

CALIFORNIA AVOCADO COMMISSION



2016 ANNUAL REPORT

THIRD
HIGHEST
CROP
VALUE



TIERED
ACCOUNTS
& SOCIAL
MARKETING
EXPAND



VISION 2025

To be recognized as the most-desired avocado in the world
by fostering a vibrant industry.



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Doug O'Hara

Outgoing Chairman
California Avocado
Commission

“CAC is more nimble than ever before — able to take fast and effective action on issues that impact our growers.”

OUTGOING CHAIRMAN'S MESSAGE

Let me begin by stating that it has been an honor to serve as California Avocado Commission (CAC) Chairman for the past two years. Throughout my chairmanship, I have shared my appreciation for the hard work of the entire Commission staff. Their strong leadership, responsiveness and efforts to hand-pick the best promotional partners and opportunities have crafted an outstanding brand position that is highly respected in the industry and marketed a premium product that is highly sought after by consumers.

When I began as Chairman, one of my goals was to assist in modernizing the Commission and the Board. Just as our marketing programs have adapted to the rapid pace of a digital universe, so too have our Commission and Board adapted to the challenges presented by a global market. Our new corporate logo puts a fresh — and unified — face on a Commission that has approved Board restructuring plans and revised grower thresholds that will streamline our business without placing undue financial burdens on growers. And I'm pleased to report that CAC is more nimble than ever before — able to take fast and effective action on marketing, budgetary, legislative, water management and research issues that impact our growers.

During my tenure, our marketing team also has successfully launched a tiered marketing structure and integrated digital campaigns that uniquely position us to meet the increasing worldwide demand for avocados. I have every confidence that our ability to provide customized promotions for select retailers and foodservice chains and our proficiency to digitally engage with consumers no matter where they are will allow us to broaden our horizons and further develop a respected position in the global avocado market.

Our Incoming Chairman Rick Shade has decades of experience in our industry and he will faithfully serve the interests of our growers. He has previously served as CAC Chairman and most recently returned to the Board as a District 5 producer member during the past two years and taken an active role in supporting the Commission and its mission. Because he shares the Board's vision for targeted marketing and a modernized industry and Commission I truly believe our future is bright!





Rick Shade
Incoming Chairman
California Avocado
Commission

“We have a wonderful product and people across the United States and around the world are clamoring for our fruit.”

INCOMING CHAIRMAN'S MESSAGE

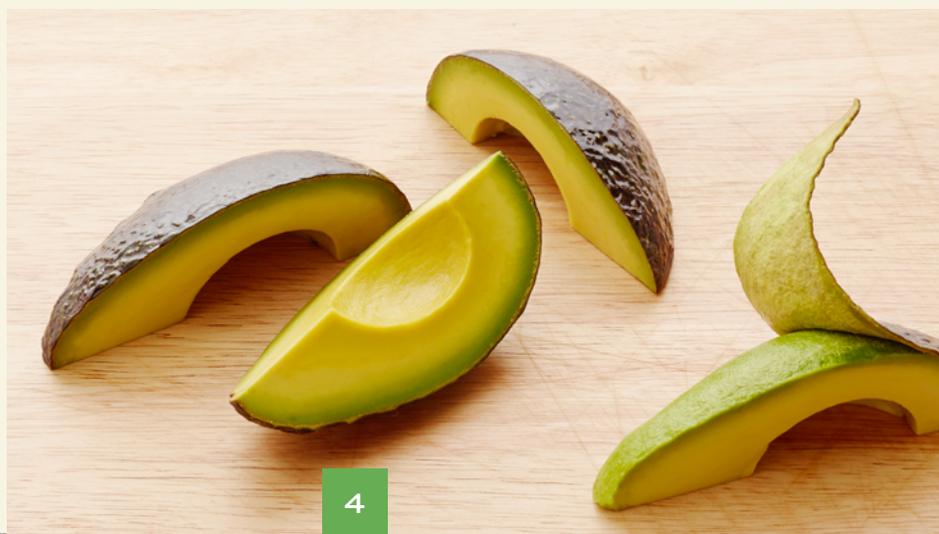
I am honored to serve as the next Chairman for the California Avocado Commission and look forward to working on behalf of growers over the next year. As I look back on this past year, which was mind-boggling in terms of the pace of the market, I would like to start by thanking the California Avocado Commission staff for their efforts — from capturing the value of our California avocado crop with impressive marketing programs, to the support and leadership they provide us. It is not always easy to steer this ship — this year was certainly a good example of that — and kudos to them for their efforts.

