

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2018 AND 2017



CROCE, SANGUINETTI, & VANDER VEEN

INC.

CERTIFIED PUBLIC ACCOUNTANTS

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CROCE, SANGUINETTI, & VANDER VEEN^{INC.}

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Commissioners
Lodi Winegrape Commission
Crush District #11, Local Commission
Lodi, California

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of **Lodi Winegrape Commission Crush District #11, Local Commission** (the Commission), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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 audit 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of **Lodi Winegrape Commission Crush District #11, Local Commission** as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Croce, Sanguinetti, & Vander Veen, Inc.

CROCE, SANGUINETTI, & VANDER VEEN, INC.

Certified Public Accountants

Stockton, California

October 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis

June 30, 2018 and 2017

Our discussion and analysis of the Lodi Winegrape Commission Crush District #11, Local Commission's (the Commission) financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements, which begin on page 13.

Financial Highlights

- Total assets of the Commission were \$1,380,411 with capital assets at \$94,779, net of accumulated depreciation. Current assets for the year ended June 30, 2018 and 2017 were \$1,285,632 and \$1,717,638, respectively.
- Total liabilities were \$136,081, of which all were considered current obligations.
- Assets of the Commission exceeded liabilities at the close of the most recent fiscal year by \$1,244,330 (net position). Of this amount, \$71,910 (unrestricted) may be used to meet the Commission's ongoing obligations and \$94,779 is net investment in capital assets.
- The Commission's net position decreased by \$481,564 from \$1,725,894 in FY 2017 to \$1,244,330 in FY 2018.
- Total operating revenues for the FY 2018 were \$2,368,208, which is a decrease of 9% from the prior year. This change primarily reflects decreases in revenues from assessments charged to wine grape producers.
- Total operating expenses for the FY 2018 were \$2,848,726. This figure is 12% greater than the prior year, due primarily to increases in wages and marketing and promotion costs.
- Operating loss was \$480,518, a decrease of \$529,093 from the prior year's income of \$48,575.
- Total non-operating revenues decreased by \$444, due to an increase in loss on asset disposals.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission is a corporate body (political subdivision) organized under the provisions of Division 22, Chapter 12.7, based upon favorable results of the referendum conducted during 1991 and every five years thereafter. The Commission is required to conduct the next referendum among the producers during 2021. The Commission follows proprietary fund reporting.

Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Commission's basic financial statements are comprised of three components: 1) Statement of Net Position; 2) Statement of Revenues, Expenses and Changes in Fund Net Position; and 3) Statement of Cash Flows.

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

The *Statement of Net Position* presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the Commission is improving or deteriorating over time. This statement includes all of the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Commission's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing profitability and credit worthiness as well as how the Commission's net position changed during the most recent fiscal year. This statement shows revenues and expenses from operations, non-operating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through assessments, revenues from the California Wine Education Foundation, event income, contributions and other sources of operating revenues.

The *Statement of Cash Flows* is prepared using the direct method and is concerned solely with input and outlay of cash from operating activities, noncapital financing activities, capital and related financing activities and investing activities. This statement also includes a reconciliation of operating profit (loss) to cash from operating activities. The primary purpose of this statement is to provide information about the Commission's cash receipts and cash payments during the reporting period.

Notes to the Basic Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of the Commission's financial position. As shown in Figure 1, the Commission's assets exceeded liabilities by \$1,244,330 on June 30, 2018, a decrease of \$481,564 or 28% less than the Commission's net position at June 30, 2017.

Figure 1.

	Net Position		Change	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>2017 to 2018</u>	<u>%</u>
Current and other assets	\$ 1,285,632	\$ 1,717,638	\$ (432,006)	(25)
Capital assets	<u>94,779</u>	<u>105,499</u>	<u>(10,720)</u>	(10)
Total assets	<u>1,380,411</u>	<u>1,823,137</u>	<u>(442,726)</u>	(24)
Current liabilities	<u>136,081</u>	<u>97,243</u>	<u>38,838</u>	40
Total liabilities	<u>136,081</u>	<u>97,243</u>	<u>38,838</u>	40
Net investment in capital assets	94,779	105,499	(10,720)	(10)
Unrestricted - undesignated	71,910	538,476	(466,566)	(87)
Unrestricted - assigned to primary reserves	413,005	412,881	124	1
Unrestricted - assigned to special projects	232,575	251,315	(18,740)	(7)
Unrestricted - designated Lodi Wine Country	<u>432,061</u>	<u>417,723</u>	<u>14,338</u>	3
Total net position, end of period	<u>\$ 1,244,330</u>	<u>\$ 1,725,894</u>	<u>\$ (481,564)</u>	(28)

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

Change in Net Position

As shown in Figure 2, the Commission's operating and nonoperating activities decreased net position by \$481,564 as compared to a \$47,973 increase in net position in the prior year. The Commission's decrease in net position is due to the combined changes of the following major components:

- The Commission's FY 2018 operating loss of \$480,518 (that portion of the Commission's operating expenses in excess of its operating revenues) represents a decrease of \$529,093 from FY 2017's operating income of \$48,575.
- Nonoperating revenue, net decreased \$444 from \$(602) in FY 2017 to \$(1,046) in FY 2018.
- In June of 2013 the Board of Commissioners voted to develop a Primary Reserve Account and a Special Projects Account separate from the day-to-day Operating Account. The Primary Reserve acts as an emergency or "rainy day" fund, while the Special Projects allows for income above projections to be allocated to special projects or items that may not have been apparent during the budgeting process. Both of these funds require Board approval for allocation and expenditure of funds. There were no increases to the Primary Reserves fund or the Special Projects fund approved during the FY 2018. In FY 2018, the only activity in the Primary Reserve account was increases applicable to interest income. Additionally, during November 2017, the Commission spent \$18,740 from the Special Projects account to reimburse the general account for the cost of the new Visitors Center sign.

Figure 2.

Changes in Fund Net Position				
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change 2017 to 2018</u>	<u>%</u>
Operating revenues	\$ 2,368,208	\$ 2,596,050	\$ (227,842)	(9)
Operating expenses	<u>2,848,726</u>	<u>2,547,475</u>	<u>301,251</u>	12
Operating profit (loss)	<u>(480,518)</u>	<u>48,575</u>	<u>(529,093)</u>	(1,089)
Nonoperating revenues				
Interest income	693	570	123	22
Loss on asset disposals	(1,739)	-	(1,739)	(100)
Interest expense	<u>-</u>	<u>(1,172)</u>	<u>1,172</u>	100
Total nonoperating revenues (expenses)	<u>(1,046)</u>	<u>(602)</u>	<u>(444)</u>	(74)
Change in net position	(481,564)	47,973	(529,537)	(1,104)
Total net position, beginning of year	<u>1,725,894</u>	<u>1,677,921</u>	<u>47,973</u>	3
Total net position, end of year	<u>\$ 1,244,330</u>	<u>\$ 1,725,894</u>	<u>\$ (481,564)</u>	(28)

(Continued)

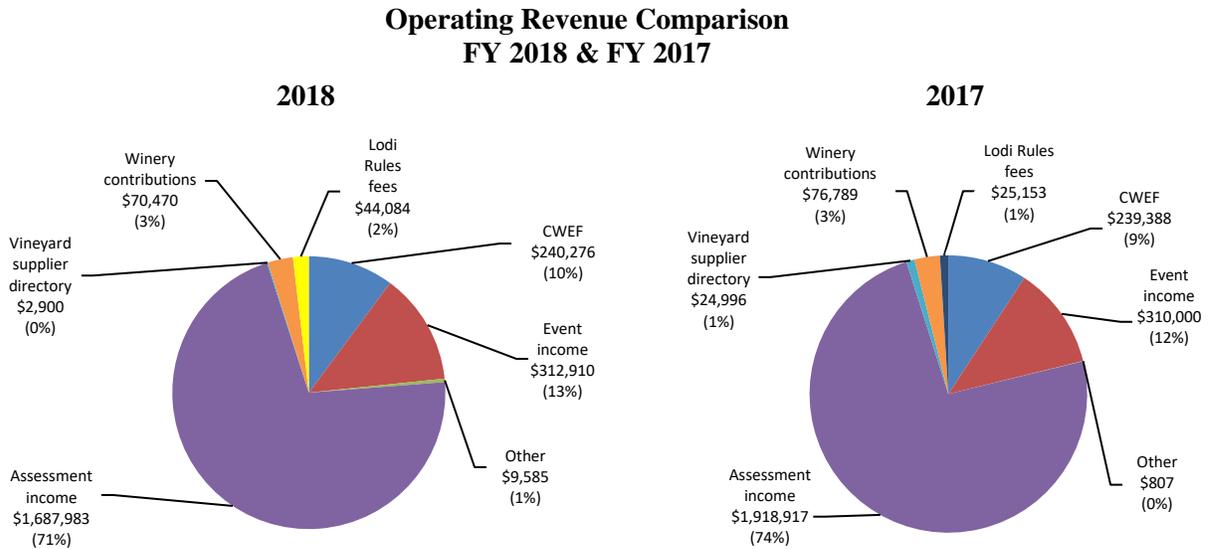
**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

