391	283,266	33.88
382 475 Wythe Creek Rd.	Poquoson City	23,974	1,811,380	294,466	1,516,914	863,325	653,589	236,418	417,170	102,779	314,392	33.61
417 201 Tradesman Way	York Co.	21,920	1,640,120	267,513	1,372,607	781,918	590,689	256,885	333,803	93,001	240,802	30.99
420 980 J Clyde Morris Blvd.	Newport News City	18,163	1,470,709	241,799	1,228,910	700,759	528,151	212,668	315,483	83,265	232,218	32.23
422 14272 Warwick Blvd.	Newport News City	42,346	3,420,675	561,902	2,858,772	1,633,444	1,225,329	342,466	882,862	193,696	689,166	36.57
Newport News/Hampton		894,656	73,265,676	11,982,829	61,282,847	35,005,194	26,277,652	8,027,760	18,249,892	4,152,222	14,097,670	35.60
156 22485 Lankford Hwy.	Northampton Co.	21,039	1,494,426	243,968	1,250,457	715,678	534,779	179,113	355,667	84,725	270,942	34.46
162 7017 & 7019 Lankford Hwy.	Accomack Co.	14,270	1,014,729	166,455	848,274	484,156	364,118	197,258	166,860	57,475	109,385	27.18
177 4371 Pension St.	Accomack Co.	13,556	953,874	154,715	799,159	457,121	342,039	120,541	221,498	54,147	167,351	33.76
223 4090-B Lankford Hwy.	Northampton Co.	15,329	970,915	159,766	811,149	463,185	347,964	165,608	182,357	54,959	127,397	29.58
344 25234 Lankford Hwy.	Accomack Co.	28,059	1,931,532	316,490	1,615,042	921,047	693,996	269,431	424,565	109,427	315,137	32.70
Eastern Shore		92,254	6,365,476	1,041,394	5,324,082	3,041,186	2,282,896	931,951	1,350,945	360,733	990,212	31.92
Statewide Totals		12,683,214	\$1,046,843,614	\$170,361,457	\$876,482,157	\$499,780,997	\$376,701,161	\$117,216,887	\$259,484,274	\$59,386,090	\$200,098,184	35.39%

(1) Includes state taxes, but does not include 5% sales tax.

(2) State taxes on distilled spirits (20%) and wine (4%) sold in ABC stores.

(3) Store expenses include miscellaneous revenue and net cash overages.

(4) "Rate of return" = (adjusted net profit + state taxes) ÷ gross sales

ANALYSIS OF DISTILLERY STORE PERFORMANCE • FISCAL YEAR 2019

ABC Distillery Stores	Gross Sales (1)	Spirits Taxes (2)	Net Sales	Cost of Goods Sold	Gross Profit	Commission	Case Handling Fee	Allocation of General & Administrative	Adjusted Net Profit	Rate of Return (3)
10 Three Brothers Distillery	14,336	2,390	11,946	7,064	4,882	1,147	108	809	2,818	36.33
11 Woods Mill Distillery	2,084	347	1,737	988	749	167	2	118	463	38.87
12 Belle Isle Craft Spirits	34,015	5,670	28,344	18,990	9,354	2,721	484	1,902	4,247	29.16
13 Vitae Spirits Distillery	121,836	20,310	101,526	59,467	42,059	9,747	502	6,879	24,931	37.13
14 Five Mile Mtn. Distillery	56,838	9,475	47,363	27,299	20,064	4,547	284	3,209	12,024	37.82
15 Copper Fox Wmsbg Distillery	293,277	48,889	244,388	143,444	100,944	23,462	1,524	16,559	59,400	36.92
16 Virginia Distillery	269,951	45,001	224,950	133,253	91,697	21,596	1,544	15,186	53,371	36.44
17 James River Distillery	25,151	4,193	20,958	12,060	8,899	2,012	106	1,420	5,360	37.98
18 Chesapeake Bay Distillery	237,382	39,572	197,811	117,036	80,775	18,991	1,518	13,403	46,864	36.41
19 Williamsburg Distillery	54,770	9,130	45,640	25,360	20,280	4,382	274	3,092	12,532	39.55
20 KO Distilling	235,098	39,191	195,907	118,707	77,199	18,808	1,024	13,274	44,094	35.43
21 Old House Vineyard Distiller	145,510	24,256	121,253	69,992	51,261	11,641	632	8,216	30,773	37.82
22 Reservoir Distillery	234,786	39,139	195,647	113,605	82,042	18,783	812	13,256	49,191	37.62
23 Murlarkey Distillery	331,184	55,208	275,976	160,974	115,001	26,495	1,954	18,697	67,856	37.16
24 Mount Defiance Distillery	135,372	22,566	112,805	66,146	46,659	10,830	974	7,643	27,212	36.77
25 River Hill Distillery	61,658	10,278	51,380	29,208	22,172	4,933	526	3,449	13,265	38.18
28 Silverback Spirits Distillery	509,368	84,912	424,456	245,879	178,577	40,749	3,246	28,759	105,823	37.45
29 Davis Valley Distillery	86,664	14,447	72,217	41,695	30,521	6,933	422	4,893	18,273	37.76
30 Copper Fox Distillery	405,110	67,532	337,578	196,965	140,613	32,409	1,770	22,873	83,561	37.30
31 Mt. Vernon Distillery	728,923	121,511	607,412	359,145	248,267	58,314	16,222	41,155	132,576	34.86
34 Belmont Farms Distillery	200,055	33,349	166,706	100,076	66,630	16,004	1,522	11,295	37,808	35.57
65 Catoctin Creek	361,010	60,180	300,829	175,460	125,369	28,881	2,358	20,424	73,706	37.09
91 Bowman Distillery Store	654,006	109,023	544,983	324,930	220,053	52,320	5,748	36,925	125,059	35.79
430 Springfield Distillery	82,969	13,831	69,138	39,588	29,550	6,638	412	4,684	17,816	38.14
431 Bondurant Bros Distillery	12,486	2,081	10,404	5,859	4,545	999	108	729	2,710	38.37
432 Cirrus Distillery	73,939	12,326	61,613	39,829	21,784	5,915	470	4,175	11,224	31.85
433 Ragged Branch Distillery	208,977	34,836	174,140	108,665	65,476	16,718	1,486	11,799	35,473	33.64
434 Filibuster Distillery	60,905	10,153	50,752	29,943	20,809	4,872	434	3,440	12,063	36.48
435 Spirit Lab Distilling	20,953	3,493	17,460	10,304	7,157	1,676	100	1,183	4,198	36.70
450 Falls Church Distilleries	119,186	19,868	99,317	59,907	39,411	9,535	1,052	6,729	22,095	35.21
451 Ironclad Distillery	185,224	30,877	154,347	87,080	67,268	14,818	958	10,458	41,034	38.82
452 Twin Creeks Distillery	29,181	4,864	24,316	14,039	10,277	2,334	166	1,648	6,129	37.67
453 Blue Sky Distillery	29,200	4,868	24,332	14,274	10,058	2,336	178	1,648	5,896	36.86
454 Dida's Distillery	75,533	12,591	62,941	36,644	26,297	6,043	372	4,265	15,618	37.35
455 Buffalo Creek Distillery	90,946	15,161	75,785	43,217	32,568	7,276	778	4,973	19,542	38.16
456 Franklin County Distilleries	47,699	7,951	39,748	22,452	17,296	3,816	322	2,613	10,544	38.78
457 Dead Reckoning Distillery	16,055	2,676	13,378	7,725	5,654	1,284	180	906	3,283	37.12
458 Copper and Oak Craft Spirits	7,738	1,290	6,448	3,763	2,686	619	26	633	1,408	34.86
459 Stone Mountain Distilling	15,219	2,537	12,682	7,306	5,376	1,217	86	859	3,213	37.78
460 Tarnished Truth Distilling	678,463	113,100	565,363	326,930	238,433	54,277	4,228	38,223	141,705	37.56
461 Devils Backbone Distilling	79,357	13,229	66,128	37,995	28,134	6,349	462	4,481	16,842	37.89
462 Bombolini	19,151	3,192	15,958	9,181	6,778	1,532	108	1,038	4,099	38.08
463 Vanguard Distillery	102,019	17,007	85,013	48,997	36,016	8,162	468	5,760	21,626	37.87
464 Dry Fork Fruit Distillery	19,033	3,173	15,860	9,200	6,660	1,523	164	1,075	3,899	37.15
465 Virago Spirits	70,071	11,681	58,390	34,079	24,311	5,606	706	3,956	14,043	36.71
466 Cape Charles Distillery	243,653	40,617	203,036	116,806	86,230	19,492	1,088	13,774	51,876	37.96
467 Three Crosses Distilling Co	131,106	21,855	109,251	62,553	46,698	10,489	740	7,402	28,067	38.08
468 Greenspur Distillery	8,097	1,350	6,747	3,765	2,982	648	68	457	1,809	39.02
Staterwide Distillery Totals	\$7,625,542	\$1,271,178	\$6,354,364	\$3,727,843	\$2,626,521	\$610,043	\$58,716	\$430,344	\$1,527,418	37.39%

(1) Includes state taxes, but does not include 5% sales tax. (2) State taxes on distilled spirits sold in ABC stores (20%). (3) "Rate of return" = (adjusted net profit + state taxes) ÷ gross sales
 Net Sales=Gross Sales - Spirits Taxes; Gross Profit = Net Sales-COGS; Adjusted Net Profit = Gross Profit-Commission-Case Handling Fee-AG&AE

2019 ESTABLISHMENTS BY LICENSE CATEGORY — BY CITIES



Cities (1)	All Others (2)	Bed and Breakfasts	Beer/Wine Importers	Beer/Wine Wholesalers	Breweries	Carrier Licensees	Caterer Establishments	Clubs	Convenience Stores	Delicatessens	Distilleries	Drug Stores	Gourmet / Gourmet Brew Shops	Grocery / Grocery-Gourmet Stores	Hotels/Resorts	Restaurants (Mixed Beverage) (3)	Restaurants (Beer and Wine)	Wineries	Grand Total
Alexandria	13	0	3	1	2	1	8	6	13	4	0	14	22	32	13	155	214	1	502
Bedford	0	0	0	0	0	0	1	0	6	0	0	0	1	5	0	3	6	0	22
Bristol	3	0	2	2	3	0	1	0	19	1	0	3	4	9	4	15	23	0	89
Buena Vista	0	0	0	0	0	0	0	0	4	0	0	1	0	4	0	1	6	0	16
Charlottesville	12	1	7	8	9	0	14	6	28	0	2	5	18	7	9	111	173	6	416
Chesapeake	12	0	6	7	2	0	2	8	98	0	1	19	30	25	6	128	178	0	522
Colonial Heights	0	0	0	0	0	0	0	2	13	0	0	4	4	3	2	17	27	0	72
Covington	0	0	0	0	0	0	0	0	4	0	0	1	1	4	0	2	6	0	18
Danville	5	0	1	2	2	0	1	6	47	0	1	6	7	26	1	23	38	1	167
Emporia	0	0	0	0	0	0	0	1	13	0	0	1	2	3	0	3	3	0	26
Fairfax	0	0	0	1	2	0	1	3	3	0	0	4	6	11	0	39	74	1	145
Falls Church	1	0	1	1	2	0	1	1	1	0	1	2	3	6	1	29	53	0	103
Franklin City	1	0	0	0	0	0	0	0	9	0	0	1	1	3	0	6	8	0	29
Fredericksburg	1	1	0	0	3	0	6	1	17	0	0	2	9	6	5	61	92	1	205
Galax City	0	1	0	0	2	0	0	1	5	0	0	2	3	4	1	7	13	0	39
Hampton	12	2	2	3	10	1	2	15	79	0	1	13	12	19	5	66	106	1	349
Harrisonburg	1	2	1	1	5	0	2	6	23	0	0	5	12	14	3	51	83	0	209
Hopewell	3	0	0	1	0	0	1	6	17	0	0	3	2	7	0	12	16	1	69
Lexington	0	1	0	0	0	0	3	0	2	0	0	1	3	1	2	10	18	0	41
Lynchburg	6	1	0	4	0	0	4	7	48	0	0	7	14	16	6	58	94	0	265
Manassas City	3	0	0	0	4	0	1	3	7	0	1	5	3	22	0	27	48	0	124
Manassas Park	0	0	1	1	0	0	0	0	2	0	0	0	0	6	0	5	8	0	23
Martinsville	3	0	0	0	0	0	0	2	8	0	0	1	2	6	0	10	16	0	48
Newport News	10	0	2	2	2	1	4	11	100	0	1	13	20	30	5	98	160	0	459
Norfolk	16	1	1	2	10	6	10	24	90	0	1	16	25	30	11	194	262	3	702
Norton	0	0	0	0	0	0	0	0	5	1	0	0	1	1	1	5	8	0	22
Petersburg	2	0	0	0	2	0	0	5	37	0	0	3	3	12	0	20	35	0	119
Poquoson	0	0	0	0	0	0	0	1	3	0	0	1	1	3	0	6	15	0	30
Portsmouth	3	1	0	0	2	2	0	13	63	0	1	8	9	16	1	43	52	0	214
Radford	1	0	0	0	0	0	1	1	6	0	0	1	1	6	0	8	11	0	36
Richmond	30	2	13	15	25	0	16	18	169	5	8	17	26	50	9	326	428	7	1,164
Roanoke	9	1	0	1	6	1	4	9	88	0	0	8	14	24	6	92	138	4	405
Salem	3	0	2	2	2	0	2	5	22	0	0	3	4	2	0	19	34	0	100
Staunton	1	1	0	0	4	0	3	3	14	1	0	4	7	8	2	15	38	2	103
Suffolk	11	1	0	0	1	0	0	4	40	1	0	7	12	13	3	41	61	0	195
Virginia Beach	39	1	4	5	15	7	11	11	163	1	2	42	58	48	26	443	595	5	1,476
Waynesboro	2	0	0	0	0	0	1	3	14	0	1	3	5	7	0	16	31	3	86
Williamsburg	6	8	0	1	3	0	3	0	9	0	1	3	6	1	8	47	62	5	163
Winchester	6	1	2	2	4	0	3	5	11	0	0	5	5	11	3	44	68	0	170
Grand Total	215	26	48	62	122	19	106	187	1,300	14	22	234	356	501	133	2,256	3,301	41	8,943

(1) All cities are “wet” (approved for liquor by the drink). Nine counties are “dry” (see pages 47-48), however, beer and wine may be served. Referendums may allow for mixed beverages in certain towns (and supervisor’s election districts) located with dry counties.

(2) “All Others” includes hospitals, fire departments, rescue squads, performing arts facilities, gift shops, food concessions, etc. It does not include banquets.

(3) “Restaurants (Mixed Beverage)” represents the total number of wine and beer establishments also having mixed beverage licenses. These licenses are included in the grand total column.

Source: CORE, July 2018

2019 ESTABLISHMENTS BY LICENSE CATEGORY —BY COUNTIES



Counties (1)	All Others (2)	Bed and Breakfasts	Beer/Wine Importers	Beer/Wine Wholesalers	Breweries	Carrier Licensees	Caterer Establishments	Clubs	Convenience Stores	Delicatessens	Distilleries	Drug Stores	Gourmet / Gourmet Brew Shops	Grocery / Grocery-Gourmet Stores	Hotels/Resorts	Restaurants (Mixed Beverage) (3)	Restaurants (Beer and Wine)	Wineries	Grand Total
Grand Total	473	89	148	394	140	25	129	278	2,035	34	41	355	675	1,308	191	2,543	4,252	311	13,421
Accomack	4	6	2	3	0	0	0	3	28	1	0	2	8	16	2	21	35	0	131
Albemarle	32	6	2	26	5	0	6	8	38	0	4	4	30	6	10	48	92	37	354
Alleghany	1	0	0	0	0	0	0	4	8	0	0	1	1	8	0	7	16	0	46
Amelia	0	0	0	0	0	0	0	1	11	0	0	1	0	3	0	2	7	0	25
Amherst	1	0	0	4	1	0	1	1	17	0	0	2	3	12	0	9	16	4	71
Appomattox	2	0	0	0	0	0	0	2	9	0	0	1	2	9	1	4	7	0	37
Arlington	7	0	1	2	3	4	7	6	38	0	0	22	28	40	28	221	317	0	724
Augusta	3	2	2	6	3	0	0	3	37	0	0	2	7	17	1	10	23	4	120
Bath	1	1	0	0	0	0	0	0	5	0	0	0	1	5	3	5	7	0	28
Bedford	7	1	0	5	2	1	1	7	25	0	0	4	6	17	1	25	46	6	154
Bland*	0	0	0	0	0	0	0	0	4	0	0	0	0	5	0	0	1	0	10
Botetourt	3	0	2	5	2	0	0	1	23	2	0	1	3	9	0	9	20	3	83
Brunswick	1	0	0	2	0	0	0	0	16	0	0	1	1	6	0	3	7	0	37
Buchanan*	0	0	0	0	0	0	0	1	21	1	0	2	2	7	0	1	3	0	38
Buckingham	1	0	0	0	0	0	0	0	13	0	0	0	2	4	0	1	2	0	23
Campbell	3	0	0	3	1	0	1	3	37	0	1	4	5	21	0	15	24	4	122
Caroline	0	1	0	0	1	0	0	2	27	0	0	1	2	5	0	6	15	1	61
Carroll	3	0	0	2	0	0	0	1	16	0	1	1	2	9	1	4	8	2	50
Charles City	1	3	0	1	0	0	0	0	4	0	0	0	0	1	0	2	5	1	18
Charlotte*	1	0	0	0	0	0	0	1	12	0	0	1	0	12	0	0	3	0	30
Chesterfield	14	0	4	4	2	0	4	6	118	1	0	30	41	44	5	154	231	2	660
Clarke	6	2	0	3	0	0	0	3	8	1	0	0	3	4	0	4	10	4	48
Craig*	0	0	0	0	0	0	0	0	2	0	0	0	0	3	1	0	0	0	6
Culpeper	3	0	1	5	3	0	1	4	18	1	2	3	8	15	4	21	33	3	125
Cumberland	0	0	0	0	0	0	0	0	7	0	0	0	0	1	0	1	3	0	12
Dickenson*	0	0	0	0	0	0	0	1	9	1	0	1	0	7	0	0	1	0	20
Dinwiddie	1	0	0	0	0	0	0	1	23	0	0	2	1	9	0	4	5	0	46
Essex	2	1	0	1	0	0	0	1	10	0	0	1	2	5	0	9	11	1	44
Fairfax	48	0	56	63	11	0	36	28	45	3	2	62	130	173	38	586	956	2	2,239
Fauquier	19	1	3	27	4	0	3	4	29	2	0	5	17	14	4	36	57	28	253
Floyd*	1	1	0	1	0	0	0	2	3	0	1	0	2	4	0	5	11	3	34
Fluvanna	1	0	0	4	1	0	0	0	9	0	0	1	4	3	0	4	10	4	41
Franklin*	5	0	1	3	3	0	3	2	25	0	3	4	4	20	1	19	34	2	129
Frederick	7	2	3	6	0	0	2	4	33	1	2	6	20	18	3	29	46	5	187
Giles*	0	1	0	1	1	0	1	4	13	2	0	2	1	11	1	2	6	1	47
Gloucester	3	0	0	0	0	0	0	3	21	1	0	3	6	6	0	17	25	0	85
Goochland	5	1	0	3	3	0	1	3	12	0	0	0	2	4	0	13	20	4	71
Grayson*	0	0	0	0	0	0	0	0	6	1	0	0	0	5	0	0	2	0	14
Greene	3	0	0	1	0	0	1	1	7	0	0	1	2	6	0	5	15	3	45
Greensville	0	0	0	0	0	0	0	1	12	0	0	0	0	1	0	1	1	0	16
Halifax	5	1	0	6	0	0	0	4	24	0	2	2	2	26	1	10	22	3	108
Hanover	14	0	7	14	2	0	2	7	46	1	0	7	16	17	0	51	85	2	271
Henrico	34	1	12	15	6	0	13	16	144	1	0	32	40	40	21	191	303	0	869
Henry*	5	0	0	2	1	0	1	5	37	0	0	6	1	31	1	4	17	2	113
Highland*	1	0	0	1	0	0	0	0	2	0	0	0	0	3	1	0	1	1	10
Isle of Wight	0	0	0	0	1	0	0	4	21	0	1	3	7	6	1	8	16	3	71
James City	3	0	1	1	1	0	1	4	22	0	2	4	13	5	6	50	72	2	187
King & Queen	1	0	0	0	0	0	0	0	3	0	0	0	0	4	0	1	2	0	11
King George	3	0	0	2	0	0	0	0	14	0	0	1	3	3	0	6	11	2	45
King William*	0	0	0	0	0	0	0	1	8	0	0	1	2	5	0	7	12	0	36
Lancaster	4	1	0	2	0	1	0	4	10	0	0	2	5	4	3	17	26	2	81
Lee*	0	0	0	0	0	0	0	2	20	0	0	1	1	8	0	0	4	0	36
Loudoun	44	2	16	43	28	17	12	7	30	3	3	17	48	65	14	232	378	49	1,008
Louisa*	5	0	0	2	0	0	0	2	21	1	0	2	3	12	2	12	20	3	85
Lunenburg*	2	0	0	0	0	0	0	4	8	0	0	0	2	7	0	0	3	0	26
Madison	3	2	0	3	1	0	0	0	7	0	0	0	1	4	1	4	7	8	41
Mathews	1	1	0	0	0	0	0	2	6	0	0	0	1	3	0	2	5	0	21
Mecklenburg*	4	0	0	3	1	0	0	10	41	0	1	3	1	17	0	11	19	3	114
Middlesex	4	0	0	0	0	0	0	1	5	0	0	0	3	8	0	10	14	0	45
Montgomery*	5	2	0	3	3	0	4	2	43	0	0	5	11	17	5	48	77	3	228
Nelson	11	6	0	9	6	0	1	1	12	1	3	0	1	7	2	6	10	16	92