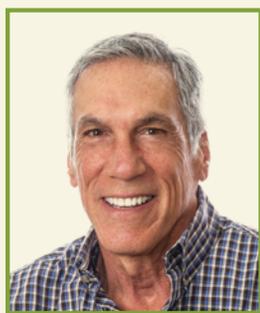
This year started off in a very difficult way for many of our growers due to continued water issues and low prices. Due to a large crop and factors outside of our control, many of our growers had to pick early in a depressed market with a high percentage of imported fruit. Others were able to delay harvesting until after the imported fruit ran out and prices rose — and were able to take advantage of one of the sweetest spots in the market we've seen for years. The past year ran the whole spectrum of highs and lows. As a mentor of mine once told me, “You're nuts if you go into business where

you have Mother Nature as a partner.” As growers, we know that can certainly hold true. Mother Nature holds all the cards and we have to play the game — as long as water availability remains an issue, our crop's success or failure is out of our control.

That said, I'm very bullish on California avocados. We have a wonderful product and people across the United States and around the world are clamoring for our fruit. While the overall crop size for the 2017 season is going to be down, the economics of supply and demand should kick in and make the fruit more valuable thus providing our growers some gains. This past year the Commission made measurable progress with foreign markets and we are, of course, looking forward to opening new markets in the upcoming years and exploring new opportunities.

Speaking of opportunities, I would like to encourage California avocado growers to ask questions, send us feedback and get involved. It is especially important the new generation of growers becomes active in the Commission. Many of us aren't getting any younger and the future of our industry will be in your hands. So join us, get up to speed and be ready to run with the opportunities before us.





Tom Bellamore
President
California Avocado
Commission

PRESIDENT'S MESSAGE

“We have a product that nobody else in the world has — premium California avocados.”

Perhaps I'm stating the obvious, but we all need to hear that. And here's why. In recent years, we have faced enormous environmental challenges — drought and the shot hole borer. And we've faced ever more pressing market and economic challenges — the influx of imported fruit and the rising costs of water and labor.

But this year, we faced a challenge like no other: hundreds of millions of pounds of imported fruit destabilizing the market and undermining prices. It was, to say the least, a shaky start to the season. And yet, when the dust settled, we finished the season with the third greatest crop value in history.

How did we accomplish that? We — the Commission, growers and packers — pulled together and aligned ourselves around the belief that *our avocados have no equal*. We didn't compromise on the quality of our product and we didn't undersell our product. Instead, we acknowledged there are factors we cannot control (environmental factors or price variations) and focused on those factors we can control (marketing targets, spending allocations and organizational structure).

And then we tightened our fiscal belts and allocated limited funds where they were needed most — CAC's award-winning marketing programs. On the

non-marketing side, CAC continued to secure grant funds this year, bringing in more than \$270,000 for pest management research, grower outreach and exploration of global markets.

The Commission has always done its best to make the most of every dollar and bring value to the growers, but this year every department honed in on initiatives that would return exceptional value now and in the near future. Working together, we were able to move the needle on avocado pricing to the premium end and further reinforced the value of the California avocado season as a sales-building event unto itself. California avocado sales grew for the third straight year and overall sales were 23 percent higher during the California avocado season than the non-California season.

