Visit Napa Valley, Inc.

Financial Statements

June 30, 2018 and 2017

Frank, Rimerman + Co. LLP

Frank, Rimerman + Co. LLP

Board of Directors
Visit Napa Valley, Inc.
Napa, California

Certified
Public
Accountants

Palo Alto
San Francisco
San Jose
St. Helena

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Visit Napa Valley, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and change in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 financial statements referred to above present fairly, in all material respects, the financial position of Visit Napa Valley, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frank, Rimerman & Co. LLP

St. Helena, California
November 7, 2018

Visit Napa Valley, Inc.
Statements of Financial Position

	June 30, 2018	June 30, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,411,730	$ 1,784,251
Accounts receivable	1,769,180	2,294,303
Prepaid expenses and other current assets	133,178	60,661
Inventory	29,197	37,431
Total current assets	4,343,285	4,176,646
Property and Equipment, net	36,205	47,752
Intangible Assets, net	68,602	76,696
Deposits	7,000	7,000
Total assets	$ 4,455,092	$ 4,308,094
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 408,294	$ 609,933
Accrued expenses	514,439	399,521
Total liabilities	922,733	1,009,454
Commitments (Notes 4 and 6)		
Net Assets		
Unrestricted		
Designated by Board of Directors	1,404,164	1,066,246
Undesignated	2,128,195	2,232,394
Total net assets	3,532,359	3,298,640
Total liabilities and net assets	$ 4,455,092	$ 4,308,094

See Notes to Financial Statements

Visit Napa Valley, Inc.
Statements of Activities and Change in Net Assets

	Years Ended June 30, 2018	Years Ended June 30, 2017
Public Support and Revenue		
County of Napa NVTID Funds	$ 5,951,824	$ 6,094,322
Local County of Napa NVTID Funds	486,900	416,322
Napa County Special Project Fund revenue	326,658	298,160
Welcome Center revenue	217,227	234,724
Partnership dues	373,270	342,853
Other income	3,724	1,008
Total public support and revenue	7,359,603	7,387,389
Expenses		
Brand marketing and communications	3,436,697	3,249,738
Group meetings sales and marketing	1,863,571	1,881,434
Welcome Center	616,496	596,993
Vine Trail	150,000	150,000
Guest Information Network	120,000	120,000
Research marketing	53,715	51,805
Government relations	102,747	137,115
General and administrative	782,658	710,322
Total expenses	7,125,884	6,897,407
Increase in Net Assets	233,719	489,982
Net Assets, beginning of year	3,298,640	2,808,658
Net Assets, end of year	$ 3,532,359	$ 3,298,640

Visit Napa Valley, Inc.
Statements of Cash Flows

	Years Ended June 30, 2018	Years Ended June 30, 2017
Cash Flows from Operating Activities		
Change in net assets	$ 233,719	$ 489,982
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	26,130	56,650
Loss on disposal of property and equipment	-	1,195
Changes in operating assets and liabilities:		
Accounts receivable	525,123	(521,459)
Prepaid expenses and other current assets	(72,517)	27,207
Inventory	8,234	(7,309)
Accounts payable	(201,639)	224,623
Accrued expenses	114,918	78,040
Net cash provided by operating activities	633,968	348,929
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,489)	(16,940)
Net cash used in investing activities	(6,489)	(16,940)
Net Increase in Cash and Cash Equivalents	627,479	331,989
Cash and Cash Equivalents, beginning of year	1,784,251	1,452,262
Cash and Cash Equivalents, end of year	$ 2,411,730	$ 1,784,251

See Notes to Financial Statements

1. Organization and Nature of Business

Visit Napa Valley, Inc. (VNV) is organized as a nonprofit mutual benefit corporation under the laws of the State of California, and located in Napa, California. VNV is the official tourism marketing organization for The Napa Valley. VNV's mission is to promote, protect and enhance The Napa Valley's position as America's premier wine, food, arts and wellness destination.

VNV develops and implements marketing programs with the goal to promote countywide tourism in a manner that strengthens the local economy, enriches the quality of life of Napa County residents and preserves The Napa Valley's agricultural heritage. VNV accomplishes this through the execution of targeted marketing programs, through developing and implementing marketing programs through its tourism website, various public relations activities and The Napa Valley Welcome Center (Welcome Center).

The majority of VNV's support is received through funding by the Napa Valley Tourism Corporation (NVTC). Other support and revenue is received from the County of Napa, including its Special Projects Fund; partnership dues from businesses in the visitor-serving industry and community stakeholders; and from the sale of merchandise and services provided by the Welcome Center.

