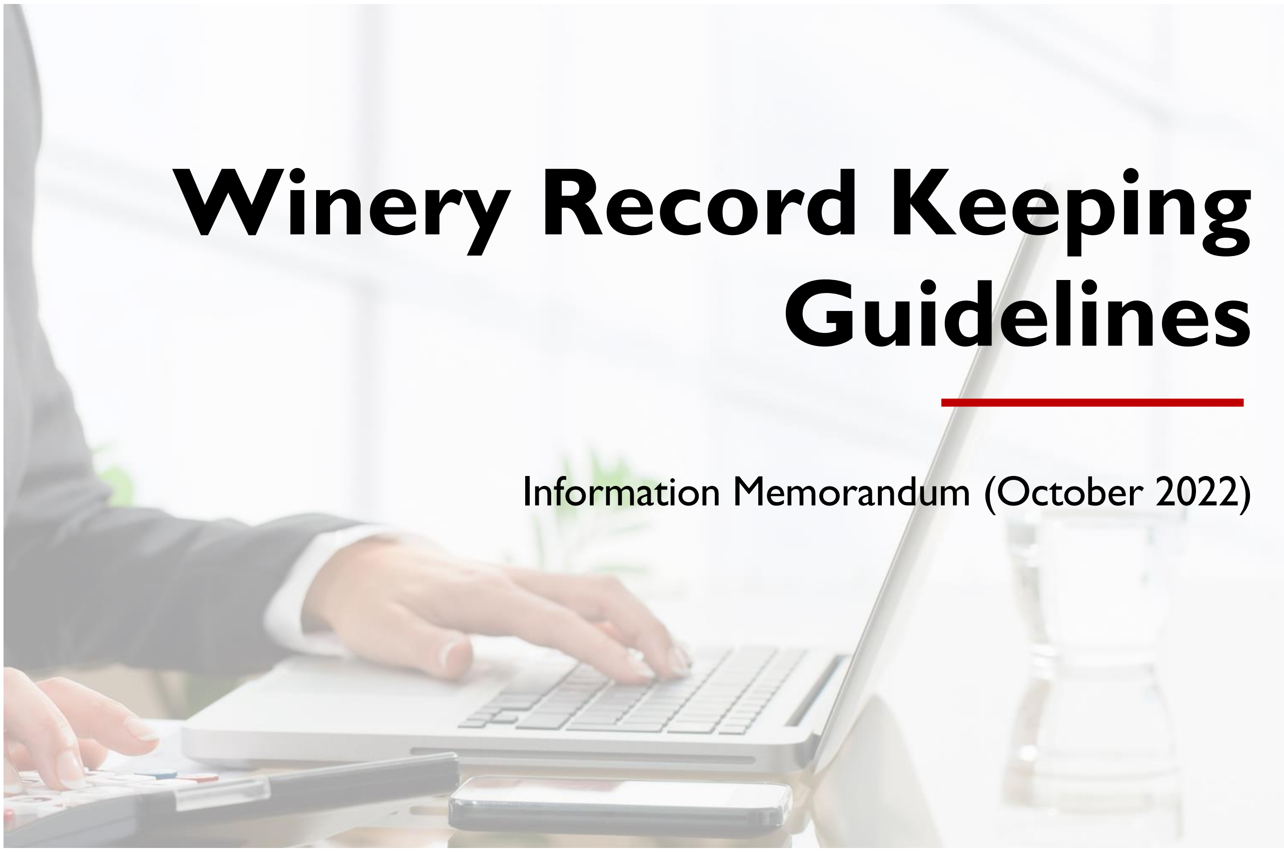
BRITISH COLUMBIA

LIQUOR DISTRIBUTION BRANCH



Winery Record Keeping Guidelines

Information Memorandum (October 2022)

Table of Contents

1.0 Introduction

The purpose of this document, Winery Record-keeping Guidelines (the "Guidelines") is to provide guidance and support to Commercial Wineries in order to comply with the record-keeping requirements in the *Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product* (the "Agreement") that eligible licensed Commercial Wineries (the "Winery") enters into with the Liquor Distribution Branch ("LDB")

Unless otherwise specified, the defined terms used in these Guidelines have the meaning set out in the Definitions at Appendix B of the *Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product – Commercial Winery*, as applicable.

