

THE BROOKINGS LIQUOR STORE ANNUAL REPORT FOR 2015

The goal of the Brookings Liquor Store continues to be “To operate a profitable high quality liquor store that offers a complete line of liquors, wines, spirits and beers while providing friendly, courteous and informative customer service”. The effect of the changes that were implemented in late 2014 and additional changes that were made in 2015 listed below resulted in a very successful year and the achievement of the goal for 2015.

PERSONNEL

1. Janet Coplan, who was hired in late 2014, completed her first full year as the store manager. The significant physical changes she made to the store as well as the new policies and procedures she implemented not only enabled the store to have record sales in 2015, but positioned it to make continued improvement in the years to come.
2. Because inventory control is such an important part of good retail store management, a full time employee was hired in October to fill the newly created position of Inventory Control Clerk. Creating and filling this position will result in better balanced inventories by product category, subsequently resulting in more optimum inventory levels in both back room and on shelf quantities. It will also allow the store manager to spend more of her time on training new and existing employees and further improving policies, procedures, and systems.

NEW PROCEDURES, POLICIES & SYSTEMS

1. The installation and debugging of the new POS system which was purchased late in 2014 was completed. This system results in faster customer checkouts, allows customers to purchase gift cards, tracks sales and margins, helps reduce inventory shrinkage, has an ID scanner which assists in preventing sales to minors, and provides alerts when pre-programmed re-order points are reached.
2. Eight auditors from RGIS, the leading professional inventory provider in the country, completed the annual physical inventory count of all the merchandise in the store on January 4, 2016, the purpose of which was to adjust the book value of the inventory to the actual value. The resulting shrinkage adjustment (which includes breakage, spoilage, obsolescence, and theft) to the book value was negligible, especially considering that sales were in excess of \$4.1 million for the period since the last inventory was taken. In addition, weekly spot checks were conducted in 2015 and will continue to be conducted and adjustments to book inventory made

by the finance department, if necessary. The reasons for all adjustments will be fully investigated and corrective action taken when required.

3. The practice of buying merchandise when suppliers have postoffs (merchandise put on sale by our suppliers to us and their other customers) was implemented this year and will be followed when it meets our needs. It is vital to purchase correctly, that is, buying the right amount at the right price at the right time and since all our suppliers periodically have postoffs for their products, it behooves us to take advantage of them when they occur. Since cost control is a key component to controlling profits, in addition to buying postoffs when possible, sales by product are continuously being tracked and forecasts made to accurately determine when and how much to buy. Price increases from suppliers are also constantly monitored to insure markups are maintained at necessary levels to produce desired gross profit margins.

PHYSICAL CHANGES & EVENTS

1. Installation of the new Enomatic Wine tasting machine was completed. The concept of the machine is to enable the customer to sample a wine before purchase, allowing the customer to "experience" one of the 8 wines the machine holds and hopefully, part of the "experience" will include purchasing one or more of the wines sampled. The tasting room was remodeled to make it more inviting, including new carpet, paint and furniture. The store manager worked with RNDC (Republic National Distributing Company is the second largest alcohol beverage distributor of premium wine and spirits in the U.S.) and a marketing representative for J. Lohr Vineyards and Wines, a large vintner of nationally and internationally recognized premium wines and winner of Vineyard of the Year awards in 2010 and 2013. Jerry Lohr, founder of J. Lohr Wines and a 1958 graduate of SDSU, was raised on the family farm in South Dakota. As a result of the efforts by the store manager and the representatives of RNDC and J. Lohr Wines, the tasting room was re-named the J. Lohr Wine Tasting Gallery and includes features, photos and the history of J. Lohr Vineyards. The wine tasting machine now holds 8 of J. Lohr's signature wines for customer tasting and Jerry Lohr himself attended the opening of the J. Lohr Tasting Gallery to visit with customers and personally sign wine bottles for them. This was an exciting event for the store and the city of Brookings and an opportunity to present the Brookings Liquor store as the place in Brookings and the surrounding area to buy a complete line of wines, including J. Lohr premium wines.

2. A Growler station was installed which holds eight 6 gallon kegs of beer which allows our customers to sample one or more of the eight different "craft" beers being featured. Growlers

are 32 or 64 ounce metal, glass or ceramic refillable beer containers designed to be filled in such a way as to preserve the properties of beer in kegs. The experience of drinking beer from a Growler is like drinking a "craft" beer in a pub or restaurant, except you can do it in your home, at a party or anywhere else you choose. The store sells both 32 and 64 ounce refillable growlers. The only other growler station in Brookings is at a local brewery. The addition of the Growler station to the store has already proven to increase "craft" beer sales, which is the current market trend in beer. (See Craft beer attachment)

3. The store manager worked diligently with both of our major suppliers (RNDC and Johnson Brothers) over a period of several months to develop and analyze a variety of schematics for the store to determine the best and most inviting layout of the store to properly position the products to maximize sales. The store was then completely reset meaning each and every bottle of wine and liquor in the store was physically moved and at the same time, new merchandise was added. After the reset, which provided expanded product selection and increased sales, a very successful Grand Re-opening was held to showcase to the public the improvements that were made during the year.