This year also marks the first time we were able to make measureable progress in gaining access to the global markets. Thanks, in part, to funds secured through grants, the Commission was able to meet with Chinese dignitaries, government members, retailers and packers in both California and China to demonstrate the care with which California avocados are grown, packaged and marketed. As a result, we are one giant step closer to realizing our vision to be the “most desired avocado in the world.”

Ultimately, by remaining true to our exceptional product and the California avocado brand, we demonstrated that we can maintain long-term sustainability in the most difficult of seasons, build our reserves and securely position ourselves within the global market for the next fiscal year.





**CALIFORNIA AVOCADO COMMISSION
BOARD OF DIRECTORS FISCAL YEAR 2015-16**

DISTRICT	AFFILIATION	NAME
1	MEMBER	JOHN BURR
1	ALTERNATE	RYAN ROCHEFORT
1	MEMBER	JEROME STEHLY
1	ALTERNATE	VACANT
2	MEMBER	KELLEN NEWHOUSE
2	ALTERNATE	OHANNES KARAOGHLANIAN
2	MEMBER	LEO MCGUIRE
2	ALTERNATE	CRISTINA LEON
3	MEMBER	ED MCFADDEN
3	ALTERNATE	BRYCE BANNATYNE, JR.
3	MEMBER	DOUG O'HARA
3	ALTERNATE	VACANT
4	MEMBER	JOHN LAMB
4	ALTERNATE	ROBERT GREETHER
4	MEMBER	ART BLISS
4	ALTERNATE	JASON COLE
5	MEMBER	JIM SWOBODA
5	ALTERNATE	TYLER COBB
5	MEMBER	RICK SHADE
5	ALTERNATE	CATHERINE EPPERSON
HANDLER	MEMBER	STEVE TAFT
HANDLER	ALTERNATE	DONNY LUCY
HANDLER	MEMBER	GARY CALOROSO
HANDLER	ALTERNATE	GARY CLEVINGER
HANDLER	MEMBER	WAYNE BRYDON
HANDLER	ALTERNATE	JESSICA HUNTER
HANDLER	MEMBER	EGIDIO "GENE" CARBONE
HANDLER	ALTERNATE	ROBB BERTELS
PUBLIC	MEMBER	LEESA EICHBERGER



THE YEAR IN REVIEW

The start of the 2015-16 California avocado season was highly anticipated by growers — fruit quality was exceptional and the total harvest was projected at 392 million pounds. By the end of February, expectations

had faltered. As California avocado growers began their early season harvest, hundreds of millions of pounds of imported fruit had already entered the market. Growers experienced an exceptionally crowded early season market with an average price per pound of 66 cents — far below anticipated returns. Compounding the oversupply of early season avocados were other challenges: atypical sizing, inverted pricing, an extended drought and excessive heat that led to fruit drop.

As it became evident the Commission would need to address the challenges of the marketplace with the prospect of less

funds than anticipated, we prudently adjusted our programs and spending to ensure we focused specifically on marketing, industry affairs and research programs that continued to bolster our premium position. Because of this, we were able to preserve

a balanced budget and return funds back into reserves during a year that saw less than ideal market conditions. Ultimately, the California avocado season exceeded the projected crop volume, coming in at 401 million pounds, the average price per pound rose to nearly \$1.03 and the industry earned \$412 million dollars — the third highest crop value in California avocado history.

While the season, as a whole, finished strong — it was, indeed, a wild ride.

The Year in Review summarizes the challenges we faced, the strategies we adopted and the victories we claimed during the past fiscal year.

CALIFORNIA AVOCADO SEASON

401 MILLION POUNDS

\$1.03 AVERAGE PRICE PER POUND

\$412 MILLION DOLLARS THIRD HIGHEST CROP VALUE

Early Season — Building Anticipation for Quality California Avocados

In advance of the season, the CAC retail merchandising and foodservice teams visited targeted customers detailing the Commission’s marketing plans for 2016. Tier 1 retailers and foodservice chains were eager for high-quality California avocados, but in the early season field prices remained low because California avocados represented only two percent of the available total volume.