According to the Agreement, the Winery must create and retain the records necessary for the Winery's type and size of business, to enable the Winery to account for its product, how it was produced, and how it is disposed of. The records must be retained at the Winery's office in British Columbia (B.C) and must be kept for a period of no less than six years following the end of each calendar year.

2.0 Shrinkage Allowance and Mark-up Assessment

The Agreement provides a shrinkage allowance for minor unaccounted product losses such as sales reporting errors, breakage, disposal, and theft, etc. Wineries are given a shrinkage allowance of 1.75% of the Total Calculated Packaged Product for wine and 0.50% for cider and refreshment beverage products moved in B.C in a given fiscal year.

The Winery will not be charged mark-up for volumes within the LDB Shrinkage Allowance. However, unaccounted product in excess of the shrinkage allowance, which was in a Winery's possession or control and cannot be accounted for by the Winery, will be considered lost product and subject to mark-up.

Since the shrinkage allowance above is calculated on packaged products, it is important for the Winery to ensure its records relating to product movement (including inventory level, production, transfers, sales, and deductions) are accurate. If records are incomplete or inaccurate, the Winery will incur financial liability for mark-up on any amounts deemed to be lost product (see section 2.1 for more information).

Example Calculation of Shrinkage Allowance:

In this example, the Winery has an opening inventory of 500 L. It produces 6,000 L of wine during the fiscal year. It sells 90 L of its wine into another province. It also receives a Canada Revenue Agency ("CRA") exemption for destruction of 250 L of wine and an LDB exemption for 50 L of wines that was lost by theft. The Winery's year end physical count results in 700 HL of physical inventory.

The Winery's shrinkage allowance for the year is:

Product available for sale within BC:		
Opening inventory	500 L	
+ Packaged production	+ 6,000 L	
– Transfer to other province	- 90 L	
		6,410 L
Minus: Breakage/destruction/write-off exempted by CRA or LDB		
Exemption by CRA	250 L	
+ Exemption by LDB	+ 50 L	
		- 300 L
Minus: Closing physical inventory		- 700 L
Subtotal [Total Calculated Product moved within B.C.]		5,410 L
Shrinkage allowance rate (Wine)		x 1.75%
Shrinkage allowance		**95 L**

2.1 Lost Product Assessment

The Winery will not be assessed for mark-up on volumes within its permitted shrinkage allowance. However, volumes that exceed its shrinkage allowance that were in the Winery's possession or control and cannot be accounted for by the Winery will be considered lost product and subject to mark-up.

The mark-up can be assessed through the yearly review of the Winery's Product Movements Summary Report (the "PMS") or by a compliance audit.

As part of the LDB's review of the PMS, the LDB may request the Winery provide documents to support the values stated on the PMS. For example, the physical inventory count sheets may be required to prove that the year end inventory count has been conducted. The Winery must ensure the records are readily available upon LDB's request.

In the event of a compliance audit, the records will be reviewed in order to account for product movement. Please see section 3.0 Specific Record Keeping Requirements. As per the Agreement, mark-up will be charged on lost product as if it had been sold at the LDB's established retail price. In addition, the Winery will be charged for the container deposits, container recycling fees, and applicable taxes associated with the lost product.

The LDB is authorized under section 9(1) of the *Liquor Distribution Act* to treat unaccounted liquor as if it has been sold by the Winery. The Agreement elaborates on the manner in which LDB exercises this authority.

Extract from the Liquor Distribution Act:

Section 9(1) - *"If the general manager [of the LDB] determines, from a review of the records kept by a manufacturer, manufacturer's agent, distributor or authorized importer, that a quantity of acquired liquor is unaccounted for, the general manager [of the LDB] may treat the quantity of the acquired liquor that is unaccounted for as having been sold to that manufacturer, manufacturer's agent, distributor or authorized importer under section 8."*

3.0 Specific Record-Keeping Requirements

As set out in section 5 of the Reporting Requirements and Procedures, in Appendix A of the Agreement, the Winery must maintain and retain sufficient records so that any reasonable third party reviewing the records can determine certain information regarding the Winery's packaged product. As discussed further below, that information relates to:

In the event of a compliance audit, the records will be thoroughly reviewed in order to account for the Winery's packaged product movement. The LDB will work with the Winery to obtain the appropriate records; however, if the records provided are incomplete and/or inconsistent, LDB may apply estimations of the missing quantity to the assessment.