2. Significant Accounting Policies

Basis of Presentation:

VNV presents its financial statements on the accrual basis of accounting. VNV segregates its assets, liabilities and operations into three categories: unrestricted, temporarily restricted and permanently restricted. VNV's net assets and changes therein are classified and reported as follows:

Unrestricted net assets consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous periods. Beginning June 30, 2015, VNV's Board of Directors (the Board) established a cash reserve fund of $400,000 as of June 30, 2015, which the Board of Directors plans to increase by 5% of annual revenue each fiscal year. At June 30, 2018, $1,404,164 has been designated for the cash reserve fund ($1,066,246 at June 30, 2017), with the expectation that designated cash reserves will reach 50% of budgeted annual revenue by June 30, 2020.

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

Temporarily restricted net assets consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Donations in which restrictions are met in the period of contribution are recorded as unrestricted.

Permanently restricted net assets consist of all contributions receivable or received from donors that are subject to restrictions requiring the funds to be maintained permanently for the purpose of producing support for VNV.

VNV's net assets are all unrestricted at June 30, 2018 and 2017.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of support, revenue and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition:

VNV recognizes financial support from a portion of the Napa Valley Tourism Improvement District's (NVTID) 2% assessment on gross lodging industry room rental receipts when they are collected from the lodging establishments and VNV becomes legally entitled to the funds. This occurs when funds have been transferred to NVTID by the lodging establishment.

Funds received from a portion of the unincorporated area of the County of Napa's NVTID funds collected from lodging establishments and funds received from the County of Napa's Special Project Fund are designated for specific projects and are restricted for use. As a result, revenue is not recognized until funds are expended on the approved projects. All restricted revenue has been recognized in fiscal 2018 and 2017, as all funds were expended as of June 30, 2018 and 2017.

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

VNV charges annual dues for marketing services it provides to its partners. Annual partnership dues range from $300 to $12,500 depending on the desired partnership benefits. Revenue from partnership dues is recognized at the time dues are received, which indicates acceptance or renewal of continued support.

VNV earns revenue from merchandise sales at the Welcome Center. In addition, commissions are earned when guests book rooms at partner lodging establishments through the Welcome Center.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, VNV considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk:

Financial instruments that potentially subject VNV to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

VNV maintains its cash and cash equivalents at three financial institutions. Deposits at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2018 and 2017, VNV's uninsured cash and cash equivalents totaled $1,659,000 and $1,034,000, respectively. VNV's cash and cash equivalents are managed by VNV's Board of Directors and Finance Committee.

VNV periodically evaluates the collectability of its accounts receivable. An allowance for uncollectible receivables, if needed, is provided based on management's judgment. At June 30, 2018, accounts receivable consists primarily of $1,760,000 due from NVTC and $4,000 due from the County of Napa ($1,852,000 and $435,000, respectively, at June 30, 2017); as a result, management believes an allowance for uncollectible receivables is not required.

2. Significant Accounting Policies (continued)

Concentration in Funding Sources:

VNV receives its primary financial support from the NVTID 2% assessment on gross lodging industry room rental receipts within the County of Napa. VNV receives 74% of the 2% NVTID assessment indirectly from the NVTC, a private non-profit corporation responsible for managing NVTID funds, as provided for in the NVTID Management District Plan.

In addition, VNV receives support from the unincorporated area of the County of Napa’s 0.5% NVTID assessment on gross lodging industry room rental receipts. VNV's share of the 0.5% assessments is determined by approval of the Local Governing Committee (LGC) and is restricted in use to the projects approved by the LGC.

Approximately 88% of support in fiscal 2018 and 2017 from NVTC funding received from the NVTID. The NVTID assessment period extends through June 30, 2025.

VNV also received $327,000 in fiscal 2018 ($298,000 in fiscal 2017) in grant funds from the County of Napa. The source of this funding is the Transient Occupancy Tax (TOT). By contract, the funding sources have designated specific projects to be underwritten by the funding. Therefore, VNV is under obligation to report on the use of this funding.

Inventory:

Inventory, consisting of items to promote wine, food, arts and wellness sold by the Welcome Center, is valued at the lower of cost or market.

Property and Equipment:

VNV capitalizes property and equipment acquisitions over $1,000. Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to five years. Leasehold improvements are amortized over the shorter of the assets useful life or the remaining lease term.

2. Significant Accounting Policies (continued)

Intangible Assets:

VNV capitalizes intangible assets in excess of $1,000. At June 30, 2018, intangible assets consist of $121,000 in purchased domain names and are reflected net of accumulated amortization of $52,000 (accumulated amortization of $44,000 at June 30, 2017). Amortization is computed on a straight-line basis over estimated useful lives of 3 to 15 years. Amortization expense in fiscal 2018 and 2017 was $8,000.

Website Development Costs:

VNV accounts for website development costs in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350-50, *Website Development Costs.* As such, VNV expenses all costs incurred that relate to the planning and post-implementation phases of development, as well as costs incurred related to content training and maintenance. Costs incurred in excess of $1,000 in the development phase are subject to capitalization and amortization over an estimated useful life. VNV has not capitalized any website development costs in fiscal 2018 and 2017, as the amounts are considered immaterial to the financial statements as a whole.