In its ongoing effort to remain relevant to our target audiences, the Commission refreshed its marketing program, developing “show and share” advertising

with digital strategies focused on visual content and positive messaging to connect emotionally with California avocado fans. And the content easily could be shared with others via social media and digital platforms, extending the reach of our brand messaging. By utilizing less traditional online marketing channels, the CAC team was able to interact with our targets efficiently notifying our customers and their consumers about the availability of California avocados.

One of the Commission’s most successful “show and share” campaigns

was developed by the CAC marketing team to generate excitement for the California avocado season while distinguishing California’s premium fruit from the mass of imported early season fruit. The highly effective digital Super Bowl #BigGameAdd video Twitter campaign, which allowed CAC to engage with Super Bowl fans in real time without incurring a multimillion dollar media spend, was deemed “brilliant” by Forbes magazine.



#BigGameAdd

Each time a food or beverage TV ad ran during the game, CAC posted a custom recipe video on Twitter that combined the advertised product with California avocados. Other brands, like Butterfinger, retweeted CAC's #BigGameAdd recipes.

#BigGameAdd
AVOCADO CHOCOLATE MOUSSE WITH CRUMBLE SNICKERS TOPPING

FEB 8 2016 @ 2:04 PM 363 VIEWS

A New Approach To Food Marketing Came to The Super Bowl, And It's Great

Phil Lempert, contributor
I cover issues and trends in the food and agriculture sectors.
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Opinions expressed by Forbes Contributors are their own.

FULL BIO

The reviews of the Super Bowl, the halftime show and the commercials have not been very complimentary. However there is one standout that the food world needs to pay attention to, and all its advertising, PR, social media and marketing folks. I loved the Heinz family dachshunds spot, but that wasn't the one — it was one that played on your mobile device.

The California Avocado Commission was brilliant and showed us the future of food marketing and connecting to shoppers — especially those elusive Millennials and Gen Z'ers. Every time a food or beverage ad aired during the Super

200,000
trade media impressions

241,000
social media impressions
in less than 24 hours

Nearly 4 million
total impressions

"-PHIL LEMPERT, THE SUPERMARKET GURU"

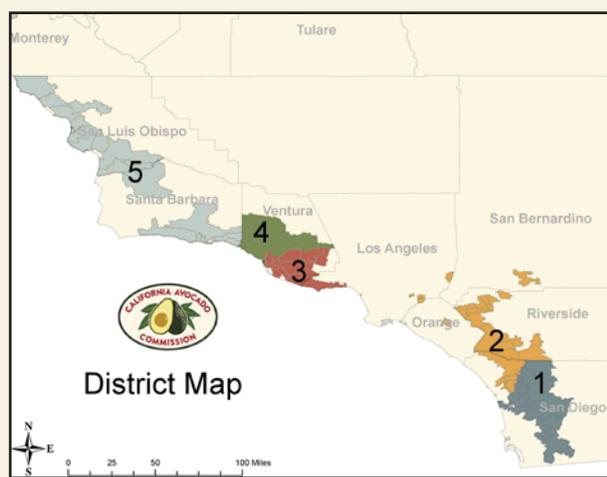
Organizational Modernization

The California Avocado Commission initiated several steps to modernize the governance of the organization and more efficiently carry out our mission. The Board approved a plan to streamline its composition by reducing the number of alternates and handlers. The changes to Board composition will begin to take effect in the 2016-17 fiscal year, with a reduction of half of the alternate members, resulting in 22 members and alternates. The 2017-18 fiscal year will see a further reduction of handler members and alternates, ultimately reaching the goal of 19 members and alternates on the CAC Board. The Board also approved modifications to the definition of a "producer" in the CAC law. The new definition, which will take effect during the 2018 season, seeks to provide relief for small growers, while ensuring the sustainability of the organization and industry for years to come.

