



STATE OF MAINE  
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES  
BUREAU OF ALCOHOLIC BEVERAGES AND LOTTERY OPERATIONS  
8 STATE HOUSE STATION  
AUGUSTA, MAINE 04330-0008

JANET T. MILLS  
GOVERNOR

KIRSTEN LC FIGUEROA  
COMMISSIONER

GREGORY R. MINEO  
DIRECTOR

February 17, 2022

Senator Cathy Breen, Chair  
Representative Teresa Pierce, Chair  
Joint Standing Committee on Appropriations  
Financial Affairs  
5 State House Station  
Augusta, ME 04333-0005

Senator Craig Hickman, Chair  
Representative Chris Caiazzo, Chair  
Joint Standing Committee on Veterans and  
Legal Affairs  
100 State House Station  
Augusta, ME 04333-0100

Dear Senators Breen and Hickman and Representatives Pierce and Caiazzo:

Pursuant to Title 28-A, Section 90, subsection 6, please find enclosed the Fiscal Year 2021 audited financial report of Pine State Spirits, a Division of Pine State Trading Co., the Bureau's contractor in Maine's spirits business.

If you have any questions regarding this report, please do not hesitate to contact me.

Sincerely,

Gregory R. Mineo  
Director

cc: Members of the Joint Standing Committee on Veterans and Legal Affairs (by email)  
Kirsten LC Figueroa, Commissioner, Department of Administrative & Financial Services

Enclosure

# Pine State Spirits (A Division of Pine State Trading Co.)

Schedule of Spirits Reconciliation

Year Ended June 30, 2021



**WIPFLI**

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Schedule Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Pine State Trading Co.  
Gardiner, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Schedule of Spirits Reconciliation of Pine State Spirits (a division of Pine State Trading Co.) for the year ended June 30, 2021, and the related notes to the Schedule of Spirits Reconciliation (the Schedule), and have issued our report thereon dated September 28, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the Schedule, we considered Pine State Spirits' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of Pine State Spirits' internal control. Accordingly, we do not express an opinion on the effectiveness of Pine State Spirits' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Schedule will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pine State Spirits' Schedule of Spirits Reconciliation is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Schedule. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of Pine State Spirits' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wipfli LLP*

Wipfli LLP

Augusta, Maine  
September 28, 2021

## Independent Auditor's Report

Board of Directors  
Pine State Trading Co.  
Gardiner, Maine

### Report on the Schedule

We have audited the accompanying Schedule of Spirits Reconciliation (the Schedule) of Pine State Spirits (a division of Pine State Trading Co.), for the year ended June 30, 2021, and the related notes to the Schedule.

### Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this Schedule in accordance with the agreement between Pine State Trading Co. and the State of Maine Bureau of Alcoholic Beverages and Lottery Operations, dated June 25, 2014; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on this Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, 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 Schedule 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 presentation of the Schedule.

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

### Opinion

In our opinion, the Schedule of Spirits Reconciliation referred to above presents fairly, in all material respects, the spirits activity of Pine State Spirits for the year ended June 30, 2021, in accordance with the basis of accounting specified in the agreement referred to above.

### **Basis of Accounting**

We draw attention to Note 1 of the Schedule, which describes the basis of accounting. The Schedule was prepared by Pine State Spirits, on the basis of the agreement between Pine State Trading Co. and the State of Maine Bureau of Alcoholic Beverages and Lottery Operations, dated June 25, 2014, which is a basis of accounting other than accounting principles generally accepted in the United States to comply with the provisions of the agreement referred to above. Our opinion is not modified with respect to that matter.

