

Virginia Winery Distribution Company

P. O. Box 34704
Alexandria, VA 22334-0704

November 15, 2011

Dear VWDC Wineries,

I want to begin this communication by congratulating you for a great year to date in wine sales through the Virginia Winery Distribution Company (VWDC). Total dollars in sales have grown from \$167, 000 in March of this year to more than \$256,000 in October. In March, total cases sold were 1,347, and in October that number was 4,909. This is truly remarkable during this period of the U.S. economy, and when national wine sales have fallen off in every area except in direct-to-consumer sales outlets. We currently have more than 100 Virginia farm wineries participating in the VWDC.

As you may already know, the Virginia ABC has initiated audits of the VWDC, which includes all participating wineries licensed to distribute their wines. The Tax Audit Division of the Virginia ABC has worked closely with the VWDC Board to help ensure compliance with laws governing wholesale distribution. To date, the ABC has audited about 10% of the wineries, and plans to begin additional audits after the first of the year. You can expect they will also audit operations of your Farm Winery License at the same time they conduct the VWDC audit.

The first round of audits and inspections conducted during the past few months highlighted a number of deficiencies and potentially serious violations that could result in action against the VWDC if they are not corrected. The ABC has requested the VWDC Board provide an action plan to correct these violations which are common to most of the wineries that were audited. The most common violations identified are:

1. Modified TTB Permit not available.
2. Time records not maintained
3. Licensed space not separate and secure
4. Licensed space contained non-VWDC items
5. VWDC Agent list not displayed
6. ABC License (VWDC) not displayed

Action items required for all VWDC wineries

The VWDC Board recently met with the Program Director for the ABC Tax Audit Division to discuss ways to remedy these deficiencies and prevent similar findings during future audits. The following requirements apply to all VWDC wineries. Please pay particular attention to required time frames for response for each item. Failure to meet these time frames will result in wineries being unable to process orders until the requirements are met, or in some circumstances, termination of their VWDC license. While these may seem harsh, VWDC risks

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incurring fines, or suspension of its license if violations continue to be discovered in future audits.

1. **Modified TTB Permit:** Amendments to TTB permits for some of the first wineries to participate in the VWDC have been difficult to locate, and are not present in the files maintained by VWDC. All Wineries should check to make sure their primary TTB License has been amended to include wholesale space in their bonded facility. If not, immediately submit the Amendment request (TTB Form 5120.25) to TTB for approval. VWDC must have approved amendments for your license **by January 15th**. Forms can be filled out on line and printed for mailing. The phone number for TTB in Cincinnati is 513-684-2069.
2. **Time Records:** Time records should reflect the time spent marketing, processing and delivering wines sold through VWDC. You can find a sample timesheet format at <http://vwdc.org/download/vwdc%20winery%20time-sheet.pdf>. This must be complete and available for ABC when they audit your operation. Time records should correspond to dates on invoices.
3. **Licensed space not separate and secure:** **By December 15th**, provide VWDC with a picture of your secure space. The space should be able to accommodate the largest single order you have processed. You can run a report on the Online Order Desk to determine the largest single order you have placed. The licensed and secure space should display a copy of your VWDC permit and the Agent List. Electronic submission is preferred. Please be aware that the space should only contain VWDC items, not personal or winery items. I have included examples of a couple of "secured spaces" that may help you evaluate what you are using. It can be as simple as a cabinet or steel cage.
4. **By December 15th**, update your VWDC agent list on VWDC.org. To do so, you must set up access for all of your current VWDC Agents and remove access for any persons who are no longer Agents. When complete, print this list and post it on your licensed space. Additionally, this process is to be used anytime a VWDC Agent is added or removed to keep the list up to date.

Copies of TTB Amendments to your bonded space and the picture of your secured space should be provided to:

Ben Rowe (Alliance Group)
Ben@AllianceGroupLtd.com
804.648.6299 ext. 5834

Please note that depending on the date of your initial licensing, you may also be asked to provide additional records to complete your winery's file at the VWDC office. These files are kept for your benefit as an on-site reference in the event of an ABC audit.

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Members of the VWDC Board understand that laws and reporting requirements for operating a Farm Winery can be overwhelming at times, especially for wineries that have limited staff time available to meet those requirements. However, compliance with Virginia ABC and Federal TTB laws are not discretionary. We have tried to make this as simple as possible. Please review the Operating Rules shown in Attachment 1. The Web Site also contains contact information for Board Members and contract staff that are available to answer your questions

Sincerely,

Randy Phillips
Chair, Virginia Winery Distribution Company