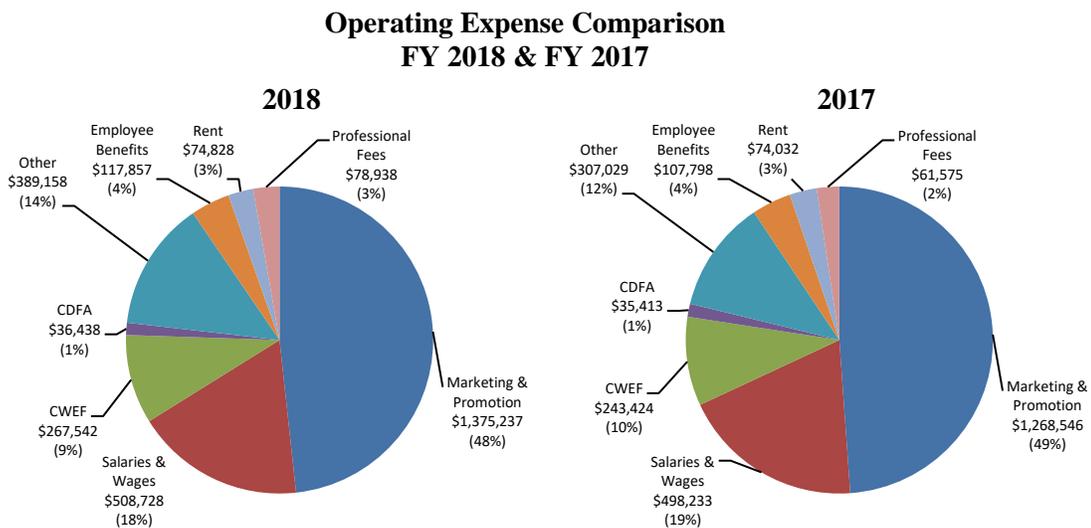
Operating Revenues. Operating revenues decreased 9% or \$227,842, due to a decrease in assessment income from wine grape producers resulting from decreased crop yields.

Figure 3.



Operating Expenses. Operating expenses increased 12% or \$301,251 due primarily to increases in salaries and wages and marketing and promotion expenses.

Figure 4.



(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

Nonoperating Revenues (Expenses). Total nonoperating revenues (expenses) for FY 2018 decreased \$444 over FY 2017. This was due to an increase in loss on disposal of assets. There was a large amount of asset dispositions made during FY 2018 and not all of the assets were fully depreciated as of disposal date. During FY 2018, nonoperating revenues (expenses) consisted of interest income and loss on disposal of assets.

Capital Asset and Debt Administration

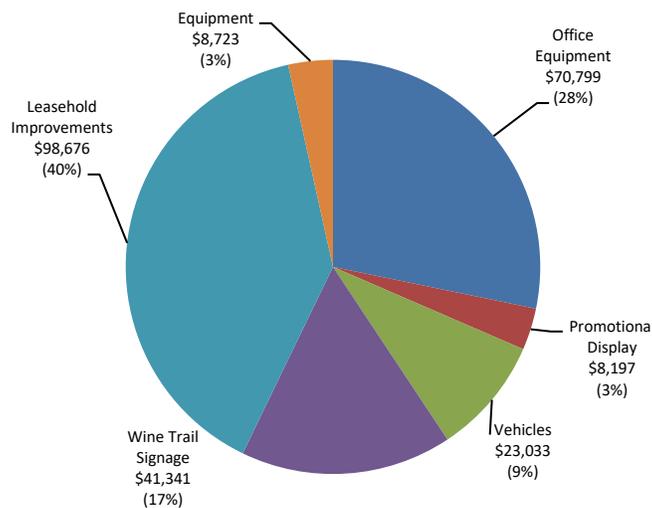
Capital Assets Activity

The Commission's net investment, after depreciation, in capital assets as of June 30, 2018 amounted to \$94,779. The Commission's capital assets include all office equipment, equipment, promotional display, vehicles, wine trail signage, and leasehold improvements owned by the Commission. The total decrease in the Commission's investment in capital assets for the current fiscal year was 10% or \$10,720.

Figure 5 shows the Commission's largest capital asset categories and their portion (%) of the Commission's total asset value in FY 2018.

Figure 5.

**Distribution of Commission Capital Assets
FY 2018**



Additional information on the Commission's capital assets can be found on page 20 herein.

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

Future Financial Outlook

The Lodi Winegrape Commission serves a unique purpose as the vehicle for joint promotion and representation of the Lodi winegrape industry. Through its collaborative nature, the Commission is able to effectively ensure that Lodi continues to be more and more recognized as one of the world's premium wine regions and that visiting consumers enjoy an excellent experience and leave with a positive image of the Lodi growing region. Through the leadership of the growers, Lodi is regularly regarded and sought after for sharing expertise and is seen as a model for other regions in sustainability and collective promotion.

Through the Commission's board and committee structure, the vision and priorities of the growers are kept in focus, and the board and staff seek to responsibly leverage the grower's assessment investment to ensure we remain successful and build on the efforts of each previous year.

During the 2018-19 fiscal year, Commissioners, staff, and volunteer leaders will work to provide the region's growers with opportunities to further develop programs and services that meet the mission, vision and priority goals, which are to:

1. Increase value and outlets for Lodi winegrapes
2. Brand Lodi wines
3. Build communication/cohesiveness of winegrape community stakeholders
4. Make Lodi a stronger tourist destination
5. Conduct continuous education/research to advance the vision

It is with these broad goals in mind that the Commission seeks to continue its work to be an integral part of the California and worldwide wine industries and to develop programs, services and opportunities for the region's winegrape growers to continue to thrive.