Impairment of Long-Lived Assets:

VNV reviews its property, equipment and intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When it is determined the carrying value of long-lived assets may not be recoverable, VNV measures any impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in its current operating model. To date, VNV has not recorded an impairment of its long-lived assets as a result of this analysis.

Donated Services:

Donated services are recognized as contributions at their fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would otherwise be purchased by VNV if not provided by donations. In fiscal 2018, volunteers donated approximately 8,900 hours working at the Welcome Center (10,100 hours in fiscal 2017) that do not meet the criteria for recognition as donated services. Accordingly, no amounts have been recognized for these important services in the financial statements.

2. Significant Accounting Policies (continued)

Advertising:

Advertising costs are expensed in the year incurred. Advertising in fiscal 2018 totaled $955,000 ($837,000 in fiscal 2017).

Income Taxes:

VNV is exempt from federal and state income taxes under the Internal Revenue Code Section 501(c)(6) and State of California Section 23701(d), except on net income derived from unrelated business activities.

VNV does not believe it has unrelated business income to be reported for income tax purposes. In addition, VNV believes that it has appropriate support for any tax positions taken to date and, therefore, has no related income tax due for all years where the statute of limitations remains open, which is generally three years for Federal filings and four years for California filings.

Recent Accounting Pronouncements Not Yet Effective:

Presentation of Financial Statements:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The standard will impact the financial reporting for not-for-profit organizations by reducing the number of net asset classes from three to two ("with donor restrictions" and "without donor restrictions"); requiring expenses to be reported by function and nature; and providing disclosures on the entity's operating measures and liquidity. ASU 2016-14 is effective for VNV as of July 1, 2018 and requires a retrospective transition approach for its adoption. VNV is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

Contributions Received and Contributions Made:

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies the definition of an exchange transaction, and provides guidance for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for VNV as of July 1, 2019 and allows a retrospective or modified prospective transition approach for its adoption. VNV does not believe ASU 2018-08 will have an impact on its financial statements and related disclosures.

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Leases:

In February 2016, the FASB issued ASU 2016-02, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities on the statement of financial position. ASU 2016-02 is effective for VNV as of July 1, 2020 and requires the use of a modified retrospective transition approach for its adoption. VNV is currently evaluating the effect ASU 2016-02 will have in its financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the leases disclosed in Note 4 to the financial statements, will be capitalized together with the related lease obligations on the statement of financial position upon the adoption of ASU 2016-02.

Revenue:

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers.* This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. The standard will replace most existing revenue recognition guidance generally accepted in the United States of America. Topic 606 is effective for VNV as of July 1, 2019, and permits the use of either a retrospective or cumulative effect transition method for its adoption. VNV is currently evaluating the effect Topic 606 will have on its financial statements and related disclosure.

Reclassifications:

Certain reclassifications have been made to prior year balances to conform with current year presentation.

Subsequent Events:

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were approved by VNV and available to be issued.

3. Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Furniture and fixtures	$ 280,887	$ 280,887
Computer equipment	95,237	88,747
Leasehold improvements	5,093	5,093
	381,217	374,727
Accumulated depreciation and amortization	(345,012)	(326,975)
Property and equipment, net	$ 36,205	$ 47,752

4. Facility Arrangements

VNV has lease agreements for its administrative offices and the Welcome Center through October 2020. The leases are non-cancellable and VNV is required to pay its pro rata share of real estate taxes, property insurance and common area maintenance expenses. The rent for both leases is subject to annual adjustment in October based on the United States Department of Labor Bureau of Labor Statistics Consumer Price Index, CPI W for San Francisco-Oakland-San Jose, California. Rent expense was $223,000 in fiscal 2018 ($215,000 in fiscal 2017).

Future minimum lease payments are as follows for the years ending June 30:

2019	$ 190,000
2020	195,000
2021	49,000
Total	$ 434,000

5. Employee Retirement Plan

VNV has a retirement plan established under the provisions of Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees who have attained age 21 and have completed one month of service. Under the terms of the plan, the VNV matches up to 4% of employees' bi-monthly compensation. VNV's fiscal 2018 contributions to the Plan were $92,000 ($74,000 in fiscal 2017).

6. Borrowings

In November 2018, VNV renewed its revolving line of credit (the Line) with its primary financial institution. The Line makes available $400,000 in funds through November 2019. Borrowings under the Line are secured by VNV's inventory and property and equipment and bear interest at the greater of the prime rate plus 1.00% or 5% (6.00% at June 30, 2018). VNV did not utilize the Line during 2018 or 2017 and no amounts are outstanding at June 30, 2018 or 2017.