(continued)

2019 ESTABLISHMENTS BY LICENSE CATEGORY

—COUNTIES (continued)



Counties (1)	All Others (2)	Bed and Breakfasts	Beer/Wine Importers	Beer/Wine Wholesalers	Breweries	Carrier Licensees	Caterer Establishments	Clubs	Convenience Stores	Delicatessens	Distilleries	Drug Stores	Gourmet / Gourmet Brew Shops	Grocery / Grocery-Gourmet Stores	Hotels/Resorts	Restaurants (Mixed Beverage) (3)	Restaurants (Beer and Wine)	Wineries	Grand Total
New Kent	4	2	0	2	0	0	0	0	15	0	0	2	3	4	0	10	18	3	63
Northampton	4	3	1	5	0	0	1	1	16	0	0	1	1	6	1	13	17	1	71
Northumberland	2	0	0	2	0	0	0	3	7	0	0	1	1	6	0	6	11	2	41
Nottoway	0	1	1	3	0	0	0	4	17	0	0	0	2	4	0	7	16	0	55
Orange	5	5	0	3	1	0	3	2	18	1	0	2	4	5	1	15	28	7	100
Page	7	5	1	2	1	0	0	3	17	0	1	1	3	10	1	4	15	3	74
Patrick*	2	1	0	1	0	0	0	1	11	0	1	1	1	10	0	3	10	2	44
Pittsylvania*	4	0	1	8	0	0	0	3	37	0	0	1	0	24	0	7	16	3	104
Powhatan	3	0	0	1	1	0	0	1	15	0	0	0	1	3	0	14	20	2	61
Prince Edward	1	0	0	0	0	0	2	2	18	0	0	3	2	3	0	12	17	0	60
Prince George	1	1	0	0	0	0	0	2	14	0	1	1	1	7	0	7	14	0	49
Prince William	24	0	12	14	9	1	2	9	37	2	1	21	43	116	8	176	290	3	768
Pulaski*	3	0	2	4	1	0	0	4	14	1	0	4	4	17	0	7	12	3	76
Rappahannock	7	5	0	6	2	0	0	0	3	0	2	0	0	4	1	6	9	8	53
Richmond	0	0	0	6	0	0	0	0	5	0	0	1	1	3	0	1	5	0	22
Roanoke	6	1	4	5	2	0	4	3	38	0	0	4	10	10	1	37	61	2	188
Rockbridge	4	5	0	2	3	0	4	2	17	0	0	0	2	11	4	4	15	3	76
Rockingham	7	1	0	3	2	0	1	3	33	0	0	2	8	13	0	13	32	5	123
Russell*	1	0	0	1	0	0	0	2	14	0	1	1	2	5	0	2	4	1	34
Scott*	0	0	0	0	1	0	0	0	17	0	0	1	2	12	0	1	4	0	38
Shenandoah	5	1	1	6	3	0	0	9	24	0	1	3	8	21	2	9	31	9	133
Smyth*	1	1	0	1	0	0	0	1	20	1	3	3	1	15	1	4	11	2	65
Southampton	0	0	0	0	0	0	0	2	16	0	0	1	1	5	0	1	3	0	29
Spotsylvania	8	1	5	7	4	0	4	7	54	0	1	13	15	18	0	53	85	6	281
Stafford	12	1	4	6	4	0	3	5	49	1	0	8	13	12	1	43	73	2	237
Surry*	0	0	0	1	0	0	0	0	6	0	0	0	0	2	0	2	3	3	17
Sussex	0	0	1	0	0	0	1	1	15	0	0	0	1	10	0	0	6	0	35
Tazewell*	2	0	0	1	0	0	0	2	25	1	0	2	6	24	0	8	15	1	87
Warren*	3	2	1	4	1	0	0	4	24	0	0	2	3	10	0	21	37	4	116
Washington*	2	5	1	4	3	0	1	1	34	0	0	3	8	20	2	14	29	2	129
Westmoreland	6	1	0	4	2	0	0	6	9	0	0	2	2	9	1	13	22	4	81
Wise*	1	0	0	1	1	0	0	1	27	0	0	5	4	11	1	5	9	1	67
Wythe*	2	0	0	2	0	0	0	3	18	1	0	2	2	15	1	13	14	2	75
York*	8	2	0	2	3	1	1	3	28	1	1	7	13	6	3	39	65	4	187
Grand Total	473	89	148	394	140	25	129	278	2,035	34	41	355	675	1,308	191	2,543	4,252	311	13,421

(1) All cities are "wet" (approved for liquor by the drink). Nine counties are "dry" (see page 47-48), however, beer and wine may be served. Referendums may allow for mixed beverages in certain towns (and supervisor's election districts) located with dry counties.

(2) "All Others" includes hospitals, fire departments, rescue squads, performing arts facilities, gift shops, food concessions, etc. It does not include banquets.

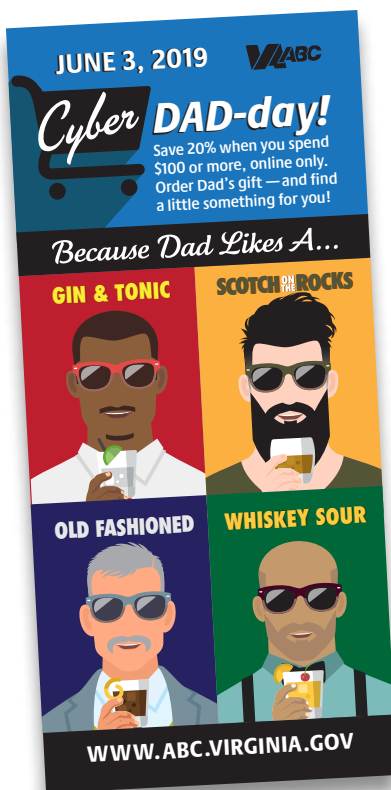
(3) "Restaurants (Mixed Beverage)" represents the total number of wine and beer establishments also having mixed beverage licenses. These licenses are included in the grand total column.

Source: CORE, July 2018

MAP OF VIRGINIA COUNTIES AND CITIES

Counties in ALL CAPS
Cities denoted with a ●





Cyber MOM-day and Cyber DAD-day Generate Unprecedented Online Sales

An idea that came from a typo led to the creation of two successful new online-only promotions for Virginia ABC in spring 2019. Cyber MOM-day and Cyber DAD-day, created to encourage gift giving for Mother's Day and Father's Day, offered customers 20% off all online orders of \$100 or more, mirroring Virginia ABC's annual Cyber Monday promotion during the holidays.

Cyber MOM-day took place April 28, and Cyber DAD-day June 3, both events two weeks before their respective holiday so that customers had plenty of time to pick up their purchased products that were gifts.

Several divisions collaborated for the effort, creating graphics and marketing materials, preparing the website for increased traffic and preparing stores to handle the pick-up process. Both employees and customers were given the opportunity to become more familiar with Virginia ABC's online ordering process.

The results were unprecedented for these first-time promotions. Cyber MOM-day resulted in 3,895 orders and 23,033 bottles sold, with the average order containing six bottles and totaling \$170. All told, the promotion led to \$656,375 in online sales in one day.

Then, Cyber DAD-day blew those results out of the water. With 5,565 online orders placed, the promotion exceeded Cyber MOM-day by 1,633 orders, a 43% increase, and even exceeded Cyber Monday 2018 by 692 orders, up 14%. Online sales for the day totaled \$967,000 with 33,165 bottles sold, and the average order contained six bottles totaling \$173.

The top selling product category for both promotional days was whiskey, which made up more than 40% of sales on Cyber MOM-day and 56% of sales on Cyber DAD-day.



A MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



(From left) Virginia ABC Board Chairman Jeffrey L. Painter and Chief Executive Officer Travis G. Hill.

It is our pleasure to present the 2019 fiscal year annual report for the Virginia Alcoholic Beverage Control Authority. These facts and figures represent the Authority's 21st consecutive record-breaking year for retail sales and our first for generating more than \$1 billion in alcohol sales.

Virginia ABC operations earned a record \$196.7 million in profits. These profits combined with \$223 million in state and general sales taxes as well as \$79.8 million collected in wine and beer taxes resulted in an all-time high of \$499.5 million transferred to Virginia's general fund, \$33.1 million above last year's contribution. A major source of revenue for the Commonwealth, ABC has contributed more than \$10.9 billion to the general fund since 1934.

We stand behind these figures with pride in the accomplishments made possible by the dedicated employees of Virginia ABC. To the best of our knowledge, these figures accurately represent the operations during the fiscal year. The financial statements of the Authority are audited annually by the Auditor of Public Accounts as required by the Code of Virginia.

Financial Results in Brief, Fiscal Year 2019

SOURCE	FY 19	FY 18	FY 17	FY 16	FY 15
ABC profit disbursements (1)	\$ 196,657,876	\$ 179,190,609	\$ 171,154,888	\$ 164,888,413	\$ 152,037,837
State Taxes (2)	174,144,519	160,909,741	154,446,630	147,812,928	139,832,186
General Sales tax (3)	\$48,846,783	45,357,513	43,343,103	41,343,208	39,199,161
Wine Liter Tax (4)	\$38,465,862	37,649,424	36,801,248	36,208,113	35,249,206
Malt beverage tax (5)	41,383,922	41,633,945	42,818,745	43,181,973	42,948,462
Total	\$ 499,498,962	\$ 464,741,232	\$ 448,564,614	\$ 433,434,635	\$ 409,266,852

(1) Source: "Statement of Revenues, Expenses and Changes in Net Position." Profits are reported in accordance with generally accepted accounting principles. Profits include licensing fees and ABC's portion of the wine liter tax.

(2) Source: "Notes to Financial Statements 4.B. General Fund." State tax on distilled spirits = 20%. State tax on wine sold in ABC stores = 4%.

(3) Source: "Notes to Financial Statements 4.C. Department of Taxation--Sales Tax." General sales tax rate is 6.0% in the localities that make up the Northern Virginia and Hampton Roads regions, and 5.3% statewide.

(4) Source: "Notes to Financial Statements 4.B. General Fund." The non-ABC portion of the wine liter tax = \$.40 per liter. \$9,141,363 of the wine liter tax is transferred to the Virginia Department of Behavioral Health and Developmental Services.

(5) Source: "Notes to Financial Statements 8. Collections of Malt Beverage Tax."

Sales of All Beverages, Fiscal Year 2019

PRODUCT	GALLONS*	LITERS	TOTAL GALLONS	GROSS DOLLARS	GROSS SALES
State Store Sales					
Distilled Spirits	12,100,534	45,805,482	96.8%	\$ 1,034,844,643	96.8%
Virginia Wine	34,824	131,823	0.3%	\$2,400,244	0.3%
Vermouth	40,757	154,281	0.3%	\$1,923,264	0.3%
Alcohol	2,988	11,312	0.0%	\$385,973	0.0%
Non-Alcoholic Mixers	315,630	1,194,789	2.5%	6,307,225	2.5%
Total	12,494,733	47,297,688	100.0%	\$ 1,045,861,349	100.0%
Direct Sales from Wholesalers					
Wines (\$0.40 Liter) (1)	26,996,069	102,191,188	15.4%	\$ 40,876,538	0.0%
Beer (\$7.95 Barrel)	147,993,685	560,216,775	84.6%	\$41,381,771	100.0%
Total	174,989,754	662,407,963	100.0%	\$ 82,258,309	100.0%

*excludes non-beverage items, confiscated items, distillery store sales (1) Gross Liter Tax for Wines after 12% allocated to ABC Revenue
Source: Research & Planning

FINANCIAL STATEMENTS

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CONTACTING VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY

This financial report is designed to provide our citizens, taxpayers and customers with a general overview of ABC’s finances and to demonstrate ABC’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Virginia ABC at 2901 Hermitage Road, Richmond, Virginia 23220 or visit us at www.abc.virginia.gov.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 23, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Alcoholic Beverage Control Board
Virginia Alcoholic Beverage Control Authority

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements the Virginia Alcoholic Beverage Control Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and

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INDEPENDENT AUDITOR'S REPORT, *continued*

perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position the Virginia Alcoholic Beverage Control Authority as of June 30, 2019, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 55 through 60, and the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 104 through 105; the Schedule of Employer's Share of Total OPEB Liability and Notes to Required Supplementary Information on page 106 for the Pre-Medicare Retiree Healthcare program; the Schedule of Employer's Share of Net OPEB Liability, the Schedule of Employer's Contribution, and the Notes to Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance, and Line of Duty Act programs on pages 107 through 110. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of

INDEPENDENT AUDITOR'S REPORT, *continued*

the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Virginia Alcoholic Beverage Control Authority's basic financial statements. The Introductory, Statistical, Transition to Auditory Enactment Clause 14, and Six-Year Financial Forecast sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Introductory, Statistical, Transition to Auditory Enactment Clause 14, and Six-Year Financial Forecast sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2019, on our consideration of the Virginia Alcoholic Beverage Control Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

DLR/clj

MANAGEMENT'S DISCUSSION AND ANALYSIS

Virginia Alcoholic Beverage Control Authority

Chief Executive Officer
Travis G. Hill



Chairman
Jeffrey Painter

Board of Directors
Maria J. K. Everett
Gregory F. Holland
Beth Hungate-Noland
Mark Rubin

INTRODUCTION

This unaudited Management's Discussion and Analysis (MD&A) of the Alcoholic Beverage Control Authority's financial performance provides a brief overview of financial activities for the fiscal year ended June 30, 2019. The MD&A is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the Authority's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the Authority's financial condition and results of operation for fiscal year ended June 30, 2019. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, including notes and other supplementary information. The Authority's management is responsible for all of the information presented, including this discussion and analysis.

The Authority is considered a Blended Component Unit Enterprise Fund by the Commonwealth for financial statement purposes due to our unique nature of operation.

The Authority developed a new cloud-based financial system during fiscal year 2019, putting the budgeting module in service in March while the ERP system went into service on July 1 for fiscal year 2020.

FINANCIAL HIGHLIGHTS

The Authority's operating revenues increased 6.8% in fiscal year 2019. This increase in revenue is primarily due to an increase in sales volume in existing stores, which generated an additional gross sales amount of \$62.3 million, while the addition of seven new stores added \$7.8 million in gross sales. Four stores were relocated to improve market coverage, five stores were modernized, and three stores were expanded. In addition, four pop-up stores operated from November to January of fiscal year 2019.

The Authority's Cost of Goods Sold (COGS) for alcohol increased \$31.4 million from 2018 due to the increased sales volume and the addition of seven new stores. Historically, COGS is about 48.4% of gross sales. In fiscal year 2019, COGS was 47.8%. Cost of Goods Sold trends are available in the Statistical Section on page 116.

The Authority's operating expenses increased 5.5% in fiscal year 2019. Contractual service costs increased by \$6.0 million from fiscal year 2018, a 17.2% increase. The increase in contractual service costs are primarily attributed to increased IT contractor support to assist with the implementation of internal projects, particularly the new financial management services (FMS) system.

The Authority's operations earned record profits of \$202.0 million and disbursed \$196.7 million to the Commonwealth. In addition, the Authority collected state tax on sales of \$174.1 million. The increase in profits for fiscal year 2019 is primarily due to the overall increase in sales throughout all stores and the opening of seven new retail stores.

continued on next page

OVERVIEW OF FINANCIAL STATEMENTS

The audited annual report consists of the following financial statements as required by GAAP.

- The Statement of Net Position (SNP) provides information about the Authority's assets, liabilities and deferred flows of resources, and reflects the financial position of the Authority to readers as of June 30, 2019. The data presented aids readers in determining the assets available to continue operations of the Authority. It also allows readers to determine the liability of the Authority to vendors. Finally, the SNP provides a picture of the Authority's net position and the restrictions for expenditure of the components of net position.
- The Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) presents operating and non-operating activities that are creating changes in the Authority's total net position for the twelve-month period ended June 30, 2019. The purpose of this statement is to present all revenues received and accrued, all expenses paid and accrued, and all gains and losses from capital assets. Operating revenues are generally received through providing goods and services to all of the Authority's clients. Operating expenses are expenditures made to acquire or produce the goods and services provided in return for the operating revenue. Salaries and benefits for staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided and the same applies for non-operating expenses.
- The Statement of Cash Flows outlines the cash inflows and outflows relating to the operations for the same twelve-month period. This statement presents detailed information about the cash activity of the Authority during the year. Cash flows from operating activities will always differentiate from the operating activity on the SRECNP. This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expense, whereas the Statement of Cash Flows presents cash inflows and outflows without regards to accrual items. The Statement of Cash Flows intends to help readers assess the ability the Authority possesses to generate sufficient cash flows necessary to meet its obligations.

The financial statements also include "notes" that provide additional information that is essential for a full understanding of the data provided in the statements. These statements provide information about the Authority's financial position.

FINANCIAL ANALYSIS

The Authority ended fiscal year 2019 with a total of \$124.7 million in total assets and deferred outflows, an 9.5% decrease over the prior fiscal year. \$93.0 million of total assets is attributed to current assets. Included in the \$93.0 million is \$77.7 million in inventory of alcohol merchandise for resale, a \$1.4 million decrease over fiscal year 2018. Warehouse inventory decreased by \$4.9 million due to a reduction in use of the Authorities Advance Buy option. The Authority does not purchase the alcohol in its warehouse until it is being shipped to one of its stores. At periodic times throughout the year, the Authority purchases the inventory in its warehouse, prior to vendors implementing a price increase, called an Advance Buy. This decrease is primarily attributed to a change in Advance Buy opportunities presented to the Authority in fiscal year 2019, compared to fiscal year 2018.