4. On December 17, 2015 the Liquor Store hosted the Chamber Mixer. Several local Chamber members attended the event for an evening of socializing and holiday tastings. The store gave away several prizes and it was another opportunity to showcase the store. It was a very successful event.

FINANCIAL RESULTS (UNAUDITED)

The above listed changes and events resulted in record levels for both net sales and gross profit for 2015. Net Sales in 2015 of \$4,163,636 were \$170,569 higher than in 2014, an increase of 4.3%. They were only \$5,364 less than the 2015 Adopted Budgeted amount of \$4,169,000. Gross Profit in 2015 of \$1,182,174 was \$460,917 higher than in 2014, an increase of 63.8% as a result of realizing higher markups on all products and a significantly lower physical inventory adjustment than in 2014. Even if the large inventory adjustment and the large retirement expense had not occurred in 2014, the Gross Profit for 2015 would still have been nearly \$175,000 greater. The 2015 Gross Profit was \$156,174 higher than the 2015 Adopted Budget, an increase of 15.2%. Operating expenses in 2015 were \$222,280 compared to \$231,500 in 2014, a reduction of \$9,220, while personnel expense was \$27,502 less in 2015 than in 2014 due to no retirement benefits being paid in 2015. After depreciation and capital costs, the resulting 2015 Net Profit before transfers was \$608,012, an increase of \$522,444, compared to \$85,568 in 2014. The 2015 Net Profit before transfers was \$236,394 higher than the 2015 Adopted Budget Net Profit of \$371,618, an increase of 63.6%.

Craft Beers

The American Brewers Association defines a “craft beer” as one that is brewed by a brewery that:

1. is one of the more than 3,400 small, independent breweries, each of which produces 6 million barrels or less of beer annually and;
2. is less than 25% owned or controlled by a beverage alcohol industry member that is not itself a craft brewer and;
3. has a majority of its total beverage alcohol volume in beers whose flavor derives from traditional or innovative brewing ingredients and their fermentation. Flavored malt beverages are not included.

As a nation, the United States now has more beer styles and brands to choose from than any other market in the world, the majority of which are produced by craft breweries. During the period of 2012 through 2014, the number of craft brewers (which includes brewpubs, microbreweries, and regional craft breweries) exploded from 2,347 to 3,418, an increase of 46%. In 2012 craft beer sales accounted for 6.5% of the total beer volume sold and 10.2% of the dollars spent on beer. For 2014, those numbers had risen to 11% of the volume sold and 19.3% of the dollars, estimated to be \$19.6 billion.

The explanation for the explosive growth of the craft beer industry has been described in various ways such as pure happiness in a glass, authentic, archetypical, an intellectual beverage that is to be savored not swilled, and as a unique experience. Each glass displays the creativity and passion of its maker and the complexity of its ingredients. It is treasured by millions around the world who see it as something to be revered, enjoyed in moderation, and shared. It is a versatile beverage that enhances food when paired and can be a key ingredient when preparing special recipes in the kitchen. Another reason for the phenomenal success of craft beers in the U.S. is that the average American lives within 10 miles of a craft brewer (although that may not be the case in South Dakota) and craft beers are now readily available in restaurants, taverns and retail outlets.

BROOKINGS MUNICIPAL LIQUOR STORE ANNUAL REPORT

*****UNAUDITED*****

-----2015-----

	RETAIL LIQUOR	RETAIL WINE	RETAIL BEER	RETAIL LOTTERY	RETAIL MISC	TOTAL
Sales	2,265,280	606,779	1,138,882	27,898	130,180	4,169,019
Discounts/ net kegs/Lott Payout/Deposit Adj	-	-	750	(5,515)	(618)	(5,383)
Sales (Net)	2,265,280	606,779	1,139,632	22,383	129,562	4,163,636
Cost of Sales:						
Inventory January 1, (at cost)	383,607	163,609	57,590		16,476	621,282
Purchases (net)	1,587,833	433,323	884,300	22,379	96,519	3,024,354
Less Inventory December 31, 2015, (at cost)	381,596	193,305	72,150	17,123	17,123	664,174
Total Cost of Sales	1,589,844	403,627	869,740	22,379	95,872	2,981,462
GROSS PROFIT	675,436	203,152	269,892	4	33,690	1,182,174
Gross Profit Margin=gross profit/net sales	29.82%	33.48%	23.68%	0.02%	26.00%	28.39%
Mark-up on Product=gross profit/total cost	42.48%	50.33%	31.03%	0.02%	35.14%	39.65%
OPERATING EXPENSES						
Current Expenses						222,280
Personnel Costs/ Retail						315,001
Personnel Costs/ Operating and Malt						-
Capital Costs Under \$5000						3,217
Depreciation Expense						44,594
Total Expenses						585,092
Add Nonoperating Revenue						
Interest						9,002
Other Income						1,928
Rent						-
Total Other Income						10,930

NET RETAIL INCOME BEFORE TRANSFER

608,012
14.60%

Operating Transfer Out To General Fund

200,000

*****UNAUDITED*****