The four major areas of focus for the Commission are outlined by Committee areas, and the outlook for each of these is presented below:

Research, Education and Communication

The REC Committee works to develop and offer practical, up-to-date outreach activities and materials to our 750 winegrape growers and the additional supporting members of our winegrowing community. We lead, support, and encourage various viticultural research programs - working with scientists, extension personnel, industry, growers, government, and non-profit agencies. Clear, consistent, and concise communications are fostered via our website (lodigrowers.com), newsletters, emails, phone calls, social media, and in-person conversations. Below are some examples of the many activities and projects we have implemented for this fiscal year:

- We host monthly pest management meetings where growers, pest control advisors, and even winemakers come together to discuss current viticultural activities in our region and strategies for integrated pest control, while earning Dept. of Pesticide Regulation continuing education hours;
- We host tailgate talks, field days, grower workshops, and indoor meetings on a variety of topics relevant to the winegrape grower, including nutrient management, technologies, mechanization, water management, sustainability, business management, and pests/diseases;

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**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

- We host a weekly viticulture blog at lodigrowers.com which reaches over 30 countries;
- We lead a research group called the “Lodi Mealybug Biocontrol Research Focus Group” which meets monthly to plan and develop outreach and future research projects concerning the vine mealybug, a vector of leafroll virus;
- We lead a research group called the “Lodi Grapevine Virus Research Focus Group” which meets monthly to plan and develop outreach and future research projects concerning economically important grapevine viruses;
- We obtained grant funding for a project called “Grapevine Virus Management in Lodi: A Collaborative Research & Integrated Outreach Effort to Help Solve a Statewide Challenge” where we are leading virus outreach in California;
- We communicate educational opportunities and other relevant news to growers via postcard mailings, our lodigrowers.com website, newsletters, and emails;
- We supervise and partially fund a weather network of 37 weather stations which are calibrated annually and provide daily and long-term forecasts for our growers;
- We maintain a demonstration vineyard;
- We host grower socials to foster community and communication;
- We host grower + winemaker wine tastings (“Wine Tastings for the Serious Grape Grower”) to foster relationships between the two groups while teaching winemakers about viticulture and growers about wine;
- We act as a liaison between growers and information which will help them farm to their full potential, which can be learned from scientists, researchers, industry leaders, and others from around the globe;
- In the absence of a Farm Advisor, we act as a source of information for farmers on pests and diseases as well as viticultural anomalies;
- We are leading a team to solve a grapevine mystery vine collapse problem;
- We contribute to the American Vineyard Foundation and the National Grape & Wine Initiative;
- We attend pertinent industry meetings, including the USDA NRCS State Technical Advisory Committee, the National Viticulture and Enology Extension Leadership Conference, the American Society of Enology and Viticulture Annual Conference, the Sustainable Ag Expo, the Lodi Chamber of Commerce Agribusiness Committee, and Unified Wine & Grape Symposium;
- We are helping to fund a groundwater recharge demonstration project in conjunction with a local water conservation district;
- We produce a Vineyard Supplier Directory to connect growers to the materials and people needed to run their businesses;
- We lead the largest winegrape grower event in Lodi, Lodi Grape Day, and help with other inter-organization winegrape meetings such as Farm Safety Day and a Harvest Safety Seminar.

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

Winegrape Marketing

The Winegrape Marketing Committee has jurisdiction over the main areas of marketing focus including the oversight of the advertising campaign, public relations efforts, and developing a winegrape marketing program to help achieve success in increasing recognition and perception of Lodi vineyards as a source for quality grapes for wineries and to assist in increasing the value of the grapes paid to growers. The Grower Marketing Committee has the following activities planned for this year:

- The Lodi Winegrape Commission is undertaking a strategic planning process this year to evaluate past activities, develop current strategies and goals, and put in place a clear guide to fulfilling those objectives.
- Initiated a rebranding process to replace the “LoCA” identity with a “corporate” identity for the Lodi Winegrape Commission, and a consumer facing identity for regional wine promotions.
- Executing on interim consumer advertising program for the fiscal year with existing assets while the new identities get developed.
- Implementing extensive public relations activities including media sampling, seminars, hosting media and trade, social media campaign, and industry relations.
- Attend and represent the Lodi winegrape region at trade shows and conferences.
- Develop content for websites, blogs, and social media telling the Lodi story of grapes, wines, people, and place.
- Attend international trade shows and host international trade to develop a global brand for Lodi grown wine. Doing in partnership with California Wine Export program.