Total Assets and Deferred Outflows

- *Current assets* — increased \$9.2 million from last fiscal year, primarily due to the \$9.1 million increase in inventory value (described Current assets decreased \$21.6 million from the 2018 fiscal year, primarily due to a \$21.6 million decrease in cash and cash equivalents. This decrease is due to the Authority paying down a significant amount of vouchers at year end to limit conversion issues with the new accounting system. Receivables also increased by \$3.2 million from last fiscal year primarily due to credit card receivables. The Authority's credit card receivables are deposited in the Commonwealth's account the following business day. This delay creates a credit card receivable. In fiscal year 2019, the last day of the fiscal year (June 30th) fell on a Sunday compared to a Saturday in fiscal year 2018. Saturday is a high-volume sales day for Authority retail stores and this resulted in the Authority having an increase in credit card receivable in fiscal year 2019.
- *Capital assets, net* — capital assets saw a \$6.4 million increase to \$15.4 million in fiscal year 2019 primarily due to ongoing projects in the construction-in-progress (CIP) account that will not be depreciated until the project is completed and put in service. \$5.3 million of the total can be attributed to the FMS project that was put in service at the start of fiscal year 2020 while \$3.6 million is due to the new licensing system project.
- *Deferred Outflows* — combined deferred outflows of resources for both pension and OPEB increased by \$1.8 million in fiscal year 2019.

continued on next page

DISCUSSION AND ANALYSIS, *continued*

Net Position	FY 2019	FY 2018	Change (\$)	Change (%)
Current and other assets	\$92,999,150	\$114,554,343	\$(21,555,193)	-18.8%
Capital assets, net	15,485,332	9,110,959	6,374,373	70.0%
Other assets - OPEB	2,728,000	2,395,000	333,000	13.9%
Total assets	108,484,482	123,665,302	(15,180,820)	-12.3%
Deferred outflows of resources, Pension	10,120,343	9,626,932	493,411	5.1%
Deferred outflows of resources, OPEB	3,386,339	2,078,339	1,308,000	62.9%
Total assets and deferred outflows	124,719,163	137,765,573	(13,046,410)	-9.5%
Current liabilities	104,695,062	119,647,714	(14,952,652)	-12.5%
Noncurrent liabilities	95,655,229	102,355,230	(6,700,001)	-6.5%
Total liabilities	200,350,291	222,002,944	(21,652,653)	-9.8%
Deferred inflows of resources, Pension	6,561,000	6,711,000	(150,000)	-2.2%
Deferred inflows of resources, OPEB	8,529,714	5,120,196	3,409,518	66.6%
Total liabilities and deferred inflows	215,441,005	233,834,140	(18,393,135)	-7.9%
Net position:				
Invested in capital assets	15,485,332	9,110,959	6,374,373	70.0%
Restricted	2,728,000	2,395,000	333,000	13.9%
Unrestricted	(108,935,173)	(107,574,527)	(1,360,646)	1.3%
Total net position	\$(90,721,841)	\$(96,068,568)	\$5,346,727	-5.6%

Total Liabilities and Deferred Inflows

Current Liabilities—decreased \$14.9 million or 12.5% from fiscal year 2018. The Authority’s accounts payable decreased \$20.1 million in fiscal year 2019 primarily due to the increased payment of vouchers to prepare for the implementation of a new FMS system at the start of fiscal year 2020.

Noncurrent liabilities—decreased \$6.7 million primarily due to decreases in net pension liability and net OPEB liability.

Deferred inflows of resources—increased \$3.3 million, driven by a \$3.4 million increase in deferred inflows of resources related to OPEB.

Total Net Position

Invested in capital assets represents the Authority’s total investment in non-depreciable capital assets, depreciable capital assets and construction-in-progress. This increased by \$6.4 million in fiscal year 2019.

The restricted component of net position is the \$2.7 million VSDP OPEB asset that can only be used to pay for VSDP OPEB benefits. The unrestricted component of net position decreased by \$1.4 million from the prior year while total net position increased by \$5.3 million in fiscal year 2019.

The Authority lacks working capital (current assets in excess of current liabilities) to fund all of its business needs at year-end including accelerated payments of taxes and profits before June 30. Given this periodic lack of necessary working capital, the Authority depends on a \$60.0 million line of credit with the State Comptroller to meet day-to-day operations. At June 30, 2019, the amount borrowed was \$45.0 million. (see Note 4, page 67)

DISCUSSION AND ANALYSIS, *continued*

Revenue

The vast majority of the Authority's revenue comes from the sale of alcoholic beverages. This revenue is generated through the 377 state-run stores located throughout the Commonwealth. During fiscal year 2019, gross alcohol sales, including state tax on sales, reached an all-time high of \$1,054.1 million, up \$70.8 million over fiscal year 2018. The net revenue without state tax on sales of alcohol increased from \$822.5 million in fiscal year 2018 to \$880.0 million in fiscal year 2019 or a 7.0% increase. License and permit fees increased from \$13.9 million to \$14.5 million, a 4.2% increase. Federal grant revenue, sales of lottery tickets, penalty fees collected, and wine wholesalers tax decreased this fiscal year compared to the prior year. The Authority has discontinued the sales of lottery tickets during fiscal year 2019 to focus on the core business of selling alcohol.

Operating Revenues	FY 2019	FY 2018	Change (\$)	Change (%)
Sales of alcohol	\$879,997,263	\$822,450,743	\$57,546,520	7.0%
Sales of lottery tickets	1,008,508	1,583,218	(574,710)	-36.3%
License and permit fees	14,460,539	13,875,412	585,127	4.2%
Wine wholesalers tax	4,926,698	4,414,271	512,427	11.6%
Penalties	1,149,306	687,045	462,261	67.3%
Federal grants and contracts	153,488	651,384	(497,896)	-76.4%
Mixed beverage tax on common carriers	31,236	24,336	6,900	28.4%
Miscellaneous	956,286	1,190,883	(234,597)	-19.7%
Net operating revenues	\$902,683,325	\$844,877,292	\$57,806,033	6.8%

Expenses

In fiscal year 2019, operating expenses (not including cost of sales for alcohol and lottery) increased from \$190.4 million to \$196.2 million, an increase of 3.0%. Approximately 71.9% of the Authority's total expenses are for the cost of sales of distilled spirits and mixers sold through the Authority's stores and 0.1% for lottery cost of sales. Following cost of merchandise is personal services (cost of personnel and benefits), which accounts for 16.0% of the Authority's total expenses. The remaining 12.0% is made up of contractual services (e.g., VITA, computer software development & maintenance), continuous charges (e.g., store rentals) and other miscellaneous charges. Continuous charges increased by \$2.1 million over the prior year primarily due to an increase in building rentals due to standard contractual increases in rent as well as the new rental contracts for the addition of seven new stores. Contractual services increased by \$6.0 million, driven by a \$0.7 million increase in computer software development and maintenance services, a \$0.5 million increase in VITA infrastructure cost, a \$0.5 million increase in outbound freight services, and a \$0.7 million increase in commission payments. Starting in fiscal year 2019, the Authority began expensing commission payments due to distilleries, previously being removed directly from revenue.

Operating Expenses	FY 2019	FY 2019 % Expenses	FY 2018	Change (\$)	Change (%)
Cost of sales, alcohol	\$504,150,211	71.9%	\$472,772,427	\$31,377,784	6.6%
Cost of sales, lottery	1,017,235	0.1%	1,484,755	(467,520)	-31.5%
	505,167,446	72.0%	474,257,182	30,910,264	6.5%
Personal services	112,085,785	16.0%	113,946,379	(1,860,594)	-1.6%
Continuous charges	34,276,756	4.9%	32,134,553	2,142,203	6.7%
Contractual services	40,966,570	5.8%	34,948,390	6,018,180	17.2%
Supplies and materials	3,496,605	0.5%	3,906,161	(409,556)	-10.5%
Depreciation	2,127,490	0.3%	2,580,739	(453,249)	-17.6%
Expendable equipment	2,867,828	0.4%	2,539,276	328,552	12.9%
Other	372,382	0.1%	347,589	24,793	7.1%
	196,193,416	28.0%	190,403,087	5,790,329	3.0%
Total operating expenses	\$701,360,862	100.0%	\$664,660,269	\$36,700,593	5.5%

DISCUSSION AND ANALYSIS, *continued*

The Authority's operating expenses are driven by sales. In fiscal year 2019, the Authority's operating expenses increased by 5.5% over fiscal year 2018; but as a percentage of sales, the Authority had three decreases and one increase in the four main cost drivers. Cost of goods sold (COGS) and continuous services saw marginal decreases of 0.3%. The Authority also had a decrease in personal service costs of 8.1%. The 0.3% decrease of COGS for alcohol (as a percentage of sales) correlates with the increase in alcohol sales, the 0.3% decrease in continuous services is primarily due to a correlation with the increase in alcohol sales in 2019, and the 8.1% decrease in personal service cost is primarily due to an increase in personnel turnover, limited increase in benefit rates, and the increase in alcohol sales outpacing personal services costs. Contractual services had an increase (as a percentage of sales) of 9.6% from fiscal year 2019 primarily due to a large increase in IT costs associated with the implementation and go-live of the new FMS and Licensing systems that could not be capitalized.

Operating Expenses as a Percentage of Sales	FY 2019	% of Sales	FY 2018	% of Sales	% Change
Sales — Alcohol	\$879,997,263		\$822,450,743		
Cost of Goods — Alcohol	504,150,211	57.3%	472,772,427	57.5%	-0.3%
Personal Services Cost	112,085,785	12.7%	113,946,379	13.9%	-8.1%
Continuous Services	34,276,756	3.9%	32,134,553	3.9%	-0.3%
Contractual Services	40,966,571	4.7%	34,948,390	4.2%	9.6%

PROFITS

Prior to the statutory distribution of quarterly net profits to the General Fund, disbursements required in the Appropriation Act for each fiscal year must be executed promptly and accurately. In fiscal year 2019, approximately \$69.9 million was disbursed to other state agencies. The remaining \$126.7 million was disbursed to the General Fund in accordance with the [Code of Virginia](#).

Revenues, Expenses and Change in Net Position	FY 2019	FY 2018	Change
Net operating revenues	\$ 902,683,325	\$ 844,877,292	\$ 57,806,033
Total operating expenses	701,360,862	664,660,269	36,700,593
Non-operating revenues / (expenses)	682,140	601,355	80,785
Net profit before disbursements	202,004,603	180,818,377	21,186,225
Disbursements of profit to the General Fund of the Commonwealth	(126,727,832)	(109,261,467)	(17,466,365)
Appropriation Act disbursements	(69,930,044)	(69,929,142)	(902)
Total disbursements	(196,657,876)	(179,190,609)	(17,467,267)
Change in net position	5,346,727	1,627,768	3,718,959
Total net position - beginning	(96,068,568)	(97,696,336)	1,627,768
Total net position - ending	\$ (90,721,841)	\$ (96,068,568)	\$ 5,346,727

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Days of the Week - During fiscal year 2019, sales from Fridays totaled \$254.6 million, which was up by \$11.7 million despite having 52 Fridays in both fiscal year 2018 and 2019. Friday sales accounted for 24.1% of total sales.

Sunday Sales - In fiscal year 2019 Sunday sales grew to \$79.4 million, up \$5.5 million, a 7.4% increase. This can be attributed to having 52 Sundays in fiscal year 2019, up from 51 in fiscal year 2018.



DISCUSSION AND ANALYSIS, *continued*



In fiscal year 2020, considering the impact of the variables and operational activities described in more detail on previous page, the Authority expects to see a slight increase in the retail sales sector and will continue to monitor mixed beverage licensee sales. The Authority is currently forecasting gross sales, including state tax on sales, of \$1,097.9 million, or a 4.2% increase over fiscal year 2019 year-end sales of \$1,054.1 million. This increase surpasses the Authority's fiscal year 2019 same store sales growth rate of 3.4%, yet considers continued growth in the store network and the purchasing of premium products by retail and licensee customers.

Risks include economic declines and weather fluctuations, particularly during the holiday season, projected increases in expenses in improving information technology infrastructure and the central office and warehouse facility reaching capacity. The authority's commission payments to distilleries will be increasing from 8% to 20% in fiscal year 2020.

ABC expects expenses to continue to increase in fiscal year 2020. Expenses such as store rents will increase because of contractual escalation clauses and the addition of new stores. The Authority also expects an increase in logistics related expenses, such as additional staff and freight charges, due to the continued expansion of stores and increasing sales volume, including increased deliveries to dual operation stores. The expectation for significant and continued investment in information technology continues as the Authority advances existing and future systems and associated infrastructure. The Authority also expects an increase in expenses as the completion of the four main projects approved in 2018 enter the implementation stage. As these projects are implemented, depreciation expense will occur, increasing the Authority's operating expenses in the upcoming fiscal years. Additionally, the statewide salary increase will increase affected salaries & benefits by nearly 5%.

Appropriation Act profit disbursement requirements for fiscal year 2020 are \$189.6 million. Of that total, \$69.5 million will be distributed to other state agencies and \$120.1 million will go the Commonwealth's general fund.

In fiscal year 2018, the General Assembly approved four main projects to upgrade the Authority's infrastructure and further invest in business operations. Of the approved projects, the new licensing management system is currently in the development stage with an expected completion date of March 2020. The new FMS system, which went live July 1, 2019, has new ongoing support and depreciation expense in fiscal year 2020. The sales audit system and the new POS system are currently in the development stage. These projects are a considerable undertaking, but are imperative to further solidify the Authority as a continued source of significant revenue for the Commonwealth.

FINANCIAL STATEMENTS

STATEMENT OF NET POSITION — As of June 30, 2019

Assets

Current assets:

Cash and cash equivalents (Note 2)	1,428,055
Petty cash	200,000
Receivables (Note 1D)	11,788,940
Inventory - Alcohol (Note 1E, 12)	77,679,899
Inventory - Lottery tickets	-
Inventory - Merchandise	1,698
Prepaid insurance expenses (Note 1M)	315,447
Prepaid other expenses (Note 1M)	1,585,111
Total current assets	<u>92,999,150</u>

Noncurrent assets:

Nondepreciable capital assets - land (Note 3)	1,724,372
Depreciable capital assets, net (Note 3)	4,833,532
Nondepreciable capital assets - construction in progress (Note 3)	8,927,427
Total noncurrent assets (capital assets, net)	<u>15,485,332</u>

Other Assets - OPEB (Note 10)	2,728,000
Total noncurrent & other assets	<u>18,213,332</u>

Deferred Outflows of Resources (Pension) (Note 9)	10,120,343
Deferred Outflows of Resources (OPEB)(Note 10)	<u>3,386,339</u>

Total assets and deferred outflows of resources	<u>124,719,163</u>
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Liabilities

Current liabilities:

Accounts payable (Note 7)	40,388,582
Unearned revenue (Note 1C)	1,261,670
Due to Commonwealth of Virginia (Note 4)	57,563,673
Obligations under securities lending (Note 1F)	118,129
Compensated absences payable (Note 6)	4,828,725
Net OPEB liability (Note 10)	534,283
Total current liabilities	<u>104,695,062</u>

Noncurrent liabilities:

Installment notes payable	-
Compensated absences payable (Note 6)	1,273,716
Net pension liability (Note 9)	70,483,000
Net OPEB liability (Note 10)	23,898,513
Total noncurrent liabilities	<u>95,655,229</u>

Deferred Inflows of Resources (Pension) (Note 9)	6,561,000
Deferred Inflows of Resources (OPEB) (Note 10)	8,529,714

Total liabilities and deferred inflows of resources	<u>215,441,005</u>
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Net Position

Investment in Capital Assets	15,485,332
Restricted net position (Note 1J)	2,728,000
Unrestricted net position	<u>(108,935,173)</u>

Total Net Position	<u>\$ (90,721,841)</u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2019



Operating Revenues:

Sales of alcohol	\$879,997,263
Sales of lottery tickets	1,008,508
License and permit fees	14,460,539
Wine wholesalers tax	4,926,698
Penalties	1,149,306
Federal grants and contracts	153,488
Mixed beverage tax on common carriers	31,236
Miscellaneous	<u>956,286</u>

Total operating revenues 902,683,325

Operating Expenses:

Cost of sales of alcohol	504,150,211
Cost of sales of lottery tickets	1,017,235
Personal services	112,085,785
Continuous charges	34,276,756
Contractual charges	40,966,570
Supplies and materials	3,496,605
Depreciation and amortization	2,127,490
Expendable equipment	2,867,828
Other	<u>372,382</u>

Total Operating Expenses 701,360,862

Operating income 201,322,463

Nonoperating Revenues (expenses):

Rents	24,893
Income from security lending transactions (Note 1F)	164,801
Expenses from security lending transactions	(164,801)
Interest income (expense)	607,387
Seized assets	49,861

Total nonoperating revenues before disbursements 682,140

Net profit before disbursements **202,004,603**

Disbursements:

Disbursements of profits to the General Fund of the Commonwealth	(126,727,832)
Appropriation Act disbursements	(69,930,044)
Total disbursements	<u>(196,657,876)</u>

Total Nonoperating Revenues (expenses) after Disbursements 5,346,727

Total Net Position - July 1, 2018 (96,068,568)

Total Net Position - June 30, 2019 **\$ (90,721,841)**

The accompanying Notes to Financial Statements are an integral part of this statement.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS—For the Year Ended June 30, 2019

Cash Flows from Operating Activities:

Cash received from sales	\$880,123,014
Cash received from licenses and fees	15,219,339
Cash received from other revenues	4,851,968
Cash payments for cost of sales	(528,289,690)
Cash payments for personal services	(116,264,499)
Cash payments for other expenses	(76,045,788)
Net cash provided by operating activities	<u>179,594,346</u>

Cash Flows from Noncapital Financing Activities:

Note payable to the Commonwealth	44,994,928
Due to the Commonwealth repayments	(39,919,708)
Cash received from seized assets and rental income	74,753
Cash disbursed from seized assets	-
Cash received from taxes	261,457,163
Disbursements of tax collections to the General Fund of the Commonwealth	(209,091,741)
Disbursements of tax collections to the Commonwealth's Department of Taxation	(48,780,900)
Disbursements of profit to the General Fund of the Commonwealth	(130,662,936)
Appropriation Act Disbursements	(69,930,044)
Net cash used for noncapital financing activities	<u>(191,858,484)</u>

Cash Flows from Capital and Related Financing Activities:

Construction in-progress	(7,655,830)
Acquisition of equipment	(846,034)
Sale of depreciable assets	-
Interest Income	607,387
Net cash used for capital financing activities	(7,894,477)
Net Increase in cash and cash equivalents	(20,158,615)

Cash and cash equivalents - July 1, 2018 21,668,540

Cash and cash equivalents - June 30, 2019 \$1,509,926

Reconciliation of cash and cash equivalents	
Cash and cash equivalents	1,428,055
Petty cash	200,000
Securites lending cash equivalents	(118,129)
	<u>\$1,509,926</u>

Reconciliation of Net Profit to Net Cash Provided by Operating Activities:

Operating income	201,322,463
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	2,127,490
Change in assets, deferred outflows, liabilities, and deferred inflows	
Increase in accounts receivable	(3,247,803)
Decrease in inventory	1,497,744
Increase in compensated absences	280,038
Decrease in accounts payable	(20,071,200)
Decrease in prepaid items	1,686,650
Increase in unearned revenues	758,800
Decrease in long-term-liability	(288,394)
Decrease in pension liabilities	(3,305,000)
Increase in pension deferred outflows	(493,411)
Decrease in pension deferred inflows	(150,000)
Increase in OPEB deferred outflows	(1,308,000)
Decrease in OPEB liabilities	(2,291,549)
Increase in OPEB deferred inflows	3,409,518
Decrease in OPEB Assets	(333,000)
Net Cash Provided by Operating Activities	<u><u>\$179,594,346</u></u>

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Reporting Entity**

The Alcoholic Beverage Control Authority (the “Authority”) administers ABC laws with an emphasis on public service and a focus on public safety by ensuring a safe, orderly, and regulated system for convenient distribution and responsible consumption of alcoholic beverages while generating a reasonable profit for the Commonwealth of Virginia (the “Commonwealth”).