3.1 Inventory

As provided in Appendix A, section 5 of the Agreement, the Winery is required to maintain and retain sufficient records regarding its inventory so that a reasonable third party reviewing them can determine:

> *"The amount you currently store anywhere in British Columbia, including identifying the specific Warehouses. As a manufacturer, you are required to physically count your inventory at the close of business on March 31 each year. Also, you are required to retain your physical count sheets that clearly identify the Product you counted at each of your Warehouses."*

Records required in accordance with this clause include:

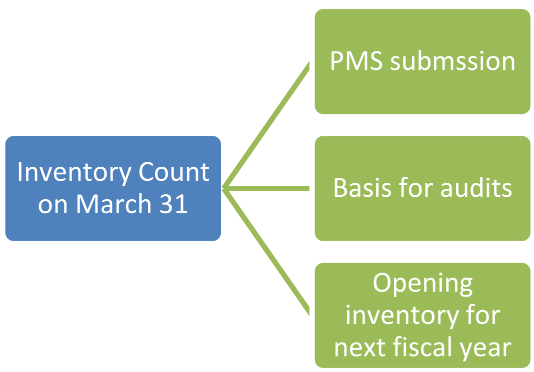
- the locations of all the Warehouses in BC in which the Winery's inventory is stored; and
- a complete list of packaged product available in each Warehouse including product SKU, name, and quantity.

The Winery's book inventory is expected to accurately reflect the Winery's physical inventory. In addition, the Winery is required to conduct a complete physical inventory count at the close of business on March 31 each year.

The Winery's physical inventory count sheets should include:

- for packaged product - SKU, name, quantity, and location of each product;
- a comparison of physical count result with the book inventory; and
- investigation detail and adjustment as a result of the discrepancies of physical count and book inventory.

The inventory counted on March 31 will be used as the opening inventory for the next fiscal period beginning on April 1. It is important that the Winery physically counts the inventory on March 31 and retains all of the above documentation as it may be used as a starting point for an audit and will be used in PMS submissions due on June 30 of each year.



If the Winery fails to perform the physical inventory count on March 31 of each year, the Winery will be in default under the Agreement, which could result in consequences including suspension or termination of the Agreement (see [section 7.0 Consequences of Non-Compliance]).

It is recommended that the Winery conduct physical inventory counts and inventory reconciliations periodically (e.g., weekly, monthly, or quarterly) for inventory control purposes.

<u>Example Inventory Count Sheet (For Reference Only):</u>

MANUFACTURER Physical Inventory Count Sheet

Warehouse:	Manufacturing Site
Count Date:	MAR / 31 / 2020
Counted By:	STAFF

BCLDB SKU	Product Name	Location	Quantity (Cases)	Quantity (Units)
####-##	MANUFACTURER - PACKAGED....	Cooler A2	##	##

EXAMPLE ONLY

3.2 Production at the Winery

As provided in Appendix A, section 5 of the Agreement, the Winery is required to maintain and retain sufficient records regarding its production so that a reasonable third party reviewing them can determine:

> *"The amount you produced in your Licensed Establishment."*

Records required in accordance with this clause include the following:

- Production records with the following details:
  - production reference/batch number,
  - production date,
  - product name and wine varietal,
  - product category (e.g. wines, ciders, BC VQA product, wine-based refreshment beverages, etc.),
  - types and amount of raw ingredients used (e.g. grapes, juice, fruits, rice, honey, etc.),
  - fermentation tank volume,
  - storage tank, barrel, and tote volume,
  - records of any significant production loss or product disposal prior to packaging including the volume, date, and reason (e.g. dump due to quality issue, accident, etc.);
- Packaging records with the following details:
  - reference number related to a specific production, traceable to specific production record,
  - product name (varietal and vintage) and/or SKU number, traceable to the LDB product registry if it is packaged product,
  - product configuration (e.g. 750ml x 12 bottles, Keg 50L etc.),
  - packaging date,
  - packaged volume,
  - any significant packaging loss and/or product disposal after packaging including the volume, date and reason (e.g. loss due to quality issue, breakage, short fill, etc.);