Lodi Rules for Sustainable Winegrowing

Lodi has long been a leader in sustainable winegrowing, and the LODI RULES certification program continues to grow in terms of success, acreage being certified, distribution across California, and recognition of the quality and innovation shown by the participating growers and wineries. Sustainability is a driver in terms of retail differentiation and market demand, and LODI RULES provides those growers interested in being certified an opportunity to develop a value-added offering for their fruit. Increasing numbers of winegrape buyers are seeking certified fruit, with many paying price premiums for certification. Since 2010, over \$9.5 million in bonuses have been paid to LODI RULES growers for certified grapes.

The LODI RULES committee is actively raising educational awareness about the program through promotions to consumers, industry, growers, and wineries within Lodi and beyond. In 2017, 30 new growers joined the program, including one grower with 425 acres in Israel. By expanding marketing of the program to consumers (with a new website: lodirules.org) we hope to attract more wineries to use the seal on wine bottles and to pay a price premium for certified grapes. We are building not only a sustainability certification program but also a community of farmers, winemakers, and consumers committed to environmentally and socially responsible, profitable agriculture. There is no doubt that the LODI RULES program is bringing prestige to Lodi while attracting consumer and trade interest in Lodi as a winegrowing region.

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Management's Discussion and Analysis (Continued)

June 30, 2018 and 2017

Lodi Wine Country

The Lodi Wine Country Committee is comprised of winery principals and representatives who wish to support the Commission's overall efforts of increasing regional awareness, recognition and driving increased traffic and sales of Lodi-appellated wines. Activities planned for the coming year include:

- Host regional events including the annual Wine & Chocolate weekend in February, and the ZinFest weekend in May.
- Take the Lodi message and wine on the road at regional road shows including Nashville, San Diego, Ft. Worth, and others that may arise.
- In partnership with participating wineries, host a unique hospitality experience at the Aspen Food & Wine Classic in Aspen, Colorado in June 2019.
- Produce, print, and distribute wine trail maps.
- Manage and update the regional directional signage program.
- Put together educational programming for the winery community including sales, hospitality, and winemaking programs.

As additional opportunities arise and present themselves for connecting Lodi wineries and winegrape growers, the committee and staff will evaluate and implement programs and services that are deemed valuable in meeting the overall Commission mission.

Requests for Information

The financial report is designed to provide the reader with a general overview of the Commission's finances. Questions concerning any of the information provided herein or requests for additional information should be addressed to the Executive Director, Lodi Winegrape Commission Crush District #11, Local Commission, 2545 W. Turner Road, Lodi, California 95242.

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	<u>2018</u>	<u>2017</u>	<u>Change from 2017 to 2018</u>
Current assets			
Cash and cash equivalents	\$ 1,235,462	\$ 1,590,501	\$ (355,039)
Accounts receivable	33,578	85,456	(51,878)
Prepaid expenses	7,192	37,281	(30,089)
Deposits	<u>9,400</u>	<u>4,400</u>	<u>5,000</u>
Total current assets	<u>1,285,632</u>	<u>1,717,638</u>	<u>(432,006)</u>
Capital assets			
Equipment	8,723	8,723	-
Leasehold improvements	98,676	98,676	-
Office equipment	70,799	91,204	(20,405)
Promotional display	8,197	8,197	-
Vehicles	23,033	23,033	-
Wine trail signage	<u>41,341</u>	<u>41,341</u>	<u>-</u>
	250,769	271,174	(20,405)
Less accumulated depreciation	<u>(155,990)</u>	<u>(165,675)</u>	<u>9,685</u>
Total capital assets	<u>94,779</u>	<u>105,499</u>	<u>(10,720)</u>
Deferred outflows of resources			
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 1,380,411</u>	<u>\$ 1,823,137</u>	<u>\$ (442,726)</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities			
Accounts payable	\$ 99,781	\$ 67,156	\$ 32,625
Accrued expenses	32,800	30,087	2,713
Deferred revenue	<u>3,500</u>	<u>-</u>	<u>3,500</u>
Total current liabilities	<u>136,081</u>	<u>97,243</u>	<u>38,838</u>
Deferred inflows of resources			
	<u>-</u>	<u>-</u>	<u>-</u>
Net position			
Net investment in capital assets	94,779	105,499	(10,720)
Unrestricted - undesignated	71,910	538,476	(466,566)
Unrestricted - assigned to primary reserves	413,005	412,881	124
Unrestricted - assigned to special projects	232,575	251,315	(18,740)
Unrestricted - designated Lodi Wine Country	<u>432,061</u>	<u>417,723</u>	<u>14,338</u>
Total net position	<u>1,244,330</u>	<u>1,725,894</u>	<u>(481,564)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,380,411</u>	<u>\$ 1,823,137</u>	<u>\$ (442,726)</u>

The accompanying notes are an integral part of these financial statements.