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority or is the recipient of their services and/or benefits. The Authority is considered a blended component unit of the Commonwealth due to its fiscal dependence on the Commonwealth. Therefore, the Authority’s financial position and results of operation are presented in the Commonwealth’s Comprehensive Annual Financial Report (the “CAFR”). The Authority does not have any component units for financial reporting purposes.

The accounting policies of the Authority conform to the accounting principles generally accepted in the United States of America (the “GAAP”) as applicable to governmental entities. The Authority’s significant accounting policies are described below:

B. Fund Accounting

The activities of the Authority are accounted for in an enterprise fund. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis, including depreciation and amortization, be financed or recovered primarily through user charges.

C. Basis of Accounting

The Authority’s records are maintained on the accrual basis, with an economic resources measurement focus, whereby revenues are recognized when earned and expenses are recognized when the liability is incurred. Unearned revenues are a liability that represents amounts received where the exchange transaction has not been completed.

Operating revenues and expenses include exchange activities related to the sale of alcohol and licenses, as well as enforcement activities. Non-operating revenues and expenses include activities that have the characteristics of noncapital financing activities, such as the collection of rent, as defined by GAAP.

D. Accounts Receivable

The Authority has an accounts receivable account, which is mostly comprised of credit card sales and a small portion from wine taxes due to the Authority from distributors. The credit card receivables are collected the following business day after sales are made. The Authority’s total receivables are a very small portion of the Authority’s assets. The Authority has a high collection rate on receipt of these receivables.

E. Inventories

Merchandise inventory, purchased for resale, is valued at average cost, which is lower than market value. Inventory was lower in fiscal year 2019 primarily due to decreased warehouse inventory, while inventory in stores increased due to seven new stores opening.

F. Securities Lending

Investments held by the Treasurer of Virginia represent the Authority’s allocated share of cash collateral received and reinvested and securities received for the Treasury’s securities lending program. Information related to the credit risk of these investments and the Treasury’s securities lending program is available on a statewide level in the CAFR. The Commonwealth’s policy is to record unrealized gains and losses in the General Fund in the Commonwealth’s basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

G. Pensions and Other Post-Employment Plans

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers’ System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plan and the VaLORS Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan’s and the VaLORS Retirement Plan’s net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. This program was established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, Virginia ABC no longer subsidizes the retiree’s premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

The VRS State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the Code.

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of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the VRS State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The VRS Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the VRS Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The VRS Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The LODA was established pursuant to §9.1-400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The LODA provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net LODA OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA OPEB, and LODA OPEB expense, information about the fiduciary net position of the VRS LODA OPEB Plan and the additions to/deductions from the VRS LODA OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The VRS Disability Insurance Program (Virginia Sickness and Disability Program) is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The Disability Insurance Program was established pursuant to §51.1-1100 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Disability Insurance Program is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for State Police Officers, state employees, and VaLORS employees. For purposes of measuring the net Disability Insurance Program OPEB asset, deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the VRS Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

See Note 10, page 79, for general information about the other post-employment benefits (OPEB) plans and calculation of the net OPEB liability.

H. Deferred Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. It increases net position similar to assets. The Statement of Net Position reports a separate section for deferred outflows of resources in addition to assets.

I. Deferred Inflows of Resources

Deferred inflows of resources are defined as the acquisition of assets that are applicable to a future reporting period. It decreases net position similar to liabilities. The Statement of Net Position reports a separate section for deferred inflows of resources in addition to liabilities.

J. Restricted Component of Net Position

The restricted component of net position includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

K. Deficit Net Position

The Deficit Net Position at year-end was primarily as a result of recording the Authority's pension and OPEB liability at year-end as required under GAAP.

L. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses, and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates.

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FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS—As of June 30, 2019

M. Prepaid Items

Prepaid items represent non-inventory transactions that do not qualify for expense recognition. The cash flow occurred as of the end of the fiscal year but prior to meeting the requirements for liability recognition.

2. CASH WITH THE TREASURER OF VIRGINIA

All State funds of the Authority are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, et. seq., [Code of Virginia](#), who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash and Cash Equivalents" on the Statement of Net Position and is not categorized as to credit risk.

3. CAPITAL ASSETS

The following schedule presents the changes in capital assets by category:

	Balance at July 01, 2018	Acquired	Deleted	Balance at June 30, 2019
Nondepreciable capital assets				
Land	\$ 1,724,372	\$ -	\$ -	\$ 1,724,372
Construction in-progress	1,271,597	7,655,830	-	8,927,427
Total nondepreciable capital assets	2,995,970	7,655,830	-	10,651,799
Depreciable capital assets:				
Buildings	9,220,575	-	-	9,220,575
Office equipment	6,735,363	28,539	(10,000)	6,753,902
Motor vehicle equipment	4,816,551	455,413	(311,915)	4,960,049
Stores equipment	11,312,335	319,681	(17,700)	11,614,316
Warehouse and office building equipment	13,831,327	42,400	-	13,873,727
Equipment Manual Entry	-	-	-	-
Intangibles	7,322,109	-	-	7,322,109
Total depreciable capital assets	53,238,259	846,034	(339,615)	53,744,678
Less accumulated depreciation:				
Buildings	9,028,995	15,067	-	9,044,062
Office equipment	6,177,205	166,256	(10,000)	6,333,461
Motor vehicle equipment	3,968,941	382,231	(311,915)	4,039,257
Stores Equipment	10,878,978	121,433	(17,700)	10,982,711
Warehouse and office building equipment	12,778,529	242,822	-	13,021,352
Equipment Manual Entry	-	-	-	-
Intangibles	4,290,622	1,199,681	-	5,490,303
Total accumulated depreciation	47,123,270	2,127,490	(339,615)	48,911,145
Depreciable capital assets, net	6,114,989	(1,281,457)	-	4,833,532
Total capital assets, net	\$ 9,110,959	\$ 6,374,373	\$ -	\$ 15,485,332

Generally, the standard for capitalization of tangible property is \$5,000 or more per unit with an expected useful life of greater than one year. The standard for capitalization of computer software is \$100,000 with an expected useful life greater than one year. Property, plant, equipment, and intangibles are stated at cost at the time of acquisition and are setup in a comprehensive capital asset system. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets useful lives are not capitalized. Contributed capital assets are recorded at acquisition value at the time of receipt. Upon sale or retirement of land, buildings and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is reflected in the results of operations in the financial statements. Depreciation of the cost of property, plant, equipment, and intangibles

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FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS—As of June 30, 2019

are provided on a straight-line basis over their estimated lives of from 10 to 40 years on buildings, from three to eight years on equipment, and from three to 10 years on intangibles. Intangible assets are defined as assets that lack physical substance, are non-financial in nature and useful lives or benefit period exceed one or more years. Examples of intangible assets are: software, land use rights (right-of-ways) and intellectual property (patents, copyrights and trademarks).

Depreciation of all exhaustible capital assets used by the Authority is charged as an expense in the Statement of Revenue, Expenses and Changes in Net Position and accumulated depreciation is reported in the Statement of Net Position.

4. DUE TO THE COMMONWEALTH

A. Note Payable

The Authority has a line of credit for \$60,000,000 with the Treasurer of Virginia. Repayment is made from revenue collections pursuant to Title 4.1, Chapter 1 of the Code of Virginia. As of June 30, 2019, the Authority had outstanding \$44,994,928 of its available line of credit to extinguish a cash overdraft.

The following schedule presents the changes in short term debt activity:

<u>Balance at July 01, 2018</u>	<u>Acquired</u>	<u>Deleted</u>	<u>Balance at June 30, 2019</u>
\$ 39,919,708	\$ 44,994,928	\$ (39,919,708)	\$ 44,994,928

B. General Fund

The Authority collects certain taxes on behalf of the General Fund of the Commonwealth. The state tax on sales (excise tax) is collected from store sales and is paid quarterly to the General Fund of the Commonwealth. The liter tax is collected on wholesalers' direct wine shipments. The 2019 Virginia Acts of Assembly required \$9,141,363 of the gross liter tax to be disbursed to the General Fund for expenses incurred for care, treatment, study, and rehabilitation of alcoholics by the Department of Behavioral Health and Development Services and other state agencies. Of the remaining liter tax, 12% is retained by the Authority and reported as wine wholesalers' tax on the Authority's financial statements. The remaining 88% is paid to the General Fund of the Commonwealth quarterly. Collections and disbursements of state tax on sales and liter tax are not reported on the Statement of Revenues, Expenses, and Changes in Net Position. Activity relating to the amounts due to the General Fund for the year ended June 30, 2019, is summarized below.

	<u>Excise Tax</u>	<u>Liter Tax on Wine</u>	<u>Total</u>
Balance due to the General Fund, July 1, 2018	\$2,054,676	\$507,728	\$2,562,404
Receipts for fiscal year	174,144,519	38,465,862	212,610,381
Disbursements to the General Fund	(172,248,281)	(36,843,460)	(209,091,741)
Balance due to the General Fund, June 30, 2019	<u>\$ 3,950,914</u>	<u>\$ 2,130,130</u>	<u>\$ 6,081,044</u>

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FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS—As of June 30, 2019

C. Department of Taxation – Sales Tax

The Authority collects sales tax on all sales of alcohol and remits collections monthly to the Commonwealth of Virginia's Department of Taxation ("Taxation"). Sales tax collections and disbursements are not reported on the Statement of Revenues, Expenses, and Changes in Net Position. Activity relating to the amounts due to Taxation for the year ended June 30, 2019, is summarized on the next page.

Balance due to the Department of Taxation, July 1, 2018	\$	574,267
Sales Tax Collections		48,846,783
Disbursements to the Department of Taxation		(48,780,900)
Balance due to the Department of Taxation, June 30, 2019	\$	<u>640,150</u>

D. Earned Surplus

The Appropriation Act, Chapter 836 of the 2018 Acts of Assembly, requires the Authority to disburse an estimate of its fourth quarter profits in the month of June. In accordance with the Alcoholic Beverage Control Act, §4.1-116 of the Code of Virginia, the Authority disburses any additional net profit to the General Fund of the Commonwealth 50 days after the last day of the quarter. The Authority underestimated profit for the fourth quarter resulting in an additional \$5,847,551 due to the General Fund at June 30, 2019.

5. LEASE COMMITMENTS

The Authority is committed under various operating lease agreements for retail store buildings. Rent expense under operating lease agreements amounted to \$28,409,168 for the year. A summary of future obligations under lease agreements as of June 30, 2019, follows.

Year Ending June 30,		
2020	\$	27,160,206
2021		23,985,046
2022		19,298,666
2023		14,342,252
2024		10,605,317
2025-2029		<u>16,779,989</u>
Total Obligations	\$	<u>112,171,476</u>

6. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Position represent the amounts of paid time off (PTO), annual leave and compensatory leave earned by employees of the Authority, but not taken as of June 30, 2019. The Authority transitioned to a PTO system on January 10, 2019. The amount reflects all earned vacation and compensatory leave payable under the Authority's PTO policy. Employees accrue PTO leave at a rate of eight to 13 hours semi-monthly, depending on their length of service. The maximum leave accumulation per year is dependent upon years of service, but in no case may it exceed 360 hours at the end of the leave year. The maximum compensation for Annual Leave Bank and PTO payouts is 336 hours.

Balance at July 01, 2018	Short Term Increase	Long Term Decrease	Balance at June 30, 2019	Amounts due within one year
<u>\$5,823,785</u>	<u>\$559,432</u>	<u>\$(280,776)</u>	<u>\$6,102,441</u>	<u>\$4,828,725</u>

7. ACCOUNTS PAYABLE

The Authority's accounts payable and accrued liabilities consisted of the following as of June 30, 2019:

Vouchers Payable	\$	(33,336,939)
Payroll Payables		(7,044,083)
Disbursements Pending		<u>(7,560)</u>
Total Accounts Payable	\$	<u>(40,388,582)</u>

Vouchers payable represent liabilities of the Authority that are related to the current fiscal year but are billed and scheduled to be paid in the next fiscal year. Disbursements pending represent liabilities of the Authority that are related to the current fiscal year and have been billed in the current fiscal year but for which payment is pending.

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8. COLLECTIONS OF MALT BEVERAGE TAX

During the year ended June 30, 2019, the Authority collected \$41,383,922 in malt beverage taxes. These funds are deposited by the Authority directly with the Treasurer of Virginia for credit to the General Fund of the Commonwealth and are not available to the Authority to meet current operating needs and are not included in the financial statements.

9. PENSION PLAN

A. Plan Descriptions

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and Hybrid; and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below.

B. Retirement Plan Provisions By Plan Structures

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1	About Plan 2	About the Hybrid Retirement Plan
Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.	Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.	The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members	Eligible Members	Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.	Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: <ul style="list-style-type: none"> • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014

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B. Retirement Plan Provisions By Plan Structures *(continued)*

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election</p> <p>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election</p> <p>VRS non-hazardous duty covered Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members</p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the Virginia Law Officers’ Retirement System (VaLORS) <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions</p> <p>State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions</p> <p>Same as Plan 1.</p>	<p>Retirement Contributions</p> <p>A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

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B. Retirement Plan Provisions By Plan Structures *(continued)*

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service</p> <p>Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance.</p>	<p>Creditable Service</p> <p>Same as Plan 1.</p>	<p>Creditable Service</p> <p><u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting</p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan.</p> <p>Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p><u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>

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B. Retirement Plan Provisions By Plan Structures (continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting, continued	Vesting, continued	Vesting, continued
		<p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
Calculating the Benefit	Calculating the Benefit	Calculating the Benefit
<p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	See definition under Plan 1.	<p>Defined Benefit Component: See definition under Plan 1.</p> <p>Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
Average Final Compensation	Average Final Compensation	Average Final Compensation
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	Service Retirement Multiplier	Service Retirement Multiplier
<p>VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>ValORS: The retirement multiplier for ValORS employees is 1.70% or 2.00%.</p>	<p>VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For nonhazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>ValORS: The retirement multiplier for ValORS employees is 2.00%.</p>	<p>Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>ValORS: Not applicable.</p> <p>Defined Contribution Component: Not applicable</p>

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B. Retirement Plan Provisions By Plan Structures *(continued)*

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Normal Retirement Age	Normal Retirement Age	Normal Retirement Age
VRS: Age 65. VaLORS: Age 60.	VRS: Normal Social Security retirement age. VaLORS: Same as Plan 1	Defined Benefit Component: VRS: Same as Plan 2. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility	Earliest Unreduced Retirement Eligibility	Earliest Unreduced Retirement Eligibility
VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. VaLORS: Same as Plan 1.	Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility	Earliest Reduced Retirement Eligibility	Earliest Reduced Retirement Eligibility
VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. VaLORS: 50 with at least five years of creditable service.	VRS: Age 60 with at least five years (60 months) of creditable service. VaLORS: Same as Plan 1.	Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of creditable service. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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B. Retirement Plan Provisions By Plan Structures *(continued)*

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility:</p> <p>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility:</p> <p>Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>Defined Benefit Component:</p> <p>Same as Plan 2.</p> <p>Defined Contribution Component:</p> <p>Not applicable.</p> <p>Eligibility:</p> <p>Same as Plan 1 and Plan 2.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement, <i>continued</i></p> <p>Exceptions to COLA Effective Dates:</p> <p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement, <i>continued</i></p> <p>Exceptions to COLA Effective Dates:</p> <p>Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement, <i>continued</i></p> <p>Exceptions to COLA Effective Dates:</p> <p>Same as Plan 1 and Plan 2.</p>

B. Retirement Plan Provisions By Plan Structures *(continued)*

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage	Disability Coverage	Disability Coverage
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service	Purchase of Prior Service	Purchase of Prior Service
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	Defined Benefit Component: Same as Plan 1, with the following exception: <ul style="list-style-type: none">• Hybrid Retirement Plan members are ineligible for ported service. Defined Contribution Component: Not applicable.

C. Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each state agency’s contractually required employer contribution rate for the fiscal year ended June 30, 2019 was 13.52% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 24.88% of covered employee compensation. These rates were based on an actuarially determined rate(s) from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS State Employee Retirement Plan were \$5,875,052 and \$5,731,608 for the years ended June 30, 2019, and June 30, 2018, respectively. Contributions from the Authority to the VaLORS Retirement Plan were \$1,218,291 and \$1,200,324 for the years ended June 30, 2019, and June 30, 2018, respectively.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Authority reported a liability of \$60,199,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$10,284,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Authority’s proportion of the Net Pension Liability was based on the Authority’s actuarially determined employer contributions to the pension plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Authority’s proportion of the VRS State Employee Retirement Plan was 1.11198% as compared to 1.07629% at June 30, 2017. At June 30, 2018, the Authority’s proportion of the VaLORS Retirement Plan was 1.65029% as compared to 1.68625% at June 30, 2017.

For the year ended June 30, 2019, the Authority recognized pension expense of \$3,848,000 for the VRS State Employee Retirement Plan and (\$322,000) for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2017, and June 30, 2018, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS—As of June 30, 2019

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,000	\$ 3,928,000
Net difference between projected and actual earnings on pension plan investments	-	1,741,000
Changes in assumptions	403,000	361,000
Changes in proportion and differences between:		
Employer contributions and proportionate share of contributions	2,618,000	531,000
Employer contributions subsequent to the measurement date	7,093,343	-
Total	<u>\$ 10,120,343</u>	<u>\$ 6,561,000</u>

\$7,093,343 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30,

FY 2020	(386,000)
FY 2021	(433,000)
FY 2022	(2,532,000)
FY 2023	(183,000)
FY 2024	0

E. Actuarial Assumptions

- The total pension liability for the **VRS State Employee Retirement Plan** was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including Inflation	3.5 – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

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Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No Change
Line of Duty Disability	Increase rate from 14% to 25%

2. The total pension liability for the **ValORS Retirement Plan** was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including Inflation	3.5 – 4.75%
Investment rate of return	7%, net of pension plan investment expense, including inflation*

* *Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.*

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant at ages 50 and older projected with Scale BB; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 1 year.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No Change
Line of Duty Disability	Decrease rate from 50% to 35%

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F. Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASBS No. 67, less that system's fiduciary net position. As of June 30, 2018, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan	VaLORS Retirement Plan
Total Pension Liability	\$ 23,945,821	\$ 2,047,161
Plan Fiduciary Net Position	18,532,189	1,423,980
Employers' Net Pension Liability (Asset)	<u>\$ 5,413,632</u>	<u>\$ 623,181</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.39%	69.56%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASBS No. 67 in the System's notes to the financial statements and required supplementary information.

G. Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
	<u>100.00%</u>		<u>4.80%</u>
		Inflation	2.50%
	*Expected arithmetic nominal return		<u>7.30%</u>

** The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.*

H. Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the Authority for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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I. Sensitivity of the Authority’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

1. The following presents the Authority’s proportionate share of the **VRS State Employee Retirement Plan** net pension liability using the discount rate of 7.00%, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Authority’s proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 91,144,000	\$ 60,199,000	\$ 34,150,000

2. The following presents the Authority’s proportionate share of the **VaLORS Retirement Plan** net pension liability using the discount rate of 7.00%, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Authority’s proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$ 14,594,000	\$ 10,284,000	\$ 6,716,000

J. Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan’s Fiduciary Net Position or the VaLORS Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annualreport.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

K. Payables to the Pension Plan

At June 30, 2019, the Authority had accrued retirement contributions payable to the pension plan of \$462,373, including \$412,115 payable to the VRS State Employee Retirement Plan and \$50,258 payable to the VaLORS Retirement Plan. The payable is based on retirement contributions earned by Authority employees through June 30, 2019, but not yet paid to the plan.