- Details of each SKU registered to the Winery with following details:
    - product name,
    - location where the product was produced;
- Excise duty returns:
    - detailed supporting packaging records traceable against the Winery's internal packaging records, and
    - copy submitted to the CRA;
- Bulk wine purchasing records:
    - invoices issued by the supplier clearly indicating the vendor name, ingredient type, quantity, total cost, and shipment date; and
- Records of raw ingredients (e.g. grape, fruit, and juice) including:
    - harvesting record and purchasing invoices issued by the supplier clearly indicating the vendor name, ingredient type, quantity, total cost, and shipment date (note that raw ingredient purchase and usage may be reviewed by the LDB during an audit to support the Winery's production volume, and
    - it is recommended for the Winery to conduct raw ingredient counts on a regular basis to keep track of its raw ingredient inventory.

Note: Raw Ingredients records will only be requested if alternative audit procedures are required to support production. The alternative audit procedures will be used if the Winery has non-existent or unreliable records. Other instances may require a review of raw ingredients and will be assessed on a case-by-case basis.

3.3 Production by Third Party

As provided in Appendix A, section 5 of the Agreement, the Winery is required to maintain and retain sufficient records regarding production by a third party so that a reasonable third party reviewing them can determine:

> *"The amount a third party produced and/or bottled in British Columbia on your behalf."*

Records required in accordance with this clause include:

- a list of third party manufacturers that produce and/or bottle product on behalf of the Winery; and
- documentation of the volume/quantity of product that is produced and/or bottled by the third party manufacturers including:
    - signed production agreement,
    - invoices received from the third party manufacturers,
    - proof of payments made to the third party manufacturers.

LDB expects the above records to provide details such as product descriptions, product SKU, quantities shipped, packaging date, and transfer date.

3.4 BC VQA Product

As provided in Appendix A, section 5 of the Agreement, the Winery is required to maintain and retain sufficient records regarding BC VQA product so that a reasonable third party reviewing them can determine:

> *"The contents of your BC VQA Product. That is, your records need to be sufficient so that you can reasonably demonstrate that any of your wine designated as BC VQA Product contains only British Columbia grapes."*

Records required in accordance with this clause include:

- a list of suppliers that you used for BC VQA product;
- a list of grape varietal used for each type of your BC VQA product; and
- grapes or grape juice purchasing invoices from the BC VQA product suppliers with details such as vendor name, grape varietal, volume, total cost, and shipment details.

The LDB may review grapes purchase and usage during an audit to support the Winery's BC VQA production.

3.5 Disposal, General Destruction or Breakage

As provided in Appendix A, section 5 of the Agreement, the Winery is required to maintain and retain sufficient records regarding disposal, general destruction, and breakage so that a reasonable third party reviewing them can determine:

> *"The amount you disposed of for quality control purposes, breakage or general destruction"*

For disposal or general destruction, as applicable, records required in accordance with the above clauses include:

- destruction report/log by warehouse locations (see example log below),
- destruction certificates;
- destruction evidence (i.e. pictures, videos);
- approvals from CRA; and
- approvals from LDB.

Note: LDB expects the above records to provide details such as product descriptions, product SKU, quantities destroyed or disposed of, and date of destruction or disposal.

For breakage, records required in accordance with the above clauses include:

- supporting documents for the inventory adjustment (i.e. pictures or videos of damaged product);
- approvals from LDB; and
- report of breakage transactions that include, but are not limited to, the following details:
  - transaction date,
  - breakage amount, and
  - reasons for the breakage.

Note: LDB expects the above records to provide details such as product descriptions, product SKU, quantities destroyed or disposed of, and date of destruction or disposal.