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

**Statements of Revenues, Expenses and
Changes in Fund Net Position**

For the years ended June 30,

	<u>2018</u>	<u>2017</u>	<u>Change from 2017 to 2018</u>
Operating revenues			
Assessment income	\$ 1,687,983	\$ 1,918,917	\$ (230,934)
Event income	312,910	310,000	2,910
Winery contributions	70,470	76,789	(6,319)
Lodi Rules fees	44,084	25,153	18,931
Vineyard supplier directory	2,900	24,996	(22,096)
Grant income	3,450	-	3,450
Other	6,135	807	5,328
	<u>2,127,932</u>	<u>2,356,662</u>	<u>(228,730)</u>
California Wine Education Foundation			
Management service fees	195,000	195,000	-
Rent	45,276	44,388	888
	<u>240,276</u>	<u>239,388</u>	<u>888</u>
Total operating revenues	<u>2,368,208</u>	<u>2,596,050</u>	<u>(227,842)</u>
Operating expenses			
Marketing and promotion			
General	1,260,237	1,093,546	166,691
California Wine Education Foundation	115,000	175,000	(60,000)
Salaries and wages	508,728	498,233	10,495
Employee benefits	117,857	107,798	10,059
Rent	74,828	74,032	796
Professional fees	78,938	61,575	17,363
Dues and subscriptions	34,258	44,877	(10,619)
Equipment maintenance and rental	42,754	37,655	5,099
California Department of Food and Agriculture	36,438	35,413	1,025
Office expense	40,140	30,273	9,867
Travel and entertainment	36,434	26,065	10,369
Market research	100,151	-	100,151
Contributions	20,000	20,000	-
Special events	18,485	19,729	(1,244)
Insurance	21,470	16,211	5,259
Depreciation	12,756	14,647	(1,891)
Grower meetings	23,977	13,974	10,003
Bank charges	15,113	9,267	5,846
Vineyard supplier directory	-	7,534	(7,534)
Newsletters	4,037	7,533	(3,496)
Telephone	4,799	4,566	233
Consulting	6,664	3,650	3,014

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**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

**Statements of Revenues, Expenses and
Changes in Fund Net Position (Continued)**

For the years ended June 30,

	<u>2018</u>	<u>2017</u>	<u>Change from 2017 to 2018</u>
Operating expenses (Continued)			
Research	1,289	1,013	276
Staff education	6,272	757	5,515
Personal property tax	<u>559</u>	<u>703</u>	<u>(144)</u>
	<u>2,581,184</u>	<u>2,304,051</u>	<u>277,133</u>
California Wine Education Foundation			
Allocated operating expenses			
Salaries and wages	178,472	166,203	12,269
Employee benefits	35,612	32,906	2,706
Rent	45,276	44,315	961
Other expenses	<u>8,182</u>	<u>-</u>	<u>8,182</u>
	<u>267,542</u>	<u>243,424</u>	<u>24,118</u>
Total operating expenses	<u>2,848,726</u>	<u>2,547,475</u>	<u>301,251</u>
Operating (loss) income	<u>(480,518)</u>	<u>48,575</u>	<u>(529,093)</u>
Nonoperating revenues (expenses)			
Interest income	693	570	123
Loss on asset disposals	(1,739)	-	(1,739)
Interest expense	<u>-</u>	<u>(1,172)</u>	<u>1,172</u>
Total nonoperating revenues (expenses)	<u>(1,046)</u>	<u>(602)</u>	<u>(444)</u>
Change in net position	(481,564)	47,973	(529,537)
Net position, beginning of year	<u>1,725,894</u>	<u>1,677,921</u>	<u>47,973</u>
Net position, end of year	<u>\$ 1,244,330</u>	<u>\$ 1,725,894</u>	<u>\$ (481,564)</u>

The accompanying notes are an integral part of these financial statements.

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Statements of Cash Flows

Years ended June 30,

	<u>2018</u>	<u>2017</u>	<u>Change from 2017 to 2018</u>
Cash flows from operating activities			
Cash received from growers	\$ 1,687,983	\$ 1,918,917	\$ (230,934)
Cash received from other operating sources	735,603	626,570	109,033
Cash paid to suppliers/contributions	(2,275,163)	(2,114,612)	(160,551)
Cash paid to employees	<u>(500,380)</u>	<u>(504,804)</u>	<u>4,424</u>
Net cash used in operating activities	<u>(351,957)</u>	<u>(73,929)</u>	<u>(278,028)</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(3,775)	(26,943)	23,168
Interest expense	<u>-</u>	<u>(1,172)</u>	<u>1,172</u>
Net cash used in capital and related financing activities	<u>(3,775)</u>	<u>(28,115)</u>	<u>24,340</u>
Cash flows from investing activities			
Interest received	<u>693</u>	<u>570</u>	<u>123</u>
Net cash provided by investing activities	<u>693</u>	<u>570</u>	<u>123</u>
Net decrease in cash and cash equivalents	(355,039)	(101,474)	(253,565)
Cash and cash equivalents, beginning of year	<u>1,590,501</u>	<u>1,691,975</u>	<u>(101,474)</u>
Cash and cash equivalents, end of year	<u>\$ 1,235,462</u>	<u>\$ 1,590,501</u>	<u>\$ (355,039)</u>
Reconciliation of operating (loss) income to net cash used in operating activities			
Operating (loss) income	\$ (480,518)	\$ 48,575	\$ (529,093)
Adjustments to reconcile operating (loss) income to net cash used in operating activities			
Depreciation	12,756	14,647	(1,891)
Decrease (increase) in operating assets:			
Accounts receivable	51,878	(50,563)	102,441
Prepaid expenses	30,089	10,732	19,357
Deposits	(5,000)	-	(5,000)
Increase (decrease) in operating liabilities:			
Accounts payable	32,625	(94,698)	127,323
Accrued expenses	2,713	(2,622)	5,335
Deferred revenue	<u>3,500</u>	<u>-</u>	<u>3,500</u>
Net cash used in operating activities	<u>\$ (351,957)</u>	<u>\$ (73,929)</u>	<u>\$ (278,028)</u>