10. OTHER POSTEMPLOYMENT BENEFITS

A. Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare.

Eligibility requirements for **Virginia Retirement System retirees**:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- You start receiving (do not defer) your retirement benefit immediately upon retirement*, and
- Your last employer before retirement was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date.

Eligibility requirements for **Optional Retirement Plan retirees**, effective January 1, 2017*:

- You are a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- Your last employer before termination was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of your termination, and

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- You meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had you not elected the ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days from the date you lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to your termination of employment.

**This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at the time of their termination.*

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,200 retirees and 91,800 active employees in the program in fiscal year 2018. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

1. Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62% for medical and pharmacy and 4.0% for dental. The ultimate trend rates used were 5.0% for medical and pharmacy and 4.0% for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2018 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.19 years
Discount Rate	3.87%
Projected Salary Increases	4.00%
Medical Trend Under 65	Medical & Rx: 8.21% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males and females setback 1 year.
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2018.

Changes of Assumptions: The following actuarial assumptions were updated since the June 30, 2017 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 50% to 35%
- Retiree Participation – reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB to 2020. Additionally, the discount rate was increased from 3.58% to 3.87% based on the Bond Buyers GO 20 Municipal Bond Index.

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2. Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At June 30, 2019 the employer reported a liability of \$11,535,795 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$1.0 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2018. The covered employer’s proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer’s healthcare premium contributions as a percentage of the total employer’s healthcare premium contributions for all participating employers. At June 30, 2018, the participating employer’s proportion was 1.14711% as compared to 1.11235% at June 30, 2017. For the year ended June 30, 2019, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of \$366,758.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Deferred Outflows of Resources	Deferred Outflows of Resources
Difference between actual and expected experience	\$ -	\$ 2,325,948
Changes in assumptions	-	4,613,766
Changes in proportion	751,865	-
Sub Total	751,865	6,939,714
Amounts associated with transactions subsequent to the measurement date	474,283	-
Total	\$ 1,226,148	\$6,939,714

\$474,283 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year Ended June 30,

2020	\$ (1,284,428)
2021	\$ (1,284,428)
2022	\$ (1,284,428)
2023	\$ (1,284,428)
2024	\$ (925,680)
Total Thereafter	\$ (124,457)

3. Sensitivity of the Employer’s Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.87%, as well as what the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Rate (3.87%)	1% Increase (4.87%)
OPEB Liability	\$ 12,342,981	\$ 11,535,795	\$ 10,768,234

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4. Sensitivity of the Employer’s Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.21% decreasing to 5%, as well as what the employer’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.21% decreasing to 4.0%) or one percentage point higher (9.21% decreasing to 6.0%) than the current rate:

	1.00% Decrease (7.21% decreasing to 4.00%)	Current Discount Rate (8.21% decreasing to 5.00%)	1.00% Increase (9.21% decreasing to 6.00%)
OPEB Liability	\$ 10,289,188	\$ 11,535,795	\$ 13,001,109

B. State Employee Health Insurance Credit Program

1. Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the VRS, along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the Virginia General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree’s death.

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out below:

2. Provisions

a. Eligible Employees

The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include: full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.

b. Benefit Amounts

The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- At Retirement – For State employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.
- Disability Retirement – For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.

For State police officer’s employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.

For State police officers with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.

c. Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

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3. Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency’s contractually required employer contribution rate for the year ended June 30, 2019, was 1.17% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS State Employee Health Insurance Credit Program were \$630,505 and \$613,224 for the years ended June 30, 2019, and June 30, 2018, respectively.

4. State Employee Health Insurance Credit Program OPEB Liabilities, State Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to State Employee Health Insurance Credit Program OPEB

At June 30, 2019, the Authority reported a liability of \$7,040,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2018, and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The Authority’s proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Authority’s actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2018, the Authority’s proportion of the VRS State Employee Health Insurance Credit Program was 0.77167% as compared to 0.75910% at June 30, 2017.

For the year ended June 30, 2019, the Authority recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$572,000. Since there was a change in proportionate share between measurement dates, a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows	Deferred Outflows
Difference between actual and expected experience	\$ 6,000	\$ -
Net difference between projected and actual earnings		
on State HIC OPEB plan investments	-	11,000
Changes in assumptions	-	64,000
Changes in proportion	179,000	90,000
Employer contributions subsequent to the measurement date	630,505	-
Total	\$ 815,505	\$ 165,000

\$630,505 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30,

FY 2020	\$ (1,000)
FY 2021	\$ (1,000)
FY 2022	\$ (1,000)
FY 2023	\$ 3,000
FY 2024	\$ 18,000
Thereafter	\$ 2,000

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5. Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including Inflation	
General state employees	3.5% – 5.35%
SPORS employees	3.5% – 4.75%
VaLORS employees	3.5% – 4.75%
JRS employees	4.5%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

For the following Mortality Rates, see “Notes to Financial Statements: Appendix”

- Mortality rates – General State Employees, page 99.
- Mortality rates – SPORS Employees, page 99.
- Mortality rates – VaLORS Employees, page 100.
- Mortality rates – JRS Employees, page 100.

6. Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program’s total OPEB liability determined in accordance with GASBS No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

	State Employee HIC OPEB Plan	
	<hr/>	
Total State Employee HIC OPEB Liability	\$	1,008,184
Plan Fiduciary Net Position		95,908
State Employee net HIC OPEB Liability (Asset)	<hr/>	<hr/> \$ 912,276
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability		9.51%

The total State Employee HIC OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GASBS No. 74 in the System’s notes to the financial statements and required supplementary information.

7. Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

** The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.*

8. Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by the Authority for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

9. Sensitivity of the Authority’s Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority’s proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the Authority’s proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
The Authority’s proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 7,786,000	\$ 7,040,000	\$ 6,398,000

10. State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee Health Insurance Credit Program’s Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

11. Payables to the State Employee Health Insurance Credit Program OPEB Plan

At June 30, 2019, the Authority had accrued health insurance credit contributions payable to the OPEB plan of \$37,837. The payable is based on OPEB contributions earned by Authority employees through June 30, 2019, but not yet paid to the plan.

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C. Group Life Insurance

1. Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out below:

2. Provisions

a. Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

b. Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

1. Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
2. Accidental Death Benefit – The accidental death benefit is double the natural death benefit.
3. Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

c. Reduction in Benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

d. Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

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3. Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer’s contractually required employer contribution rate for the year ended June 30, 2019, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$270,292 and \$271,674 for the years ended June 30, 2019, and June 30, 2018, respectively.

4. GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2019, the entities reported a liability of \$4,153,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer’s proportion of the Net GLI OPEB Liability was based on the covered employer’s actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer’s proportion was 0.27337% as compared to 0.26635% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$46,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 203,000	\$ 75,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	135,000
Changes in assumptions	-	173,000
Changes in proportionate share	153,000	55,000
Employer contributions subsequent to the measurement date	271,457	-
Total	\$ 627,457	\$ 438,000

\$271,457 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30,

FY 2020	\$ (45,000)
FY 2021	\$ (45,000)
FY 2022	\$ (45,000)
FY 2023	\$ (5,000)
FY 2024	\$ 34,000
Thereafter	\$ 24,000

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5. Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5 %
Salary increases, including Inflation	
General state employees	3.5 – 5.35%
Teachers	3.5 – 5.95%
SPORS employees	3.5 – 4.75%
VaLORS employees	3.5 – 4.75%
JRS employees	4.5%
Locality - General employees	3.5 – 5.35%
Locality - Hazardous Duty employees	3.5 – 4.75%
Investment rate of return	7.0%, net of plan investment expenses, including inflation*

* *Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.*

For the following Mortality Rates, see “Notes to Financial Statements: Appendix”

- Mortality rates – General State Employees, page 99.
- Mortality rates – SPORS Employees, page 99.
- Mortality rates – VaLORS Employees, page 100.
- Mortality rates – JRS Employees, page 100.
- Mortality rates – Largest Ten Locality Employers - General Employees, page 101.
- Mortality rates – Non-Largest Ten Locality Employers - General Employees, page 101.
- Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees, page 102.
- Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees, page 102.

6. Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program’s total OPEB liability determined in accordance with GASBS No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,113,508
Plan Fiduciary Net Position	1,594,773
Employers’ Net GLI OPEB Liability (Asset)	<u>\$ 1,518,735</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASBS No. 74 in the System’s notes to the financial statements and required supplementary information.

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7. Long-Term Expected Rate of Return

The long-term expected rate of return on the System’s investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.5%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

8. Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

9. Sensitivity of the Employer’s Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer’s proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer’s proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer’s proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 5,427,000	\$ 4,153,000	\$ 3,118,000

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10. Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

11. Payables to the Group Life Insurance OPEB Plan

At June 30, 2019, the Authority had accrued group life insurance contributions payable to the OPEB plan of \$42,364. The payable is based on OPEB contributions earned by Authority employees through June 30, 2019, but not yet paid to the plan.

D. VRS Disability Insurance Program

1. Plan Description

All full-time and part-time permanent salaried state employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) hired on or after January 1, 1999, are automatically covered by the Disability Insurance Program (VSDP) upon employment. The Disability Insurance Program also covers state employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out below:

2. Provisions

a. Eligible Employees

The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP).
- State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement.
- Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.

b. Benefit Amounts

The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees:

- *Short-Term Disability* – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer.
- *Long-Term Disability (LTD)* – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan.
- *Income Replacement Adjustment* – The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- *VSDP Long-Term Care Plan* – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

c. Disability Insurance Program (VSDP) Plan Notes

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up five years of VSDP benefits.
- Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

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d. Cost-of-Living Adjustment (COLA)

1. During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
 - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
 - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).
2. For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
 - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.
3. For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
 - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

3. Contributions

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer’s contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 2019, was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from the entity were \$322,829 and \$315,270 for the years ended June 30, 2019, and June 30, 2018, respectively.

4. Disability Insurance Program (VSDP) OPEB Liabilities (Assets), VSDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the VSDP OPEB

At June 30, 2019, the entity reported an asset of \$2,728,000 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB Asset was measured as of June 30, 2018 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Asset was determined by an actuarial valuation as of that date. The Authority’s proportion of the Net VSDP OPEB Asset was based on the Authority’s actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Authority’s proportion was 1.21104% as compared to 1.16695% at June 30, 2017.

For the year ended June 30, 2019, the Authority recognized VSDP OPEB expense of \$130,000. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 116,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	161,000
Changes in assumptions	-	161,000
Changes in proportionate share	5,000	104,000
Employer contributions subsequent to the measurement date	322,829	-
Total	\$ 322,834	\$ 542,000

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\$322,829 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Authority’s contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Asset in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Year Ended June 30,

FY 2020	\$ (114,000)
FY 2021	\$ (114,000)
FY 2022	\$ (114,000)
FY 2023	\$ (66,000)
FY 2024	\$ (61,000)
Thereafter	\$ (68,000)

5. Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including Inflation,	
General state employees	3.5 – 5.35%
SPORS employees	3.5 – 4.75%
VaLORS employees	3.5 – 4.75%
Investment rate of return	7.0%, net of OPEB plan investment expenses, including inflation*

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.*

For the following Mortality Rates, see “Notes to Financial Statements: Appendix”

- Mortality rates – General State Employees, page 99.
- Mortality rates – SPORS Employees, page 99.
- Mortality rates – VaLORS Employees, page 100.

6. Net VSDP OPEB Liability (Asset)

The net OPEB asset (NOA) for the Disability Insurance Program (VSDP) represents the program’s total OPEB liability determined in accordance with GASBS No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOA amounts for the Disability Insurance Program (VSDP) are as follows (amounts expressed in thousands):

	Disability Insurance Program
Total VSDP OPEB Liability	\$ 237,733
Plan Fiduciary Net Position	462,961
Employers’ Net OPEB Liability (Asset)	<u>\$ 225,228</u>
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	194.74%

The total VSDP OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net OPEB asset is disclosed in accordance with the requirements of GASBS No. 74 in the System’s notes to the financial statements and required supplementary information.

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7. Long-Term Expected Rate of Return

The long-term expected rate of return on System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.5%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

8. Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by participating employers to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VSDP OPEB Program’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VSDP OPEB liability.

9. Sensitivity of the Authority’s Proportionate Share of the Net VSDP OPEB Liability Asset to Changes in the Discount Rate

The following presents the Authority’s proportionate share of the net VSDP OPEB asset using the discount rate of 7.00%, as well as what the Authority’s proportionate share of the net VSDP OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
The Authority’s proportionate share of the total VSDP Net OPEB Asset	\$ (2,630,000)	\$ (2,728,000)	\$ (2,812,000)

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10. VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (VSDP) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

11. Payables to the VSDP OPEB Plan

At June 30, 2019, the Authority had accrued VSDP contributions payable to the OPEB plan of \$19,949. The payable is based on OPEB contributions earned by Authority employees through June 30, 2019, but not yet paid to the plan.

E. Line of Duty Act Program

1. Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers’ Retirement System (SPORS), or the Virginia Law Officers’ Retirement System (VaLORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System’s actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out below:

2. Provisions

a. Eligible Employees

The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers’ Retirement System (SPORS), or the Virginia Law Officers’ Retirement System (VaLORS).

b. Benefit Amounts

The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:

1. Death – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:

- \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after.
- \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.
- An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.

2. Health Insurance – The Line of Duty Act program provides health insurance benefits.

- Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee’s death or disability. These premiums were reimbursed to the employer by the LODA program.
- Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

3. Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1- 400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer’s contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2019, was \$705.77 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017, and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the entity were \$73,400 and \$57,872 for the years ended June 30, 2019, and June 30, 2018, respectively.

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4. Line of Duty Act Program (LODA) OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2019, the entity reported a liability of \$1,704,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2018, and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2018, relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2018, the entity's proportion was 0.54331% as compared to 0.51555% at June 30, 2017.

For the year ended June 30, 2019, the entity recognized LODA OPEB expense of \$112,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 245,000	\$ 1,000
Net difference between projected and actual earnings on State LODA OPEB plan investments	-	4,000
Changes in assumptions	-	196,000
Changes in proportionate share	71,000	244,000
Employer contributions subsequent to the measurement date	73,400	-
Total	\$ 389,400	\$ 445,000

\$73,400 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year Ended June 30,

FY 2020	\$ (20,000)
FY 2021	\$ (20,000)
FY 2022	\$ (20,000)
FY 2023	\$ (19,000)
FY 2024	\$ (18,000)
Thereafter	\$ (32,000)

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5. Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including Inflation	
General state employees	3.5 – 5.35%
SPORS employees	3.5 – 4.75%
VaLORS employees	3.5 – 4.75%
Locality employees	3.5 – 4.75%
Medical cost trend rates assumption –	
Under age 65	7.75 – 5.00%
Ages 65 and older	5.75 – 5.00%
Year of ultimate trend rate	Fiscal year ended 2024
Investment rate of return	3.89%, net of OPEB plan Investment expenses, including inflation*

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.89%. However, since the difference was minimal, a more conservative 3.89% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return.*

For the following Mortality Rates, see “Notes to Financial Statements: Appendix”

- Mortality rates – General State Employees, page 99.
- Mortality rates – SPORS Employees, page 99.
- Mortality rates – VaLORS Employees, page 100.
- Mortality rates – Largest Ten Locality Employers with Public Safety Employees, page 103.
- Mortality rates – Non-Largest Ten Locality Employers with Public Safety Employees, page 103.

6. Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2017, actuarial valuation results which were rolled forward to the measurement date of June 30, 2018. There is limited actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be monitored and factored into future actuarial valuations for the LODA Program if and when sufficient experience develops.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for the periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when the System certifies current income exceeds salary at the time of the disability, indexed for inflation.

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7. Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOL amounts for the Line of Duty Act Program (LODA) are as follows (amounts expressed in thousands):

	Line of Duty Act Program	
Total LODA OPEB Liability	\$	315,395
Plan Fiduciary Net Position		1,889
Employees' Net OPEB Liability (Asset)	\$	313,506
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability		0.60%

The total LODA OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

8. Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program’s investments was set at 3.89% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2018.

9. Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.89%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

10. Sensitivity of the Covered Employer’s Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the covered employer’s proportionate share of the net LODA OPEB liability using the discount rate of 3.89%, as well as what the covered employer’s proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.89%) or one percentage point higher (4.89%) than the current rate:

	1.00% Decrease (2.89%)	Current Discount Rate (3.89%)	1.00% Increase (4.89%)
Covered employer’s proportionate share of the total LODA Net OPEB Liability	\$ 1,952,000	\$ 1,704,000	\$ 1,504,000

11. Sensitivity of the Covered Employer’s Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer’s proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer’s proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

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	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Covered employer's proportionate share of the total LODA Net OPEB Liability	\$ 1,451,000	\$ 1,704,000	\$ 2,017,000

12. LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Authority participates in insurance plans maintained by the Commonwealth. The Commonwealth employee health care and workers' compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Authority pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's CAFR.

12. CONTINGENT LIABILITIES

A. Legal Proceedings

At any given time, the Authority may be a named party in legal proceedings. Normally these are worker compensation or human resources matters and administrative appeals. These matters are not considered to be significant legal proceedings. However, it is not possible to estimate the ultimate outcome or liability, if any, on the Authority. It is believed that any ultimate liability resulting from any legal proceedings known at this time will not have a material adverse effect on the financial condition of the Authority.

B. Bailment Inventory

The Authority houses and controls bailment inventory in the warehouse and is, therefore, responsible for the exercise of reasonable care to preserve the inventory until it is purchased by the Authority or returned to the supplier. The Authority uses the bailment system for payment of merchandise for resale. The Authority initiates payments to the vendors based on shipments from the Authority's warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2019, the bailment inventory was valued at \$50,124,139.

13. SUBSEQUENT EVENTS

The Authority purchased 39.79 acres of land in Hanover County to build a new central office and warehouse to replace the existing facilities. The purchase was completed on July 23, 2019, for approximately \$10 million.