### **Restriction on Use**

Our report is intended solely for the information and use of the Board of Directors and management of Pine State Trading Co., the State of Maine Bureau of Alcoholic Beverages and Lottery Operations, the State of Maine Controller's Office and the joint standing committees of the State of Maine legislature having jurisdiction over appropriations and financial affairs and alcoholic beverage matters, and is not intended to be and should not be used by anyone other than those specified parties.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2021, on our consideration of Pine State Spirits' 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 solely to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pine State Spirits' 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 Pine State Spirits' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

Augusta, Maine  
September 28, 2021

## Schedule of Spirits Reconciliation

Year Ended June 30, 2021

	Net Sales								
	Total Invoiced Amount	In-State Distillers	Spirits Sales	Premium Taxes	Deposit	Product Cost	Part A Contract	Marketing Contract	State Profit
July	\$ 23,704,090	\$ 43,086	\$ 23,101,896	\$ 310,601	\$ 248,507	\$ 15,218,726	\$ 1,106,989	\$ 492,159	\$ 6,327,108
August	22,625,833	85,401	22,031,002	292,500	216,930	14,338,664	1,036,207	460,944	6,280,588
September	19,450,815	79,636	18,900,367	259,933	210,879	12,800,658	885,751	392,801	4,900,793
October	19,262,804	83,577	18,716,713	251,788	210,726	12,328,248	911,660	404,759	5,155,623
November	18,038,950	81,452	17,516,293	237,055	204,150	11,650,787	845,788	374,503	4,726,667
December	23,470,719	48,529	22,856,864	311,587	253,739	15,746,630	1,108,546	493,820	5,556,397
January	16,636,486	65,883	16,197,690	197,182	175,731	9,736,974	730,889	322,604	5,473,106
February	17,076,950	19,473	16,646,158	228,691	182,628	11,082,110	815,886	361,457	4,406,178
March	19,035,549	26,977	18,552,132	246,839	209,601	12,307,717	901,774	400,600	4,969,018
April	18,759,892	378	18,309,463	238,404	211,647	11,800,422	876,664	388,540	5,244,215
May	19,847,271	80,790	19,297,785	256,859	211,837	12,889,704	938,295	416,470	5,134,106
June	23,327,967	71,477	22,718,014	298,138	240,338	15,183,913	1,097,168	487,401	6,021,009
	<u>\$ 241,237,326</u>	<u>\$ 686,659</u>	<u>\$ 234,844,377</u>	<u>\$ 3,129,577</u>	<u>\$ 2,576,713</u>	<u>\$ 155,084,553</u>	<u>\$ 11,255,617</u>	<u>\$ 4,996,058</u>	<u>\$ 64,194,808</u>

See independent auditor's report.

The accompanying notes are an integral part of this schedule.

# Pine State Spirits

## Notes to Schedule of Spirits Reconciliation

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### **Note 1: Nature of the Business and Significant Accounting Policies**

Pine State Spirits is a division of Pine State Trading Co. (the Company). The Company operates a division for the wholesale distribution of malt beverages and wine and a division for the distribution and marketing of spirits under contract with the State of Maine. Pine State Spirits was formed for the purpose of distributing and marketing spirits under contract with the State of Maine. Note 2 of the Notes to Schedule of Spirits Reconciliation further outlines the nature of the liquor contracts with the State of Maine.

#### **Basis of Accounting**

The Schedule of Spirits Reconciliation is presented on a basis of accounting in conformity with the agreement between Pine State Trading Co. and the State of Maine Bureau of Alcoholic Beverages and Lottery Operations, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

#### **Revenue Recognition**

The Company's source of revenue is from the distribution of liquor products in the State of Maine. Revenue is recognized when and as performance obligations under the terms of a contract are satisfied.

Beverage sales include distribution of liquor at a standard unit price that is fixed on the day the order is taken. These sales typically have one performance obligation, which is providing the customer with the product ordered. The Company recognizes revenue for financial reporting purposes at a point in time, delivery date, as the shipment of the order satisfies the performance obligation and control is transferred immediately to the customer.

In accordance with State of Maine law, payments terms for the distribution of liquor is cash on delivery.

Revenues from contracts with customers recognized at a point in time was \$241,237,326 for the year ended June 30, 2021.

The Company has determined that the nature, amount, timing and uncertainty of revenue is most significantly affected by the concentration of the Company's geographic location and customer demand.