The accompanying notes are an integral part of these financial statements.

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Notes to Financial Statements

June 30, 2018 and 2017

Note A - Summary of Accounting Policies

This summary of significant accounting policies of Lodi Winegrape Commission Crush District #11, Local Commission (the Commission) is presented to assist in understanding the Commission's financial statements.

Description of reporting entity

The Commission is a corporate body (political subdivision) organized under the provisions of Division 22, Chapter 12.7, beginning with Section 74801 of the Food and Agricultural Code of California, based upon favorable results of the referendum conducted during 1991 and every five years thereafter. During 2021, the Commission is required to conduct the next referendum among the producers to determine whether the Commission's operations will continue in effect for an additional five-year period. The Commission is authorized to carry on programs of promotion, research, education, and integrated pest management relating to wine grape production and to levy an assessment not to exceed one percent of the gross dollar value of wine grapes marketed by producers to vintners.

Commission management considered all potential component units for inclusion in the reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. The Commission concluded that there are no potential component units which should be included in the reporting entity.

Basis of accounting

The financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Commission's proprietary funds follow all GASB pronouncements currently in effect, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict with GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The Commission's operations include all revenues and expenses derived from promotion, research, education, and integrated pest management relating to winegrape production. Operating expenses also include administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues.

Fund accounting

The Commission utilizes proprietary funds to account for its activities, which are similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Notes to Financial Statements

June 30, 2018 and 2017

Note A - Summary of Accounting Policies (Continued)

Budgetary accounting

The Commission adopts a non-appropriated budget annually which is approved by the Board of Commissioners.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Commission considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts receivable

Accounts receivable are considered by the Commission to be fully collectible.

Capital assets

The cost of additions to capital assets is capitalized. The Commission defines capital assets as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Leasehold improvements	7-15 years
Office equipment	5-15 years
Equipment	7-10 years
Promotional display	7 years
Vehicles	5 years
Wine trail signage	7 years

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Notes to Financial Statements

June 30, 2018 and 2017

Note A - Summary of Accounting Policies (Continued)

Net position

Equity in the financial statements is classified as net position and displayed in three components as follows:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to these assets.
- c. Unrestricted - Amounts not required to be reported in other components of net position. Portions of unrestricted net position have been designated for Lodi Wine Country programs. The designated amounts may not result in actual expenditures. Portions of unrestricted net position have been assigned to future obligations of the Commission. The assigned amounts will result in actual expenditures.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Advertising costs

The Commission expenses advertising costs as incurred. For the years ended June 30, 2018 and 2017, advertising costs amounted to \$840,843 and \$630,058, respectively.

Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

New accounting pronouncements

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Commission will be required to implement the provisions of this Statement for the year ended June 30, 2021. The Commission has not determined the effect on the financial statements.

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Notes to Financial Statements

June 30, 2018 and 2017

Note B - Cash and Cash Equivalents

The Commission maintains cash balances at two banks. Cash on deposit in excess of the federal insured limit of \$250,000 in a single financial institution may present a credit risk. The uninsured cash balances at June 30, 2018 and 2017 were \$760,907 and \$1,106,828, respectively.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Note C - Capital Assets