Example Inventory Destruction Log (For Reference Only):

MANUFACTURER Internal Inventory Destruction Log

Location:	Manufacturing Site
Date of Destruction:	SEPT / 30 / 2020

BCLDB SKU	Product Name	Unit Size	Reason for Destruction	Quantity (Units)
######	MANUFACTURER – PACKAGED ...	1 x 650ml	Stale Date	##
######	MANUFACTURER – PACKAGED ...	6 x 355ml	Packaging	##
######	MANUFACTURER – PACKAGED ...	50L keg	Damage	##

EXAMPLE ONLY

____________/______________ Destroyed By / Date

____________/____________ Supervisor/Manager / Date

LDB Exempted Deductions:

If an unusual event occurs at the manufacturing facility or warehouse which results in product loss, the Winery may ask the LDB to exempt the resultant loss from any mark-up assessment for lost product. The LDB will consider granting such an exemption in unusual circumstances, including, for example, where:

- disposal is required due to a product recall, stale-dated product, or packaging errors;
- general destruction is required due to a large accumulation of unsaleable returns; or
- breakage is caused by a major forklift accident in the Warehouse or shelving collapse.

In order to receive a LDB exempt deduction, the Winery should seek approval from the LDB by email to regemail@bcldb.com. In the case of destruction or disposal, LDB's approval should be sought before any destruction or disposal takes place. For losses that arise from breakage, please ensure to take photographic or video evidence of the loss. After receiving the request, the LDB will provide guidance to the Winery regarding the proof of loss required. The LDB will then review the documentation submitted and provide approval if the request is eligible for the exemption.

3.6 Transfer to Other Provinces in Canada

As provided in Appendix A, section 5 of the Agreement, the Winery is required to maintain and retain sufficient records regarding transfer to other provinces so that a reasonable third party reviewing them can determine:

> *"The amount that you shipped out of British Columbia including sufficient documentation to clearly evidence that this product physically left British Columbia."*

Records required in accordance with this clause include:

- shipping documents that indicate which product left British Columbia (e.g. bills of lading); and
- receiving confirmations from the recipient provinces.

LDB expects the above records to provide details such as product descriptions, product SKU, quantities shipped and shipment date.

The LDB may confirm product shipped to other liquor jurisdictions within Canada through third-party verification.

3.7 Sales to Authorized Customers

As provided in Appendix A, section 5 of the Agreement, the Winery is required to maintain and retain sufficient records regarding sales to authorized customers so that a reasonable third party reviewing them can determine:

> *"The amount that you sold to your authorized customers in British Columbia."*

Records required in accordance with this clause include:

- a list of the Winery's authorized customers;
- sales records and documentation (e.g. sales invoices, receipts, POS records, sales system reports); and
- sales records and documentation.

LDB expects the above records to provide details such as product descriptions, product SKU, quantities shipped and shipment date.

Note: This clause only refers to the internal sales records that the Winery is expected to keep. In addition to the internal sales records, the Winery is also required by the Agreement to report its direct sales to the LDB on a weekly basis. Direct sales reporting requirements can be found in Appendix A of the Agreement.

It is important for the Winery to ensure its direct sales reported are complete and accurate. It is recommended that the Winery regularly (i.e. weekly) compare internal sales records to what has been reported to the LDB. Failure to provide the sales reports as required under the Agreement is an Event of Default, which could result in consequences including suspension or termination of the Agreement (see section 7.0 Consequences of Non-Compliance).

3.8 Returns from Authorized Customers

As returns from authorized customers will be added to the amount of available inventory, the Winery is required to maintain and retain sufficient records as per the requirement detailed in the previous section, 3.7 Sales to Authorized Customers.

In the event the Winery decides to dispose of returned products, the Winery should follow the requirement detailed in 3.5 Disposal, General Destruction or Breakage to maintain and retain the records.

4.0 Promotional, Tasting or Sampling Products

As provided in Appendix A, section 2.4.1 of the Agreement:

"You may use Product for sampling, donations and/or to provide to employees even if you do not have a Manufacturer Retail Store. If you have a Manufacturer Retail Store, all Product used for any of these purposes must be reported as a sale to your Manufacturer Retail Store using your Commercial Winery store number. If you don't have a Manufacturer Retail Store, all Product used for any of those purposes must be reported as a sale using your Commercial Winery store number."

This clause requires the Winery to report product consumed or used for any of the following purposes, as if the product has been sold to the Winery's on-site store:

- promotional activities;
- tasting;
- sampling; and
- provided to employees and customer (for their own consumption).

The Winery should not write-off any product that is consumed without reporting the sales to the LDB. Detailed sales reporting requirements can be found in Appendix A of the Agreement.