• **GENERAL STATE EMPLOYEES**

Mortality Rates

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No Change
Line of Duty Disability	Increased rate from 14% to 25%

• **State Police Officers’ retirement system (SPORS) Employees**

Mortality Rates

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No Change
Line of Duty Disability	Increased rate from 60% to 85%

• **VALORS Employees**

Mortality Rates

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No Change
Line of Duty Disability	Decreased rate from 50% to 35%

• **Judicial Retirement System (JRS) Employees**

Mortality Rates

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

Changes to Actuarial Assumptions

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No Change
Disability Rates	Removed disability rates
Salary Scale	No Change

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• **Largest Ten Locality Employers - General Employees**

Mortality Rates

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No Change
Line of Duty Disability	Increased rate from 14% to 20%

• **Mortality Rates – Non-Largest Ten Locality Employers - General Employees**

Mortality Rates

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No Change
Line of Duty Disability	Increased rate from 14% to 15%

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• **Largest Ten Locality Employers – Hazardous Duty Employees**

Mortality Rates

Pre-Retirement:
 RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
 RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
 RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No Change
Line of Duty Disability	Increased rate from 60% to 70%

• **Non-Largest Ten Locality Employers – Hazardous Duty Employees**

Mortality Rates

Pre-Retirement:
 RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
 RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
 RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No Change
Line of Duty Disability	Decreased rate from 60% to 45%

• **Largest Ten Locality Employers with Public Safety Employees**

Mortality Rates

Pre-Retirement:
 RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
 RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
 RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No Change
Line of Duty Disability	Increased rate from 60% to 70%

• **Non-Largest Ten Locality Employers with Public Safety Employees**

Mortality Rates

Pre-Retirement:
 RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
 RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years

Post-Disablement:
 RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Changes to Actuarial Assumptions

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No Change
Line of Duty Disability	Decreased rate from 60% to 45%

REQUIRED SUPPLEMENTARY INFORMATION
Cost-Sharing Employer Plans: VRS State Employee Retirement Plan
For the Fiscal Year Ended June 30, 2019



Schedule of Employer's Share of Net Pension Liability — VRS State Employee Retirement Plan
For the Measurement Dates of June 30, 2018, 2017, 2016, 2015 and 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's Proportion of the Net Pension Liability (Asset)	1.11%	1.08%	1.05%	1.03%	1.01%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 60,199,000	\$ 62,721,000	\$ 69,227,000	\$ 63,182,000	\$ 56,734,000
Employer's Covered Payroll	\$ 46,170,798	\$ 43,178,236	\$ 41,564,222	\$ 39,813,992	\$ 39,286,362
Employer's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	130.38%	145.26%	166.55%	158.69%	144.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>77.39%</u>	<u>75.33%</u>	<u>71.29%</u>	<u>72.81%</u>	<u>74.28%</u>

Schedule is intended to show information for 10 years. Since 2018 is the fifth year for this presentation, there are only five years available. However, additional years will be included as they become available.

Schedule of Employer Contributions — VRS State Employee Retirement Plan
For the Years Ended June 30, 2015 through 2019

<u>Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Payroll</u>	<u>Contributions as a % of Covered Payroll</u>
2019	\$ 5,875,052	\$ 5,875,052	\$ -	\$ 48,154,635	12.20%
2018	\$ 5,731,608	\$ 5,731,608	\$ -	\$ 46,170,798	12.41%
2017	\$ 5,140,864	\$ 5,140,864	\$ -	\$ 43,178,236	11.91%
2016	\$ 5,753,321	\$ 5,753,321	\$ -	\$ 41,564,222	13.84%
2015	\$ 4,863,085	\$ 4,863,085	\$ -	\$ 39,813,992	12.21%

Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, there are only five years available. However, additional years will be included as they become available.

continued on next page

REQUIRED SUPPLEMENTARY INFORMATION

Cost-Sharing Employer Plans: VaLORS Retirement Plan

For the Fiscal Year Ended June 30, 2019



Schedule of Employer's Share of Net Pension Liability —VaLORS Plan For the Measurement Dates of June 30, 2018, 2017, 2016 and 2015 and 2014

	2018	2017	2016	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	1.65%	1.69%	1.78%	1.99%	2.00%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 10,284,000	\$ 11,067,000	\$ 13,798,000	\$ 14,143,000	\$ 13,470,000
Employer's Covered Payroll	\$ 5,700,678	\$ 5,754,835	\$ 6,172,009	\$ 6,734,463	\$ 6,916,426
Employer's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	180.40%	192.31%	223.56%	210.01%	194.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.56%	67.22%	61.01%	62.64%	63.05%

Schedule is intended to show information for 10 years. Since 2018 is the fifth year for this presentation, there are only five years available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS —VALORS PLAN For the years ended June 30, 2015 through 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 1,218,291	\$ 1,218,291	\$ -	\$ 5,569,913	21.87%
2018	\$ 1,200,324	\$ 1,200,324	\$ -	\$ 5,700,678	21.06%
2017	\$ 1,222,092	\$ 1,222,092	\$ -	\$ 5,754,835	21.24%
2016	\$ 1,160,053	\$ 1,160,053	\$ -	\$ 6,172,009	18.80%
2015	\$ 1,189,987	\$ 1,189,987	\$ -	\$ 6,734,463	17.67%

Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, there are only five years available. However, additional years will be included as they become available.

Notes to Required Supplementary Information — For the Year Ended June 30, 2019

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions –

See page 99 for changes in actuarial assumptions were made for the **VRS - State Employee Retirement Plan** effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016.

See page 100 for changes in actuarial assumptions were made for the **VaLORS Retirement Plan** effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees

For the Fiscal Year Ended June 30, 2019



SCHEDULE OF EMPLOYER'S SHARE OF TOTAL OPEB LIABILITY

For the Years ended June 30, 2018 through 2019

	2018*	2019*
Employer's proportion of the collective total OPEB liability	1.11%	1.15%
Employer's proportionate share of the collective total OPEB liability	\$ 14,448,345	\$ 11,535,795
Employer's covered-employee payroll	\$ 49,118,624	\$ 54,656,476
Employer's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	29.42%	21.11%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

** The amounts presented have a measurement date of the previous fiscal year end.*

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2018

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms - There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following actuarial assumptions were updated since the June 30, 2017, valuation based on recent experience:

- Spousal Coverage - reduced the rate from 50% to 35%
- Retiree Participation - reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB to 2020. Additionally, the discount rate was increased from 3.58% to 3.87% based on the Bond Buyers GO 20 Municipal Bond Index.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)**Health Insurance Credit Program (HIC)**

For the Fiscal Year Ended June 30, 2019


Schedule of Employer's Share of Net OPEB Liability — Health Insurance Credit Program (HIC)
 For the measurement dates of June 30, 2018 and 2017

	2018	2017
Employer's Proportion of the Net HIC OPEB Liability (Asset)	0.7717%	0.7591%
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)	\$ 7,040,000	\$ 6,912,000
Employer's Covered Payroll	\$ 52,007,392	\$ 49,062,189
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	13.54%	14.09%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	9.51%	8.03%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

Schedule of Employer Contributions — Health Insurance Credit Program (HIC)
 For the year ended June 30, 2018 through 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 630,723	\$ 630,505	\$ 218	\$ 53,907,914	1.17%
2018	\$ 613,687	\$ 613,224	\$ 463	\$ 52,007,392	1.18%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information — For the Year Ended June 30, 2019

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – Changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016.

For the following changes to actuarial assumptions, see "Notes to Financial Statements: Appendix"

- General State Employees, page 99
- SPORS Employees, page 99
- VaLORS Employees, page 100
- JRS Employees, page 100

REQUIRED SUPPLEMENTARY INFORMATION (RSI)**Group Life Insurance (GLI) Program**

For the Fiscal Year Ended June 30, 2019

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY — GROUP LIFE INSURANCE PROGRAM (GLI)**

For the measurement dates of June 30, 2018 and 2017

	2018	2017
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.27337%	0.26635%
Employer's Proportionate Share of the Net		
GLI OPEB Liability (Asset)	\$ 4,153,000	\$ 4,009,000
Employer's Covered Payroll	\$ 52,040,245	\$ 49,118,624
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	7.98%	8.16%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS — GROUP LIFE INSURANCE PROGRAM (GLI)

For the year ended June 30, 2018 through 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 280,682	\$ 271,457	\$ 9,225	\$ 53,977,296	0.50%
2018	\$ 270,609	\$ 270,292	\$ 317	\$ 52,040,245	0.52%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – Changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016.

For the following changes to actuarial assumptions, see "Notes to Financial Statements: Appendix"

- General State Employees, page 99
- SPORS Employees, page 99
- VaLORS Employees, page 100
- JRS Employees, page 100
- Largest Ten Locality Employers - General Employees, page 101
- Non-Largest Ten Locality Employers - General Employees, page 101
- Largest Ten Locality Employers - Hazardous Duty Employees, page 102
- Non-Largest Ten Locality Employers - Hazardous Duty Employees, page 102

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REQUIRED SUPPLEMENTARY INFORMATION (RSI)**Disability Insurance Program (VSDP)**

For the Fiscal Year Ended June 30, 2019

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY — DISABILITY INSURANCE PROGRAM (VSDP)**

For the measurement dates of June 30, 2018 and 2017

	2018	2017
Employer's Proportion of the Net VSDP OPEB Liability (Asset)	1.21104%	1.11695%
Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset)	\$ (2,728,000)	\$ (2,395,000)
Employer's Covered Payroll	\$ 47,785,688	\$ 43,797,565
Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	-5.71%	-5.47%
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	194.74%	186.63%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS — DISABILITY INSURANCE PROGRAM (VSDP)

For the years ended June 30, 2018 through 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 321,487	\$ 322,829	\$ (1,342)	\$ 51,852,685	0.62%
2018	\$ 315,386	\$ 315,270	\$ 116	\$ 47,785,688	0.66%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION — For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – Changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016.

For the following changes to actuarial assumptions, see "Notes to Financial Statements: Appendix"

- Mortality rates – General State Employees, page 99
- Mortality rates – SPORS Employees, page 99
- Mortality rates – VaLORS Employees, page 100

REQUIRED SUPPLEMENTARY INFORMATION (RSI)**Line of Duty Act Program (LODA)**

For the Fiscal Year Ended June 30, 2018

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY — LINE OF DUTY ACT PROGRAM (LODA)**

For the measurement dates of June 30, 2018 and 2017

	2018	2017
Employer's Proportion of the Net VSDP OPEB (Asset)	0.54331%	0.51555%
Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset)	\$ 1,704,000	\$ 1,355,000
Employer's Covered Payroll	\$ 5,602,849	\$ 5,998,207
Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	30.4%	22.6%
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	0.60%	1.30%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan.

SCHEDULE OF EMPLOYER CONTRIBUTIONS — LINE OF DUTY ACT PROGRAM (LODA)

For the years ended June 30, 2018 through 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2019	\$ 73,400	\$73,400	0	\$ 5,695,304	1.29%
2018	\$ 57,872	\$57,872	(0)	\$ 5,602,849	1.03%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – Changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016.

For the following changes to actuarial assumptions, see "Notes to Financial Statements: Appendix"

- Mortality rates – General State Employees, page 99
- Mortality rates – SPORS Employees, page 99
- Mortality rates – VaLORS Employees, page 100
- Mortality Rates – Employees In The Largest Ten Locality Employers With Public Safety Employees, page 103
- Mortality Rates – Employees In The Non-Largest Ten Locality Employers With Public Safety Employees, page 103

STATISTICAL SECTION

Last Ten Fiscal Years



Sources: Unless otherwise noted, the information in these tables is derived from the annual report for the relevant year

NET POSITION TRENDS

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

REVENUE TRENDS

These schedules contain information to help the reader assess the Authority's most significant revenue source, sales of alcohol, as well as other revenue sources

COST OF GOODS SOLD TRENDS

These schedules contain information to help the reader understand the trends in cost of goods sold.

EXPENSE TRENDS

These schedules contain information to help the reader understand the relationship of expenses to sales

PROFIT DISBURSEMENTS TRENDS

These schedules contain information to help the reader assess the profit disbursement trends.

OPERATING INFORMATION

These schedules contain statistical data regarding stores and products.

STATISTICAL SECTION

Financial — Last Ten Fiscal Years



CHANGES IN NET POSITION — Last Ten Fiscal Years (in dollars)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total operating revenues	902,683,325	844,877,292	807,563,445	771,945,773	730,075,776	689,511,021	662,433,062	632,923,574	598,583,725	584,670,158
Total operating expenses	701,360,862	664,660,269	637,017,607	606,624,500	577,709,566	549,746,146	528,108,106	501,071,632	477,760,671	464,303,033
Operating income	201,322,463	180,217,023	170,545,838	165,321,273	152,366,210	139,764,875	134,324,956	131,851,942	120,823,054	120,367,125
Non-operating revenues (expenses)	682,140	601,355	2,318,691	(128,586)	130,466	164,396	(603,087)	246,632	73,723	224,423
Net profit before disbursements	202,004,603	180,818,378	172,864,529	165,192,687	152,496,676	139,929,271	133,721,869	132,098,574	120,896,777	120,591,548
Disbursements:										
Disbursements of profits to General Fund of the Commonwealth	(126,727,832)	(109,261,467)	(101,725,746)	(96,860,303)	(84,572,527)	(72,851,385)	(67,437,563)	(64,163,784)	(53,269,159)	(49,899,621)
Appropriation Act disbursements	(69,930,044)	(69,929,142)	(69,429,142)	(68,028,110)	(67,465,310)	(67,135,959)	(67,139,188)	(67,858,000)	(67,744,441)	(70,610,061)
Total disbursements	(196,657,876)	(179,190,609)	(171,154,888)	(164,888,413)	(152,037,837)	(139,987,344)	(134,576,751)	(132,021,784)	(121,013,600)	(120,509,682)
Net increase after disbursements	5,346,727	1,627,769	1,709,641	304,274	458,839	(58,073)	(854,882)	76,790	(116,823)	81,866
Total Net Position - July 1	(96,068,568)	(70,823,862)	(72,533,503)	(72,837,777)	1,745,383	1,803,458	2,658,340	2,581,550	2,698,373	2,616,508
Net effect in change in Accounting Principle		(26,872,474)			(75,042,000)					
Net Position - July 1, as restated	(96,068,568)	(97,696,336)	(72,533,503)	(72,837,777)	(73,296,617)	1,803,458	2,658,340	2,581,550	2,698,373	2,616,508
Total Net Position - June 30	(90,721,841)	(96,068,568)	(70,823,862)	(72,533,503)	(72,837,778)	1,745,385	1,803,458	2,658,340	2,581,550	2,698,374

Notes: 1. The significant change in Net Position in 2015 was due to the adoption of GASBS No. 68. 2. The significant change in Net Position in 2018 was due to the adoption of GASBS No. 75.

NET POSITION TABLE 2 — Last Ten Fiscal Years (in dollars)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net Investment in Capital Assets	15,485,332	9,110,959	9,305,696	10,325,665	11,623,322	10,917,072	9,254,140	10,076,413	11,026,925	12,190,782
Restricted Net Position	2,728,000	2,395,000								
Unrestricted Net Position	(108,935,173)	(107,574,527)	(80,129,558)	(82,859,168)	(84,461,099)	(9,171,689)	(7,450,682)	(7,418,073)	(8,445,375)	(9,492,409)
Total Net Position	(90,721,841)	(96,068,568)	(70,823,862)	(72,533,503)	(72,837,777)	1,745,383	1,803,458	2,658,340	2,581,550	2,698,373

Notes: 1. The significant change in total net position in 2015 was the implementation of GASBS No. 68.

2. The significant change in total net position in 2018 was due to the adoption of GASBS No. 75.

STATISTICAL SECTION

Revenues — Last Ten Fiscal Years

ALCOHOL SALES & TAX COLLECTED — Last Ten Fiscal Years (in dollars)

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Gross alcohol sales	\$ 1,054,141,782	\$ 983,360,484	\$ 940,095,513	\$ 897,687,239	\$ 848,245,457	\$ 800,612,239	\$ 768,800,059	\$ 733,850,264	\$ 692,722,634	\$ 675,435,137
Excise tax	174,144,519	160,909,741	154,446,630	147,812,928	139,832,186	132,043,584	126,802,220	120,988,748	114,201,593	111,293,220
Excise tax as a % of gross sales	16.52%	16.36%	16.43%	16.47%	16.48%	16.49%	16.49%	16.49%	16.49%	16.48%
Net alcohol sales	879,997,263	822,450,743	785,648,883	749,874,311	708,413,271	668,568,655	641,997,839	612,861,516	578,521,041	564,141,917

Notes: 1. Pursuant to Virginia Code 4.1-234, a 20% excise tax is included in the selling price of alcohol, except vermouth and wine, which has a 4% tax.

OPERATING REVENUES — Last Ten Fiscal Years (in dollars)

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Sales of alcohol	879,997,263	822,450,743	785,648,883	749,874,311	708,413,271	668,568,655	641,997,839	612,861,516	578,521,041	564,141,917
Sales of lottery tickets	1,008,508	1,583,218	1,775,666	2,204,199	2,336,382	2,476,712	2,604,381	2,662,214	2,496,597	2,419,871
License & permit fees	14,460,539	13,875,412	13,514,032	13,304,832	12,967,544	12,606,895	12,122,130	12,005,411	12,055,197	11,796,257
Wine wholesalers tax	4,923,698	4,414,271	4,484,962	4,295,718	4,259,463	3,958,111	3,760,195	3,467,123	3,240,332	2,937,302
Penalties	1,149,306	687,045	760,810	816,695	1,041,342	1,020,717	1,018,368	973,266	1,142,666	1,356,403
Federal grants & contracts	153,488	651,384	269,767	280,007	239,915	306,285	361,936	446,546	619,678	872,812
Mixed beverage tax on common carriers	31,236	24,336	20,597	25,039	22,103	24,475	27,035	30,778	28,061	24,044
Miscellaneous	956,286	1,190,883	1,088,729	1,144,972	795,756	549,169	541,177	476,720	480,152	1,121,552
Total operating revenues	902,683,325	844,877,292	807,563,445	771,945,773	730,075,776	689,511,021	662,433,062	632,923,574	598,583,724	584,670,158

Notes: 1. In FY15, mark-ups on alcohol were effective December 16, 2014, which included the case handling fee increase from one dollar per case to two dollars per case. The mark-up on miniatures increased from 49% to 69%.