Capital asset activity for the years ended June 30, 2018 and 2017 were as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2018</u>
Depreciated capital assets				
Equipment	\$ 8,723	\$ -	\$ -	\$ 8,723
Leasehold improvements	98,676	-	-	98,676
Office equipment	91,204	3,775	(24,180)	70,799
Promotional display	8,197	-	-	8,197
Vehicles	23,033	-	-	23,033
Wine trail signage	<u>41,341</u>	<u>-</u>	<u>-</u>	<u>41,341</u>
Total depreciated capital assets	271,174	3,775	(24,180)	250,769
Less accumulated depreciation	<u>(165,675)</u>	<u>(12,756)</u>	<u>22,441</u>	<u>(155,990)</u>
Total depreciated capital assets, net	<u>\$ 105,499</u>	<u>\$ (8,981)</u>	<u>\$ (1,739)</u>	<u>\$ 94,779</u>
	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Depreciated capital assets				
Equipment	\$ 8,723	\$ -	\$ -	\$ 8,723
Leasehold improvements	75,487	23,189	-	98,676
Office equipment	87,450	3,754	-	91,204
Promotional display	8,197	-	-	8,197
Vehicles	23,033	-	-	23,033
Wine trail signage	<u>55,672</u>	<u>-</u>	<u>(14,331)</u>	<u>41,341</u>
Total depreciated capital assets	258,562	26,943	(14,331)	271,174
Less accumulated depreciation	<u>(165,359)</u>	<u>(14,647)</u>	<u>14,331</u>	<u>(165,675)</u>
Total depreciated capital assets, net	<u>\$ 93,203</u>	<u>\$ 12,296</u>	<u>\$ -</u>	<u>\$ 105,499</u>

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Notes to Financial Statements

June 30, 2018 and 2017

Note D - Retirement

The commissioners approved the establishment of vested retirement benefits for the employees at 11.7% of gross salaries. For the years ended June 30, 2018 and 2017, the combined total retirement benefit of \$75,702 and \$71,368, respectively, was paid directly to a simplified employee plan-individual retirement account (SEP-IRA) for each employee and included in operating expenses.

Note E - Commitments

The Commission leases office space and office equipment under lease agreements that expire on various dates through 2021.

Office Lease

The following schedule shows the composition of total rent expense for the office operating lease for the years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Minimum rentals	\$ 120,103	\$ 118,420
Sublease rental (California Wine Education Foundation)	<u>(45,276)</u>	<u>(44,388)</u>
	<u>\$ 74,827</u>	<u>\$ 74,032</u>

The following is a schedule by years of future minimum rental payments required under the office operating lease that has an initial or remaining noncancelable lease term in excess of one year as of June 30, 2018.

<u>Year ending June 30,</u>	<u>Operating lease</u>
2019	\$ 118,413
2020	120,781
2021	<u>123,197</u>
Total minimum lease payments	<u>\$ 362,391</u>

Office Equipment

The following is a schedule by years of future minimum rental payments required under the office equipment operating leases that have an initial or remaining noncancelable lease term in excess of one year as of June 30, 2018.

<u>Year ending June 30,</u>	<u>Operating lease</u>
2019	\$ 25,520
2020	25,520
2021	3,456
2022	<u>864</u>
Total minimum lease payments	<u>\$ 55,360</u>

The equipment rent expense for the years ended June 30, 2018 and 2017 was \$7,288 and \$8,624, respectively.

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Notes to Financial Statements

June 30, 2018 and 2017

Note F - Insurance

The Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to insure for risks of loss, the Commission purchases insurance through commercial insurance carriers.

At June 30, 2018, the Commission was covered by the following types of insurance:

<u>Coverage</u>	<u>Limits of liability</u>
Commercial general liability, aggregate	\$ 2,000,000
Commercial property	1,000,000
Personal injury, aggregate	1,000,000
Directors and officers liability	1,000,000
Workers compensation	Statutory

Note G - Governing Board

The governing board of the Commission consists of the following at June 30, 2018:

Bruce Fry, Chair	Curt Gillespie
Kendra Altnow, Vice Chair	Matt Lauchland
Stanton Lange, Secretary	Craig Ledbetter
Galen Schmiedt, Treasurer	Aaron Shinn
	Ed Van Diemen

District #11 consists of San Joaquin County north of State Highway 4 and east and west to the county lines; and Sacramento County south of U.S. 50 and east of Interstate 5 to the eastern county line.

Note H - Related Party Transactions

The California Wine Education Foundation dba the Lodi Wine and Visitor Center (a non-profit Organization), and the Commission share some common goals and; therefore, share certain facility and operating resources. The following summarizes the related party balances and transactions as of and for the years ended June 30, 2018 and 2017:

	<u>Amount</u>	
	<u>2018</u>	<u>2017</u>
<u>Statement of net position</u>		
Accounts receivable	\$ 1,366	\$ 70,869
<u>Statement of revenues, expenses and changes in fund net position</u>		
<u>Operating revenues</u>		
Management service fees	\$ 195,000	\$ 195,000
Rent	45,276	44,388

(Continued)

**LODI WINEGRAPE COMMISSION
CRUSH DISTRICT #11, LOCAL COMMISSION**

Notes to Financial Statements

June 30, 2018 and 2017

Note H - Related Party Transactions (Continued)

	<u>Amount</u>	
	<u>2018</u>	<u>2017</u>
<u>Statement of net position</u> (Continued)		
<u>Operating expenses</u>		
Marketing and promotion	115,000	175,000
Allocated operating expenses		
Salaries	178,472	166,203
Employee benefits	35,612	32,906
Rent	45,276	44,315
Other expenses	8,182	-