



APRIL 20, 2021, LICENSEE WORKGROUP ANNUAL FINANCIAL STATEMENT (AFS) FEEDBACK

1. The AFS requires information regarding your revenues in Procedure 2 – Revenues.
 - a. Please identify aspects of the reporting requirements in Procedure 2 where you encountered challenges when providing the required financial information related to your revenue transactions.

- Revenue is by license type (medical/adult use) not by facility.
 - Tracking sales by license is not something typically done from an operational standpoint.

Response: The MRA is unable to combine medical and adult-use facility testing due to the difference in the reporting requirements in the MMFLA and Rule 20. Statutory changes would be required to allow for combined reporting by facility.

- Secure Transporters:
 - Revenue not recorded in METRC.
 - ST's do not bill services per manifest.
 - Contractual agreements where some transports/manifests may not be charged. Others are charged on a monthly invoice.
 - Multiple manifest that are selected and listed on the P2 schedule may be covered on the same invoice.

Response: The MRA will monitor and evaluate data to determine whether the individual samples portion of Procedure 2 may be omitted in fiscal year 22 (FY22) while retaining Procedure 2 Total Revenue. If Procedure 2 individual samples are retained, the MRA will consider modifications to Procedure 2 for secure transporter's requirements for both medical and adult-use for FY22 to address the issues raised.

- Growers entering revenue in METRC and not understanding the importance or effects of having accurate amounts recorded (entering estimates, \$1, etc.).
- METRC does not allow for a way to go back and change revenue (in METRC) based on pricing changes.

Response: This feedback will be presented to the MRA Operations Support Section (OSS) within the Enforcement Division for review and consideration.

OSS is the MRA's main point of contact with METRC. The Financial Compliance Section (FCS) will follow up with OSS and determine if the section has any recommendations regarding the issues. In addition, the FCS will work with OSS and licensees to identify and implement potential solutions for these issues. Implementation of any solutions by the MRA will include informing and educating licensees via bulletins, email blasts, and other types of media.

- Difficulty matching METRC to records due to shipping charges, rounding, etc.
- Difficult to reconcile revenue due to timing difference of when a manifest is created vs. when revenue is recognized (upon delivery).

Response: Licensees should maintain accurate records in a manner that will allow the licensee to account for every transaction. Rounding should not be used. As a standard operating procedure, licensees should audit and reconcile their marijuana revenue per METRC with their general ledger. Education regarding record keeping will be provided to licensees via bulletins, email blasts, and other types of media.

- Vertically integrated licensees:
 - How does MRA want these transactions reported?
 - Transferring product with no corresponding source documentation or not being recorded in General Ledger, or.
 - Intercompany transfer that is treated as a sale from an accounting perspective.

Response: Internal transfers between licenses held by a vertically integrated licensee should be reflected in METRC as an internal transfer with a \$1.00 price. This will not be treated as a sale from an accounting perspective. If Procedure 2 individual samples are retained, the MRA will consider modifications to Procedure 2 to exclude internal transfers between licenses held by a vertically integrated licensee from being chosen as METRC transactions for sampling.

b. Did you make any changes to your operations or record-keeping to address those challenges?

- Tracking revenue by license type in the General Ledger.
- Splitting invoices for medical and adult-use (no longer combining on one invoice).

c. Are there any modifications to the revenue procedure that MRA should consider?

- Reporting per facility rather than per license.
- Other topics discussed:

- Need for METRC training.
- Need for a way to change pricing in METRC
 - Example: if a discount is provided, easy way to change price in METRC instead of needing to reject the manifest.

Response: This feedback will be presented to the MRA Operations Support Section (OSS) within the Enforcement Division for review and consideration. OSS is the MRA's main point of contact with METRC. The Financial Compliance Section (FCS) will follow up with OSS and determine if the section has any recommendations regarding the issues. In addition, the FCS will work with OSS and licensees to identify and implement potential solutions for these issues. Implementation of any solutions by the MRA will include informing and educating licensees via bulletins, email blasts, and other types of media

- Medical and adult use AFS reports to cover the same reporting period.

Response: Reporting periods are determined based upon the initial date of licensure under each licensing program. The MRA is unable to combine medical and adult-use facility testing due to the difference in the reporting requirements in the MMFLA and Rule 20. Statutory changes would be required to allow for combined reporting by facility.

- Determining an acceptable variance/discrepancy. The industry does a lot of rounding, discounts, etc.