2. In FY16, the price increased for all products due to rounding up to the nearest nine cents, which took place July 1, 2015

continued on next page

STATISTICAL SECTION

Revenues — Last Ten Fiscal Years

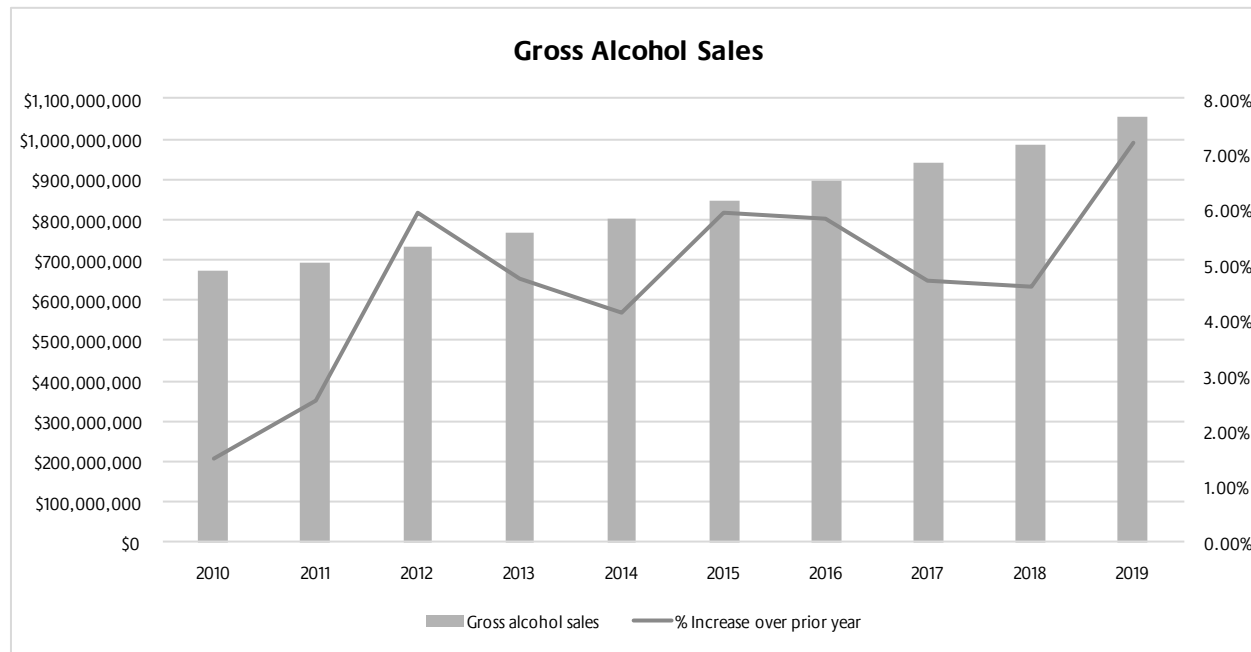


OPERATING REVENUES ANNUAL CHANGE AS A PERCENT OF PRIOR YEAR — Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Sales of alcohol	7.00%	4.68%	4.77%	5.85%	5.96%	4.14%	4.75%	5.94%	2.55%	1.49%
Sales of lottery tickets	-36%	-11%	-19%	-6%	-6%	-5%	-2%	7%	3%	-21%
License & permit fees	4%	3%	2%	3%	3%	4%	1%	0%	2%	4%
Wine wholesalers tax	12%	-2%	4%	1%	8%	5%	8%	7%	10%	6%
Penalties	67%	-10%	-7%	-22%	2%	0%	5%	-15%	-16%	-8%
Federal grants & contracts	-76%	141%	-4%	17%	-22%	-15%	-19%	-28%	-29%	-5%
Mixed beverage tax on common carriers	28%	18%	-18%	13%	-10%	-9%	-12%	10%	17%	3%
Miscellaneous	-20%	9%	-5%	44%	45%	1%	14%	-1%	-57%	81%
Total Increase	6.84%	4.62%	4.61%	5.74%	5.88%	4.09%	4.66%	5.74%	2.38%	1.50%

- Notes:
- In FY15, mark-ups on alcohol were effective December 16, 2014, which included the case handling fee increase from one dollar per case to two dollars per case. The mark-up on miniatures increased from 49% to 69%.
 - In FY16, the price increased for all products due to rounding up to the nearest nine cents, which took place July 1, 2015
 - Only 9 years of annual change data presented due to 10-year lookback period

GROSS ALCOHOL SALES — Last Ten Fiscal Years



continued on next page

STATISTICAL SECTION

Revenues — Last Ten Fiscal Years



NON-OPERATING REVENUES — Last Ten Fiscal Years (in dollars)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Rents	24,893	24,168	27,244	31,559	210,061	225,074	195,361	191,950	195,600	184,924
Income from security lending transactions	164,801	25,613	342	3,320	113	157	321	1,024	1,320	10,819
Interest income (expense)	607,387	334,667	182,039	64,013	-	-	-	-	-	-
Seized assets	49,861	242,520	109,408	-	-	-	-	54,682	-	46,694
Other - Special Employer Contributions (VRS)		-	2,000,000	-	-	-	-	-	-	-
Total non-operating revenues (expenses)	846,941	626,968	2,319,033	98,892	210,175	225,231	195,682	247,656	196,920	242,437
Increase/Decrease	219,973	(1,692,065)	2,220,141	(111,283)	(15,056)	29,549	(51,974)	50,735	(45,517)	(214,712)
% Increase/Decrease	35.09%	-72.96%	2245.02%	-52.95%	-6.68%	15.10%	-20.99%	25.76%	-18.77%	-46.97%

STATISTICAL SECTION

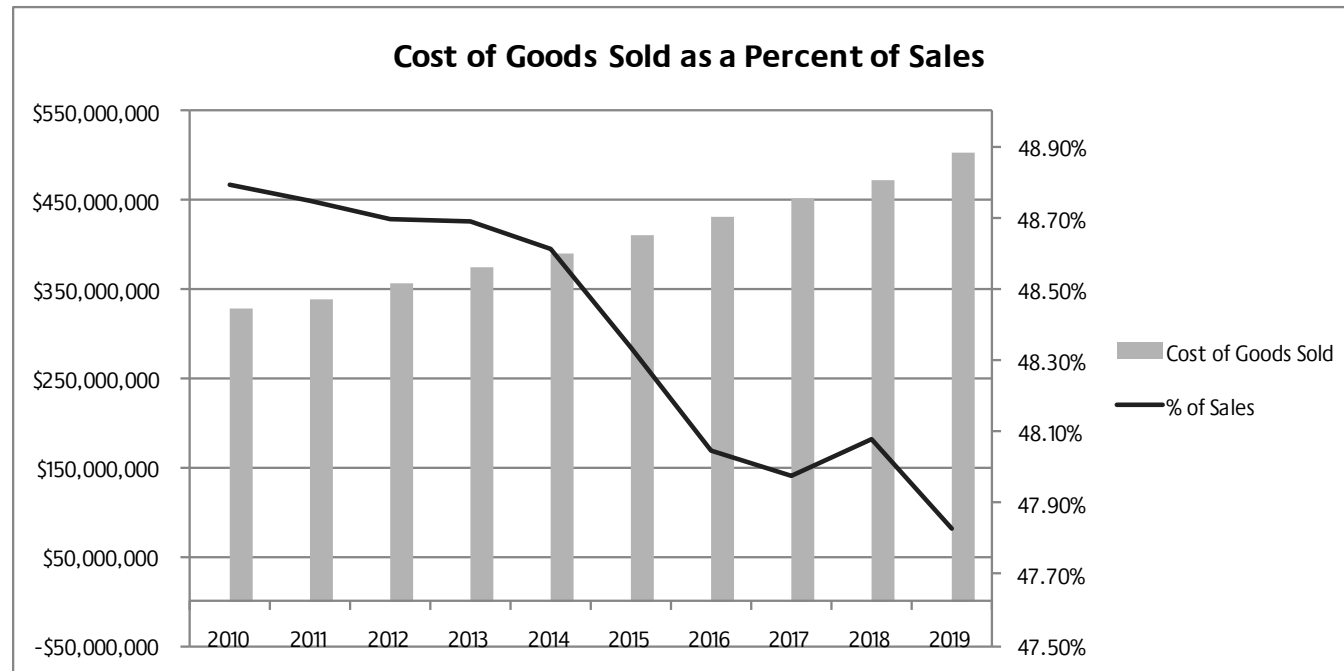
Cost of Goods Sold — Last Ten Fiscal Years



COST OF GOODS SOLD: ALCOHOL — Last Ten Fiscal Years (in dollars)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Gross alcohol sales	1,054,141,782	983,360,484	940,095,513	897,687,239	848,245,457	800,612,239	768,800,059	733,850,264	692,722,634	675,435,137
Excise tax	174,144,519	160,909,741	154,446,630	147,812,928	139,832,186	132,043,584	126,802,220	120,988,748	114,201,593	111,293,220
Net alcohol sales	879,997,263	822,450,743	785,648,883	749,874,311	708,413,271	668,568,655	641,997,839	612,861,516	578,521,041	564,141,917
Cost of Goods Sold	504,150,211	472,772,427	451,003,488	431,328,614	409,991,902	389,204,362	374,356,481	357,374,917	337,689,682	329,573,272
% of Gross Alcohol Sales	47.83%	48.08%	47.97%	48.05%	48.33%	48.61%	48.69%	48.70%	48.75%	48.79%

COST OF GOODS SOLD AS A PERCENT OF GROSS ALCOHOL SALES — Last Ten Fiscal Years



STATISTICAL SECTION

Expenses — Last Ten Fiscal Years



OPERATING EXPENSES BY CATEGORY — Last Ten Fiscal Years (in dollars)

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Personal services	\$ 112,085,785	\$ 113,535,743	\$ 108,120,748	\$ 102,977,280	\$ 99,345,268	\$ 96,016,888	\$ 91,151,356	\$ 83,223,807	\$ 81,396,498	\$ 79,063,927
Continuous services	34,276,756	32,134,553	31,315,640	29,278,603	27,954,258	26,238,093	25,209,421	24,687,763	23,848,628	23,839,618
Contractual services	40,966,570	34,948,390	35,181,744	31,215,352	29,216,426	27,263,123	26,498,703	25,737,133	24,373,121	21,773,337
Supplies and materials	3,496,605	3,906,161	3,429,626	3,272,558	3,393,215	3,401,478	3,437,872	2,885,166	2,852,422	2,342,684
Depreciation & amortization	2,127,490	2,580,739	2,216,175	2,580,090	2,664,489	2,573,170	2,101,808	1,958,032	3,175,843	2,948,194
Expendable Equipment	2,867,828	2,539,276	3,453,386	2,986,732	2,258,331	2,209,117	2,066,725	1,869,571	1,560,795	1,866,000
Other	372,382	347,589	611,832	856,410	661,649	500,029	860,993	812,313	536,134	569,664
Total operating expenses	196,193,416	189,992,451	184,329,151	173,167,025	165,493,637	158,201,899	151,326,879	141,173,785	137,743,441	132,403,424
Increase (decrease) from prior FY	6,200,965	5,663,300	11,162,126	7,673,388	7,291,738	6,875,020	10,153,094	3,430,344	5,340,017	(6,151,936)
% Increase (decrease)	3.26%	3.07%	6.45%	4.64%	4.61%	4.54%	7.19%	2.49%	4.03%	-4.44%

OPERATING EXPENSES BY DIVISION WITHOUT COST OF GOODS SOLD — Last Ten Fiscal Years (in dollars)

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Retail & Distribution Expenses	133,346,792	129,705,731	122,428,825	115,809,039	110,179,547	104,958,799	99,315,094	93,533,636	94,661,876	93,060,362
Administrative Expenses	49,874,639	44,903,559	43,837,955	40,354,100	37,763,015	35,000,633	34,665,598	32,106,833	28,317,235	25,209,313
Regulatory Expenses	17,288,559	16,527,661	16,885,187	17,328,181	17,900,232	17,936,183	16,984,251	15,086,772	14,144,652	13,260,936
GASB 68, GASB 75 and other Adjustments	(4,316,574)	(1,144,500)	1,177,184	(324,295)	(349,157)	306,285	361,936	446,544	619,678	872,812
Total Operating Costs	196,193,416	189,992,451	184,329,151	173,167,025	165,493,637	158,201,899	151,326,879	141,173,785	137,743,441	132,403,424

- Notes:
1. Area breakdown from final Profit & Loss statement for respective fiscal year
 2. Store breakage removed from operating expense and classified as part of Cost of Goods Sold on financial statements
 3. Cost of Goods Sold for Virginia is for Lovers merchandise added back in FY 17 and FY 18

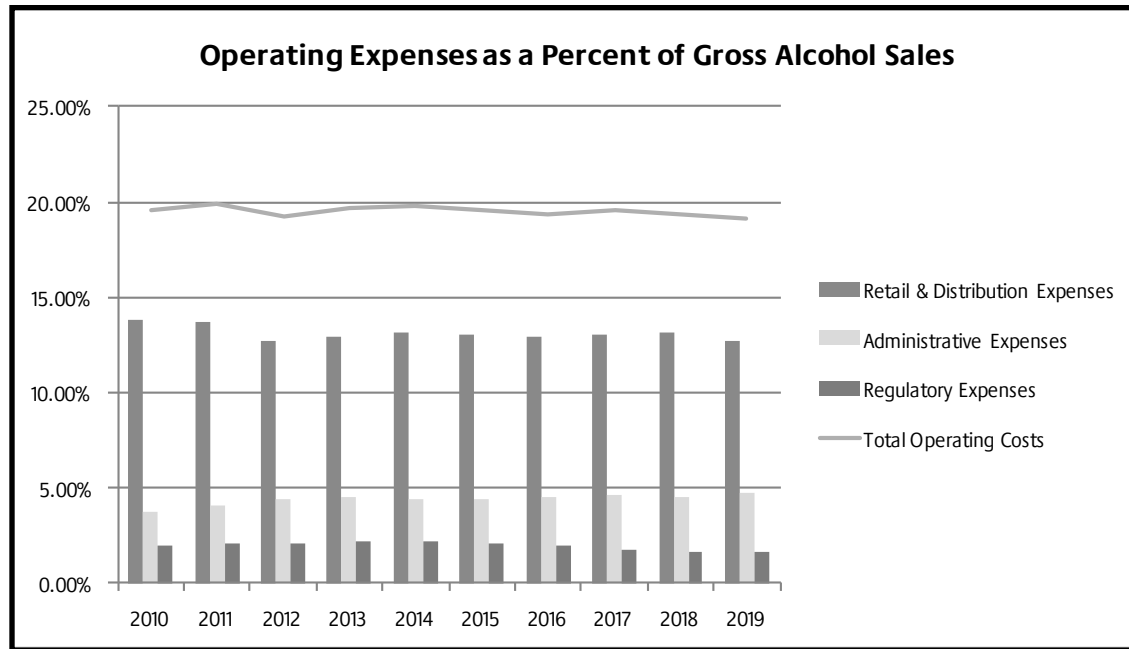
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STATISTICAL SECTION

Expenses — Last Ten Fiscal Years



OPERATING EXPENSES AS A PERCENT OF GROSS ALCOHOL SALES — Last Ten Fiscal Years



NON-OPERATING EXPENSES — Last Ten Fiscal Years (in dollars)

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Expenses from security lending transactions	164,801	25,613	342	3,320	113	157	321	1,024	1,320	10,819
Interest Expense	-	-	-	-	-	-	-	-	1,964	7,195
Seized assets	-	-	-	224,158	79,596	60,678	798,449	-	119,913	-
Total non-operating expenses	164,801	25,613	342	227,478	79,709	60,835	798,770	1,024	123,197	18,014
Increase	139,188	25,271	(227,136)	147,769	18,874	(737,935)	797,746	(122,174)	105,183	(204,179)
% Increase	543.43%	7389.18%	-99.85%	185.39%	31.02%	-92.38%	77904.88%	-99.17%	583.90%	-91.89%

STATISTICAL SECTION

Profits — Last Ten Fiscal Years

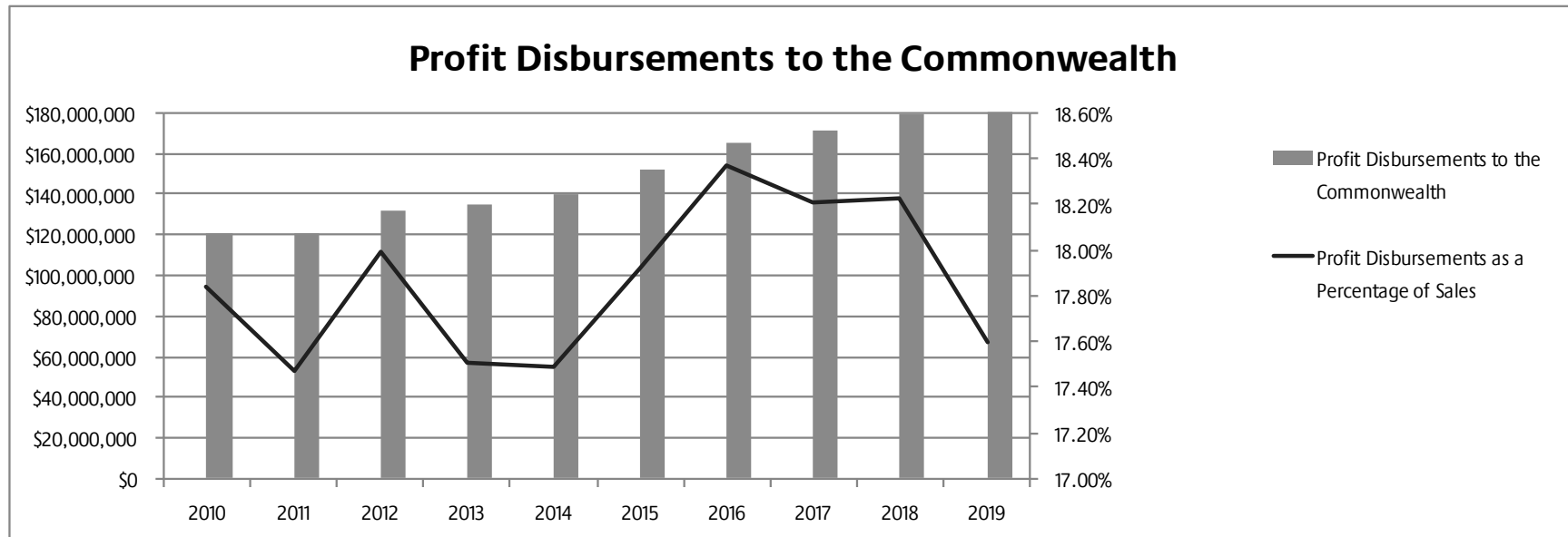


DISBURSEMENTS TO THE COMMONWEALTH — Last Ten Fiscal Years (in dollars)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Gross alcohol sales	1,054,141,782	983,360,484	940,095,513	897,687,239	848,245,457	800,612,239	768,800,059	733,850,264	692,722,634	675,435,137
Excise tax	174,144,519	160,909,741	154,446,630	147,812,928	139,832,186	132,043,584	126,802,220	120,988,748	114,201,593	111,293,220
Net alcohol sales	879,997,263	822,450,743	785,648,883	749,874,311	708,413,271	668,568,655	641,997,839	612,861,516	578,521,041	564,141,917
Profit Disbursement to the Commonwealth	196,657,876	179,190,609	171,154,888	164,888,413	152,037,837	139,987,344	134,576,751	132,021,784	121,013,600	120,509,682
% of Gross Sales	18.66%	18.22%	18.21%	18.37%	17.92%	17.49%	17.50%	17.99%	17.47%	17.84%

Notes: 1. Pursuant to Virginia Code 4.1-234, a 20% excise tax is included in the selling price of alcohol, except vermouth and wine, which has a 4% tax.

PROFIT DISBURSEMENTS TO THE COMMONWEALTH — Last Ten Fiscal Years



STATISTICAL SECTION

Operational — Last Ten Fiscal Years



STORES BY YEAR — Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Stores, July 1	370	366	359	351	349	342	337	334	332	332
New Stores	7	5	9	8	4	7	6	3	2	1 ¹
Closed Stores	0	1	2	0	3	0	2 ²	0	0	2
Total Stores, June 30	377	370	366	359	351	349	342	337	334	332

Notes: Store growth slowed during the recession in 2009-11 with an emphasis on modernization and renegotiating lease agreements. The Authority had increasing sales through the recession and had a strong negotiating position as other businesses were closing.