Note: that the Winery cannot gift its product to any Wholesale Customer, Hospitality Customer or Special Event Permittee for reselling purposes. This practice is strictly prohibited under Section 8 and 9 of the Agreement regardless of whether the Winery is reporting the product gift as a sale or not.

5.0 Other Records to Retain

Section 3.0, Specific Record-Keeping Requirements, discusses the **minimum records** that the Winery should retain. During the course of compliance audits, additional records may be requested to support the amount of the product reported by the Winery. Therefore, the Winery must additionally retain the following records for at least 6 years:

Other records to retain:

- accounting system general ledger;
- Winery's insurance policy;
- excise audit reports received from the CRA (if any); and
- documents to prove products have been exported out of Canada (as applicable):
  - customs forms (e.g. Form B13A, Export Declaration or Form K36A, Ship's Stores Declaration and Clearance Certificate),
  - transportation documents (e.g. bills of lading, pro-bill or waybill),
  - Customs brokers' or freight forwarders' invoices,
  - landing certificate issued by port authorities of the country to which the product was exported,
  - import documentation required by the country to which the product was exported, and
  - proof of sales (e.g. commercial invoices, purchase agreements, purchase orders, proof of payment).

LDB expects the above export records to provide details such as product descriptions, product SKU, quantities shipped and shipment date.

6.0 Payment for Product

The Agreement sets out the following requirement with respect to payment for product:

> *"You must obtain from each Wholesale Customer and Hospitality Customer full payment for all Product sold prior to transferring possession of such Product to the purchaser, unless otherwise authorized by the LDB."*
>
> *"For Wholesale Customers that are Grocery (Wine on Shelves) Licensees, you must obtain from each of these Wholesale Customers, full payment for all Product sold within 10 days of transferring possession of such Product to the purchaser, unless otherwise authorized by the LDB."*

This clause states that the Winery is not allowed to sell products on credit notes or give away product to any Wholesale Customer and Hospitality Customer at any time without payment. The Agreement requires the Winery to **obtain full payment** (via direct sales) for all packaged product sold prior to transferring possession of the product except Wholesale Grocery Licensees who have a payment term of 10 days. All direct sales transactions should be dated by the shipment day (instead of the day of payment receipt) and submitted to the LDB with the associated weekly batch reporting per section 3.7 above.

7.0 Consequences of Non-Compliance

As provided in the Agreement:

> *"If the inspection or audits referred to above disclose a breach of the Agreement, you must pay the costs and expenses of the inspection or audit and any payments assessed as due and owing, as determined by the LDB using reasonable audit standards."*

This clause states that if the Winery is found to be non-compliant with the Agreement, it is required to make payments for:

- costs and expenses of the inspection or audit; and
- any mark-up assessed by LDB

In the event a Winery is found to be in non-compliance with the Agreement (such as, improper record-keeping), LDB will generally provide the Winery with a 30-day notice to remedy the issue (e.g. remit payment assessed, provide a plan to improve record-keeping practices). The LDB will support the Winery through this process by providing guidance to bring the Winery into compliance and maintain compliancy going forward. Upon the happening of an Event of Default, the LDB may elect to do any one or a combination of the following actions:

- provide a further time period in which to remedy the event of default;
- seek reimbursement for expenses (e.g. for NSF) that LDB incurs as a result of the event of default;
- charge interest on overdue accounts in accordance with Applicable Laws;
- report noncompliance with the Agreement to the Liquor and Cannabis Regulation Branch;
- withhold registration of any new product;
- require the Winery to provide a letter of credit from its financial institution;
- pursue any remedy or take any other action available to it at law or in equity;
- suspend the Agreement thereby suspending the Winery's authorization to conduct any direct sales or delivery within BC; or
- terminate the Agreement thereby revoking the Winery's authorization to conduct any direct sales or delivery within BC.

8.0 References

Agreement Relating to the Direct Sale and Delivery of British Columbia Manufactured Product -Winery (the "Agreement")
Available at: http://www.bcldb.com/files/Commercial_Winery_Sales_Agreement.pdf

BC *Liquor Distribution Act* (the "Act")
Available at: https://www.bclaws.ca/civix/document/id/complete/statreg/96268_01

For any additional inquires, please contact:
LDB Regulatory Email Inbox regemail@bcldb.com