Response: The MRA has set some initial internal review thresholds and will continue to refine them as we collect more data. However, licensees should maintain accurate records in a manner that will allow the licensee to account for every transaction. Rounding should not be used. As a standard operating procedure, licensees should audit and reconcile their marijuana revenue per METRC with their general ledger. Education and information regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

2. The AFS requires information regarding certain operational costs in Procedure 3 – Disbursements; Procedure 4 – Vendors; Procedure 7 – Licensing Agreements; and Procedure 8 – Management and Other Agreements.

a. Please identify aspects of the reporting requirements in those procedures where you encountered challenges when providing financial information related to your operational costs. Please specify the procedure and whether the procedure was related to medical or adult-use.

- Licensees are generally not tracking disbursements by license type.
- For larger operations, how should corporate expenses be reported?

Response: The MRA will monitor and evaluate data to determine whether Procedure 3 may be omitted in FY 22. Procedure 4 – Vendors; Procedure 7 –

Licensing Agreements; and Procedure 8 – Management and Other Agreements; are performed on the licensee’s total operations, rather than by license type.

- Not keeping details regarding caregiver products (no invoices, registry numbers, etc.).

b. Did you make any changes to your operations or record-keeping to address those challenges?

- None discussed.

c. Are there any modifications to these procedures that MRA should consider? Please specify the procedure and whether the procedure was related to medical or adult-use.

- MRA to consider looking at the company as a whole instead of each license.

Response: The MRA will monitor and evaluate data to determine whether Procedure 3 may be omitted in FY 22. Procedure 4 – Vendors; Procedure 7 – Licensing Agreements; and Procedure 8 – Management and Other Agreements; are performed on the licensee’s total operations, rather than by license.

3. The AFS is required for medical licenses pursuant to Section 701 of the Medical Marijuana Facilities Licensing Act and for adult-use licenses pursuant to Rule 20 in the Marijuana Licenses rule set. If you are a licensee with medical and adult use licenses, should the MRA consider pursuing legislative action that would allow licensees with both medical and adult-use licenses to file a combined AFS report? Why or why not?

- All participants in favor of consolidation.
 - Pros:
 - Disbursements – shared expenses among the facility, not license type (medical vs. adult-use).
 - Timing – some licensees have different medical and adult-use reporting periods. Licensees with different reporting periods are working on AFS year-round which has a significant administrative burden.
 - Costs – significant cost due to multiple reports and redundant reporting. One licensee expressed an increase of 40% in accounting costs because of the AFS.
 - Suggestion: Matching the AFS reporting period to the licensee’s tax reporting period to save time, labor, and cost.

Response: This suggestion is not feasible given the availability of CPAs to conduct the testing in conjunction with tax preparation.

4. Are there additional educational resources needed to assist licensees regarding the AFS or AFS review process?

- Additional METRC training, as it relates to the AFS and how to comply.

Response: This feedback will be presented to the MRA Operations Support Section (OSS) within the Enforcement Division for review and consideration. OSS is the MRA's main point of contact with METRC. In addition, the FCS will work with OSS and licensees to identify appropriate topics for METRC training as it relates to the AFS and compliant financial operations. Implementation of identified METRC topics by the MRA will include informing and educating licensees via bulletins, email blasts, and other types of media.

- FAQs specific for CPAs.
- FAQ videos.

Response: The MRA website has AFS FAQs specific to CPAs for both medical and adult-use AFS reporting requirements. The MRA will explore whether a separate webpage specific to the AFS may be added to the current web layout.

5. For those licensees who have been contacted regarding the review of the AFS they submitted, what aspects of that review have been effective or beneficial to licensees?

- Feedback received from analysts and Notice of Deficiencies to better understand the expectations.
- Licensees have incorporated changes to their daily accounting practices.

6. For those licensees who have been contacted regarding the review of the AFS they submitted, what aspects of that review have been challenging to licensees?

- AFS excel report is protected making some fields unable to be edited/formatted.

Response: The procedures are protected to maintain the integrity of the report. If there are specific fields causing you problems, please submit those to FCS at MRA-AFS@michigan.gov and those fields may be addressed.

- Extensive sampling – suggested to decrease the number of samples required based on the licensee's revenue.

Response: As previously discussed, the MRA will monitor and evaluate data to determine whether the individual sampling of revenue in Procedure 2 and the sampling of disbursements in Procedure 3 can be omitted from the AFS in FY 22.

- MRA sending notice of deficiencies requesting information on discrepancies that are immaterial.

Response: The MRA has set some initial internal review thresholds and will continue to refine them as we collect more data. The MRA is committed to continued AFS process improvement for licensees as well as for the MRA.

However, the licensee should note that discrepancies which may seem immaterial strictly from an accounting perspective may be material from a regulatory and compliance perspective.