### **Note 2: State of Maine Liquor Contracts**

#### **Part A Contract**

During 2014, the Company was awarded the State of Maine wholesale liquor contract for warehousing, distribution and administration of the Maine spirits business for a ten year period effective July 1, 2014 to June 30, 2024. The contract calls for the Company to receive a services fee of 4.95% of the net sales and bailment revenue received by the State of Maine, Department of Administration & Financial Services, Bureau of Alcoholic Beverages and Lottery Offices (the Department) on a monthly basis. The Company receives the services fee after submitting an electronic reconciliation report of the previous month's sales and costs of products sold for the Department to review.



# Pine State Spirits

## Notes to Schedule of Spirits Reconciliation

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### **Note 2: State of Maine Liquor Contracts** (Continued)

#### **Part A Contract - Continued**

The Company provides sufficient warehouse space to house the spirits products and to prepare and deliver orders. Products that are delivered and stored by the Company are the property of the supplier. The product becomes the property of the Department upon removal and shipment to an agency liquor store. The agency liquor store gains ownership of the product at the time of delivery. At no time does the Company take legal title to the products. For storage of the spirits products, on behalf of the Department, the Company charges a bailment fee to the supplier based on the negotiated rates contained in the contract with the Department.

The Company is responsible for paying all invoices from suppliers and is entitled to full reimbursement from the Department for all invoice amounts paid to suppliers. The Company is also responsible for invoicing agency liquor stores on behalf of the Department for products when delivered. The electronic payment of these invoices into the Department's bank account is initiated by the Company. The Company accepts 100% of the risk of default by the agency liquor stores. When an agency liquor store is unable to pay, the Company is to develop a product-retrieval process with the Department.

It is the responsibility of the Company to calculate and track all taxes imposed on products sold to the agency liquor stores as required by law, but the Company does not bear payment responsibility for premium taxes on the products. The total premium tax collected on the sale of products to the agency liquor stores is provided as part of the Company's monthly reconciliation.

Twice monthly the Company provides the suppliers with a purchase order outlining the products distributed from the Company's warehouse and is responsible for payment. The Department is responsible for remitting to the Company all payments due to suppliers and the Company is not responsible for making these payments using its own funds or the services fees.

The Department established a Net Receipts Clearing Account which is to be used for depositing all accounts receivable and distributing funds for accounts payable. The Company, in its accounts receivable and accounts payable capacity, acts solely as an agent of the State. The Company is prohibited from commingling funds and financial activity as an agent of the State with any other funds and financial activity of the Company in its individual capacity. Furthermore, the Company does not have access to funds in the Net Receipts Clearing Account. The Department is responsible for paying all amounts to which the Company is entitled as a result of the agreement from the Net Receipts Clearing Account.

# Pine State Spirits

## Notes to Schedule of Spirits Reconciliation

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### **Note 2: State of Maine Liquor Contracts** (Continued)

#### **Marketing Contract**

During 2014, the Company was also awarded the contract for spirits trade marketing for the period October 21, 2014 to June 30, 2024. The marketing contract calls for the Company to receive, on a monthly basis, 2.25% of the total net sales of spirits in the State for the preceding month. Under the marketing contract, the Company, at their sole expense, is responsible for providing, directly or indirectly, all trade marketing activities.

The Department has sole discretion to license agency liquor stores above those existing at the time of the agreement. The Department also agrees to enter into contract negotiations for increased costs due directly to the increase in number of agency liquor stores, if the number of new agency liquor stores increases more than 5% in any year of the agreement.

### **Note 3: Concentrations**

During the year ended June 30, 2021, payments to the top four suppliers for liquor products accounted for approximately 47% of total product cost.

### **Note 4: Risks and Uncertainties**

Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the Schedule of Spirits Reconciliation, the Company had not yet suffered material adverse impact from the CV19 Crisis. The future impact of the CV19 Crisis on the Company cannot be reasonably estimated at this time.

### **Note 5: Subsequent Events**

Management has made an evaluation of subsequent events through September 28, 2021, which represents the date on which the Schedule of Spirits Reconciliation was available to be issued and determined that any subsequent events that would require recognition or disclosure have been considered in the preparation of the Schedule of Spirits Reconciliation.