¹ Store #68 - Harrisonburg was listed as closed on 9/11/08 due to fire and relocated on 8/15/09

² Store #042 - Mount Vernon was listed as closed on 7/31/12 and relocated on 4/3/13

SALES DATA BY YEAR — Last Ten Fiscal Years (in dollars)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Store square footage	1,233,746	1,190,407	1,158,478	1,146,234	1,117,425	1,112,807	1,091,146	1,073,910	1,067,170	1,057,604
Total transactions	33,652,166	32,241,445	31,270,307	30,398,994	29,712,285	28,770,720	27,846,686	26,678,450	25,554,777	25,074,821
Total bottles sold	70,985,820	65,500,188	60,731,956	58,058,001	57,049,526	55,397,422	53,516,181	51,717,746	49,151,309	47,998,715
Gross alcohol sales	1,054,141,782	983,360,484	940,095,513	897,687,239	848,245,457	800,612,239	768,800,059	733,850,264	692,722,634	675,435,137
Average bottle price	14.85	15.01	15.48	15.46	14.87	14.45	14.37	14.19	14.09	14.07
Average sales per transaction	31.32	30.50	30.06	29.53	28.55	27.83	27.61	27.51	27.11	26.94
Average sales per square foot	854.42	826.07	811.49	783.16	759.11	719.45	704.58	683.34	649.12	638.65

Notes: Information provided by Authority's Research & Planning office

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STATISTICAL SECTION

Operational — Last Ten Fiscal Years



SALES PERCENT CHANGE FROM PRIOR FISCAL YEAR — Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Store square footage	3.64%	2.76%	1.07%	2.58%	0.41%	1.99%	1.60%	0.63%	0.90%	-0.35%
Total transactions	4.38%	3.11%	2.87%	2.31%	3.27%	3.32%	4.38%	4.40%	1.91%	2.35%
Total bottles sold	8.37%	7.85%	4.61%	1.77%	2.98%	3.52%	3.48%	5.22%	2.40%	1.72%
Average bottle price	-1.09%	-3.01%	0.11%	3.99%	2.88%	0.60%	1.24%	0.68%	0.15%	-0.20%
Average sales per transaction	2.70%	1.45%	1.81%	3.44%	2.59%	0.79%	0.37%	1.48%	0.63%	-0.82%
Average sales per square foot	3.43%	1.80%	3.62%	3.17%	5.51%	2.11%	3.11%	5.27%	1.64%	1.85%

TOP PERFORMING STORES – GROSS SALES — Last Ten Fiscal Years (in dollars) (Rank in parentheses)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
#397 - Alexandria	9,870,509 (1)									
#256 - Virginia Beach	9,848,073 (2)	9,335,821 (1)	9,356,735 (1)	9,202,992 (1)	8,226,884 (1)	8,630,556 (1)	8,487,325 (1)	9,217,925 (1)	9,716,636 (1)	9,430,955 (1)
#225 - Virginia Beach	9,212,139 (3)	8,708,926 (2)	8,292,157 (2)	8,399,650 (2)	8,081,614 (2)	7,312,737 (2)	7,001,529 (2)	6,544,207 (3)	5,883,884 (4)	
#219 - Vienna	8,607,977 (4)	7,966,670 (3)	7,652,272 (5)		6,461,490 (5)	6,107,183 (5)		6,121,640 (5)	6,109,361 (3)	
#169 - Richmond	7,588,304 (5)	7,936,805 (4)	7,754,878 (4)	7,621,199 (4)	7,048,143 (4)	6,490,317 (4)	6,167,351 (4)	6,669,833 (2)	6,962,528 (2)	7,373,156 (2)
#278 - Virginia Beach		7,526,361 (5)	7,773,909 (3)	7,699,741 (3)	7,462,194 (3)	6,652,089 (3)	6,440,523 (3)	6,133,558 (4)	5,803,670 (5)	6,266,074 (3)
#358 - Alexandria				7,133,652 (5)						
#282 - Hampton							5,934,201 (5)			
#360 - Richmond										6,242,474 (4)
#280 - Chesapeake										6,067,425 (5)

continued on next page

STATISTICAL SECTION

Operational — Last Ten Fiscal Years



PRODUCTS SOLD - BY CASE — Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Vodka	1,556,616	1,505,294	1,471,413	1,448,850	1,423,240	1,398,474	1,396,567	1,383,752	1,281,618	1,207,686
Domestic	855,285	823,756	795,487	774,794	761,099	738,803	720,810	708,694	693,502	683,268
Imported	363,835	355,140	351,388	350,341	340,831	342,794	345,758	343,277	319,924	309,301
Flavored	337,496	326,398	324,538	323,716	321,310	316,877	329,999	331,780	268,191	215,117
Straight bourbon whiskey	625,562	578,328	535,671	515,177	483,441	457,349	429,988	400,583	379,082	364,414
Cordials-Liqueurs-Specialties	517,337	488,640	474,718	478,332	530,603	503,018	450,782	413,783	392,440	376,005
Imported	331,695	314,610	298,289	295,955	303,305	285,565	-	212,622	204,085	202,441
Domestic	185,643	174,030	176,429	182,377	227,298	217,454	-	201,161	188,355	173,564
Rum	465,274	464,811	455,635	446,425	425,817	423,243	424,539	427,484	416,813	406,483
Imported	438,456	438,855	434,086	429,928	442,537	437,762	441,445	444,878	438,276	443,434
Domestic	26,818	25,955	21,549	16,497	283,279	285,481	283,094	282,606	278,537	263,048
Tequila	398,587	353,493	324,504	291,677	242,280	227,319	219,623	208,781	193,225	180,865
Gin	237,108	234,097	236,821	236,615	234,712	237,532	244,341	246,382	246,411	248,762
Domestic	134,651	137,315	142,038	145,141	157,721	163,085	172,552	178,540	180,970	183,642
Imported	90,512	84,557	81,542	78,884	64,857	62,515	60,108	56,337	52,875	52,439
Flavored	11,567	11,805	12,780	12,116	11,616	11,351	11,025	10,829	11,877	11,906
Sloe	378	420	461	475	518	582	656	675	689	774
Canadian whiskey	194,789	187,912	183,177	160,584	173,099	165,700	173,679	167,154	169,495	171,070
Brandy	161,568	161,060	160,640	157,516	151,833	136,390	134,537	138,537	140,902	147,986
Grape	118,775	118,082	116,997	116,670	116,579	118,435	-	111,244	114,117	119,875
Imported	7,254	7,035	7,315	7,312	7,218	7,269	-	17,375	16,152	17,007
Flavored	35,540	35,943	36,328	33,534	28,036	10,686	-	9,918	10,634	11,104
Scotch whiskey	158,935	149,585	149,545	150,531	146,400	142,730	143,184	137,849	137,207	137,120
Cognac/Armagnac	168,753	121,746	149,837	124,684	102,713	91,924	86,930	82,973	79,784	78,417
Tennessee whiskey	116,350	112,392	110,261	107,528	106,959	101,608	101,214	100,077	98,285	98,116
Blended whiskey	111,572	101,123	103,626	104,110	100,208	98,016	96,777	96,719	94,626	96,796
Cocktails	113,125	97,273	76,613	67,963	55,972	60,139	71,662	82,462	77,844	84,012
Domestic	71,435	61,056	42,006	33,107	49,808	53,071	-	77,701	73,129	80,523
Imported	41,690	36,217	34,608	34,856	6,165	7,068	-	4,761	4,715	3,490
Irish whiskey	71,192	62,282	53,596	46,944	39,789	34,966	32,013	27,610	22,797	20,020
Domestic whiskey	57,617	56,801	53,194	47,235	41,368	41,383	39,881	39,224	39,798	43,485
Specialty bottles	51,732	45,534	53,320	73,124	62,705	54,575	46,262	47,723	38,494	28,277
Imported	31,760	29,448	26,861	47,717	32,645	29,004	-	27,850	27,268	-
Domestic	19,973	16,086	26,459	25,407	30,060	25,571	-	19,874	11,226	-
Moonshine	39,811	34,585	31,709	33,249	31,778	-	-	-	-	-
Straight rye whiskey	39,986	32,505	26,609	21,271	13,534	9,366	6,647	4,447	3,029	1,952
Egg nog	22,972	20,034	18,653	13,101	13,349	14,334	12,881	10,930	11,095	3,760
Rock & rye	2,368	2,236	1,813	1,610	1,271	1,288	1,419	1,296	1,327	1,420
Alcohol*	1,250	1,227	53	57	56	40	49	43	32	39
Bottled in bond	629	561	601	606	1,574	1,165	584	378	362	570
Corn whiskey	489	408	325	441	724	32,022	24,643	11,861	4,681	4,127
Vermouth	22,681	21,903	17,848	16,561	15,892	15,819	15,821	15,693	15,393	15,699
Virginia Wine	14,936	14,480	14,624	13,131	12,241	11,533	12,087	11,180	11,609	12,017
Nonalcoholic mixers	134,259	128,533	123,882	114,393	103,893	99,270	106,037	114,158	109,834	114,445
Nonbeverage item	27,587	29,272	28,399	24,387	20,549	17,331	20,978	19,974	17,793	13,388
Statewide Totals	5,313,085	5,006,115	4,814,183	4,691,820	4,515,008	4,342,951	4,196,203	4,148,651	3,923,757	3,748,087
Increase from prior FY	306,970	191,933	122,363	176,812	172,057	146,748	47,552	224,893	175,670	72,513
% Increase	6.13%	3.99%	2.61%	3.92%	3.96%	3.50%	1.15%	5.73%	4.69%	1.97%

Notes:

* Grain alcohol 151 proof

1. In fiscal year 2012, the general "flavored" subcategory includes specific fruit-flavored products that were previously reported separately (e.g., apricot, peach, apple, etc.). This table reflects that change across all years.

2. Excludes miscellaneous records and confiscated items. 3. Moonshine was reported separate from corn whiskey category beginning in 2015

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STATISTICAL SECTION

Operational — Last Ten Fiscal Years



BOTTLES SOLD — Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total bottles sold	70,985,820	65,500,188	60,731,956	58,058,001	57,049,526	55,397,422	53,516,181	51,717,746	49,151,309	47,998,715
Increase of prior year	5,485,632	4,768,232	2,673,955	1,008,475	1,652,104	1,881,241	1,798,435	2,566,437	1,152,594	810,654
% Increase over prior year	11.89%	10.33%	5.80%	2.19%	3.58%	4.08%	3.90%	5.56%	2.50%	1.72%
50mL bottles sold	20,266,659	16,640,845	13,316,637	12,130,465	12,546,559	12,339,394	11,463,831	10,711,448	9,828,768	9,433,951
Change from prior year	3,625,814	3,324,208	1,186,172	(416,094)	207,165	875,563	752,383	882,680	394,817	349,767
% change prior year	7.86%	7.20%	2.57%	-0.90%	0.45%	1.90%	1.63%	1.91%	0.86%	0.74%
50mL bottles as % of total	28.55%	25.41%	21.93%	20.89%	21.99%	22.27%	21.42%	20.71%	20.00%	19.65%

Notes:

1. Source: Research & Planning
2. Sales of 50mL bottles increased in FY 18 due to a pricing change by a distributor that lowered many popular brands from \$1.79 to \$0.99.

TOP PERFORMING BRANDS - GROSS DOLLARS — Last Ten Fiscal Years (Rank in parentheses)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Tito's Handmade	42,122,282 (1)	33,451,056 (1)	25,018,702 (3)							
Hennessy VS	35,309,436 (2)	33,157,815 (2)	33,941,737 (1)	25,269,088 (2)	18,758,631 (4)					
Jack Daniel's #7 Black	29,979,450 (3)	29,282,762 (3)	28,702,100 (2)	27,599,088 (1)	26,925,694 (1)	25,658,300 (1)	25,018,476 (1)	23,714,063 (1)	22,664,736 (1)	22,418,593 (1)
Jim Beam	22,713,241 (4)	21,494,889 (4)	20,421,335 (4)	19,805,216 (3)	18,657,478 (5)	17,802,469 (3)	17,593,209 (3)	16,892,320 (4)	17,249,613 (4)	17,965,975 (4)
Fireball Cinnamon	19,224,053 (5)	18,749,122 (5)		19,110,580 (5)	18,759,979 (3)	16,124,716 (5)				
Smirnoff 80			18,807,951 (5)	19,294,602 (4)	18,966,572 (2)	19,066,109 (2)	19,532,760 (2)	19,801,223 (2)	19,508,095 (2)	19,131,450 (2)
Grey Goose						17,104,944 (4)	16,944,481 (4)	17,829,724 (3)	17,880,921 (3)	18,332,773 (3)
Crown Royal							16,022,401 (5)	15,814,294 (5)	15,806,513 (5)	17,366,315 (5)

The Alcoholic Beverage Control Authority (the “Authority”) has developed a summary table and a brief narrative as a response to Enactment Clause 14 for the Alcoholic Beverage Control Authority legislation.

Enactment Clause 14 of the legislation requires:

That by October 15 each year, the Alcoholic Beverage Control Authority or its successor shall, for the purposes of identifying the total costs of the operation and administration of the Authority or its successors to be funded from the revenues generated by such entity, submit to the General Assembly a report detailing the total percentage of gross revenues required for the operation and administration of the Authority, excluding expenditures made for the purchase of distilled spirits, for the prior fiscal year, and a relative comparison to the three prior fiscal years.

	In Millions				As a Percentage of Sales			
	FY 2019	FY 2018	FY 2017	FY 2016	FY 2019	FY 2018	FY 2017	FY 2016
Sales	1,054.1	\$ 98.3	\$ 940.1	\$ 897.6	100.0%	100.0%	100.0%	100.0%
- Excise Tax	174.3	161.0	154.4	147.9	16.5%	16.4%	16.4	16.5
+ Other Revenue	23.3	22.3	22.0	22.0	2.2%	2.3%	2.3	2.5
Net Revenue	903.2	844.6	807.5	771.8	85.7%	85.9%	85.9	86.0
Cost of Goods Sold	504.5	473.7	452.0	432.8	47.9%	48.2%	48.1	48.2
Operation Costs	134.0	130.3	123.1	116.5	12.7%	13.3%	13.1	13.0
Administrative Costs	49.9	44.9	43.8	40.4	4.7%	4.6%	4.7	4.5
Regulatory Costs	17.3	16.5	16.9	17.3	1.6%	1.7%	1.8	1.9
Profit	197.5	\$ 179.2	\$ 171.7	\$ 164.8	18.7%	18.2%	18.3%	18.4%

Notes:

1. All support costs (e.g. Human Resources, Information Technology, Finance, etc.) for Regulatory and Operations are included in the Administrative Costs category.
2. The Authority’s total operating costs excludes the year-end VRS pension liability adjusting entries, the new GASBS No. 75 liability adjusting entries for other postemployment benefit (OPEB), and the federal grant entries because they are non-operational costs. However, these costs were included in the year-end financials.

The Authority has opted to include a more detailed chart than what is required by the legislation. This will permit the General Assembly to be familiar with the magnitude of our business and have the percentage of revenue data that was requested. Inclusion of the cost of goods sold (i.e., purchase of distilled spirits, lottery and Virginia is for Lovers (VIFL) Merchandise) data allows the General Assembly to see the full picture of the Authority’s operations and a high level Statement of Revenues, Expenses, and Changes in Net Position (Profit and Loss).

There are four major categories of ABC costs: Cost of Goods Sold, Operation Costs, Administrative Costs, and Regulatory Costs. The Cost of Goods Sold is simply the cost that the Authority incurs to purchase the distilled spirits, lottery tickets and VIFL merchandise that are sold in the ABC stores. The Operation Costs includes the costs to operate the Authority’s stores (personnel cost, store rentals, utilities, etc.), the costs to operate the Authority’s Distribution Center (Warehouse), and the overhead costs of the leadership and support functions that are directly linked to either the store operations or the Distribution Center. The Administrative Costs are the most diverse cost group as it includes all of the administrative functions that are necessary to support the business. These include Information Technology, Internal Audit, Procurement, Research & Planning, Education, Marketing, Human Resources, Financial Management, Public Relations, Property Management, the Authority’s Leadership, and charges for services from other state agencies. The Regulatory Costs category represents the costs to operate the Authority’s Enforcement division and the Hearings & Appeals function. The Bureau

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of Law Enforcement operates under a separate appropriation than the rest of the Authority; however, the Bureau of Law Enforcement division remains a part of the overall costs that affects the Authority's profits. In addition, there are approximately 2,000 new licensees each year that require a full investigation to include a background check of the owners, corporate structure review, complete financial review, and making a determination about the suitability of the applicant to possess an ABC license in Virginia.

Cost of goods sold increases are primarily driven by sales volume. In fiscal year 2019, cost of goods sold represents 47.9% of the sales revenue collected. This percentage is consistent with previous years.

Operation costs, administrative costs, and regulatory costs are all primarily driven by personnel needs (salary, healthcare, retirement, etc.). In addition, operation costs include new stores, store rentals (with rent escalation clauses), utilities, and freight to transport product from the warehouse to the stores.

Administrative costs increases are primarily driven by the cost of Information Technology, new store construction costs, an aging central office and warehouse facility (repairs), and the increased focus on Marketing and Communications over the past few years (to communicate information about the Authority and its products). These costs are all tied back to either revenue generating activities or activities that support continued operation of the business.

In the administrative costs category, information technology retains a great deal of importance. In fiscal year 2020, administrative costs are expected to increase due to amortization and ongoing support for new systems in finance, licensing and point-of-sale. Additionally, there are new expenses for the new warehouse and central office and an increase in VITA fees.

Regulatory costs are also expected to increase due to the additional regulatory activities that the increase in licensing funds will support. Costs will also be driven by the growth in the number of retail licensees and the consistent increase in manufacturing. However, in the short term, with the high vacancy rate within the enforcement division, increases in regulatory cost will be offset by the current vacancies until additional non-sworn personnel are hired to support regulatory activities.

Spread across operational costs, administrative costs and regulatory costs is the statewide salary increase for fiscal year 2020.

ALCOHOLIC BEVERAGE CONTROL AUTHORITY

SIX-YEAR FINANCIAL FORECAST—As of October 2, 2019

Six-Year Financial Forecast
(Fiscal Year 2020– Fiscal Year 2025)
(in millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue Sources: Growth Rate		5.00%	4.50%	4.50%	4.50%	4.50%	4.50%
Alcoholic Beverages (Store Sales)	1,054.1	1,106.8	1,156.6	1,208.7	1,263.1	1,319.9	1,379.3
Less: State Taxes on Spirits & Wine	174.3	181.0	189.1	197.6	206.5	215.8	225.5
Net Store Sales	879.9	925.9	967.5	1,011.1	1,056.5	1,104.1	1,153.8
Other Revenue	23.3	22.6	22.8	23.0	25.7	26.0	26.3
Total ABC Revenue	903.2	948.4	990.3	1,034.1	1,082.3	1,130.1	1,180.0
Cost of Goods Sold:	504.5	531.3	555.1	580.1	606.2	636.1	664.7
Operating Costs:	201.1	226.2	232.7	246.2	255.5	268.1	278.1
Infrastructure Projects:	-	-	9.1	12.0	17.4	14.9	14.9
GASBS No. 87:	-	-	2.1	1.2	0.6	-	-
ABC Net Profit	197.5	191.0	191.2	194.7	202.6	211.1	222.4

ABC's profit forecast is a factor of two elements: sales performance and trends in expenses. In both cases, forecasts beyond fiscal year 2020 are more prone to forecast error given the uncertainty with the economy's impact on customer behavior and ABC's cost structure.

In fiscal year 2020, ABC expects sales to continue to grow in both the retail and mixed beverage licensee (restaurant) segments. Sales growth projections are lower than the previous year due to the utilization of long-term forecasting and the higher than expected growth of fiscal year 2019. Diminishing returns from marketing initiatives are another contributing factor to a lower growth rate in fiscal year 2020. Sales from ABC's retail outlets continue to increase year over year. Uncontrollable factors such as holiday season sales and licensee sales have the potential to significantly impact the accuracy of ABC's sales forecast. Currently, ABC is experiencing growth in both retail and restaurant sales.

On the expense side, ABC is faced with mandated salary and benefit costs, energy inflation, automatic rent escalation, telecommunication and technology costs and growth in credit card discount fees that are all very difficult to influence in the short run. For fiscal year 2020 there are significant increases in amortization, ongoing support of new financial management, licensing and point-of-sale systems (\$2.5 million), the new building project (\$1.3 million), VITA fees (\$1.0 million), and the statewide salary increase (\$4.1 million).

The transition to an Authority changed how Virginia ABC does business including a change to the leave system and the holidays recognized. In January of 2019, ABC implemented a Paid Time Off (PTO) system and policy. PTO combines all employee leave into one bank of leave or bucket instead of separating leave into vacation days, sick days, and family personal days. Additionally, Virginia ABC no longer recognizes Lee-Jackson Day or Columbus Day and implemented a policy that provides employees with two floating holidays to be used at the employee's discretion.

During fiscal year 2019, ABC contributed \$196.7 million (accrual basis) of net profits to the Commonwealth, and collected \$253.9 million of taxes on store sales, wine and beer and an additional \$48.8 million of general sales tax totaling \$499.5 million. ABC expects to meet transfer requirements in fiscal year 2020 given the projected increase in gross sales. However, risks include reduced purchases, particularly during the holiday season (economy or weather related), and unforeseen increases in expenses.

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