Coincidentally, this also was the year mandated by CAC law to review

the boundaries of existing districts to ensure the districts equitably represent avocado production and constituents. Based on recent changes to the CAC law, the committee appointed to review the districts had the flexibility to recommend a district composition of no less than three and no more than five districts, using production data available from the

previous five marketing seasons. Upon review of the data the committee determined that reapportionment was necessary and recommended continuing with a five-district composition that left existing boundaries largely intact, only making adjustments where necessary to meet required district production thresholds.



REDISTRICTING ENSURES THAT GROWERS IN CLOSE PROXIMITY AND FACING SIMILAR INDUSTRY ISSUES SUCH AS WATER AVAILABILITY AND PEST MANAGEMENT ARE ADEQUATELY REPRESENTED ON THE CAC BOARD OF DIRECTORS.

**CAC Board of Directors
MODERNIZED
AND STREAMLINED**

19 MEMBERS AND ALTERNATES

- 15** Producers representing the five CAC districts, with two members and one alternate from each district
- 3** Handlers, including two handler members and one alternate handler representing AMRIC
- 1** Public member recommended by the CAC Board and appointed by the California Secretary of Agriculture



Value and Targeting

Data clearly indicate that the California avocado brand — and the California avocado season — drive premium pricing of avocados. California avocados have higher average FOB prices (up to 42 percent higher¹) and higher average retail prices (up to 20 percent²). Further, shoppers spend 15 percent³ more on avocados each time they purchase California avocados (vs. from other origins). In addition, shoppers of California avocados purchase more often than shoppers of other avocados (4.5 vs. 4.0 purchase occasions³).

In 2015, CAC launched a tiered

marketing approach that identified accounts that want to merchandise California avocados and will pay a premium price for the fruit. Customized CAC marketing, sales and distribution activities are then focused around the Tier 1 targets that are most loyal to the California avocado brand. Analysis of Tier 1 sales in the 2016 California season indicated that this targeted marketing approach provided further benefits for retailers.

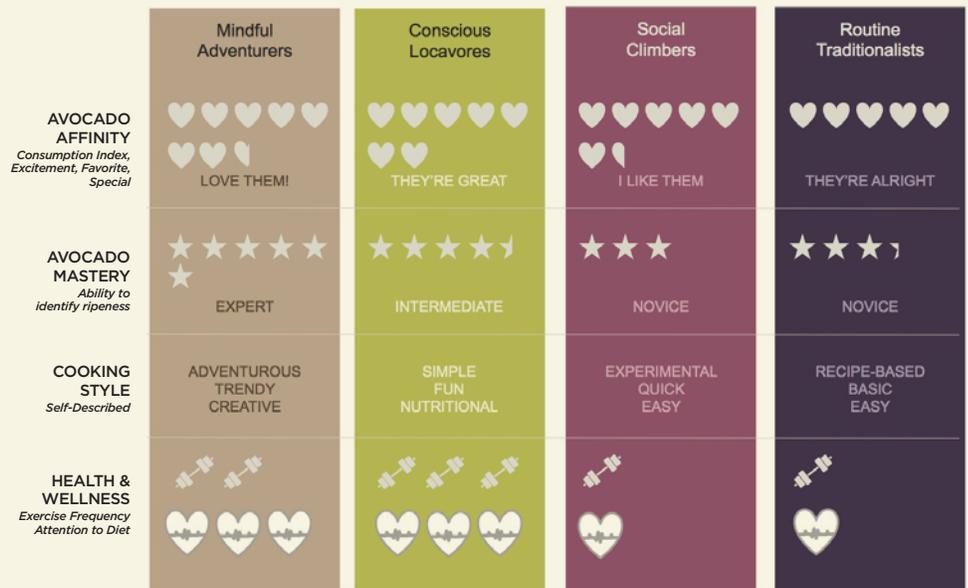
AMRIC reports and IRI FreshLook data show that at Tier 1 retailers:

- ▶ California avocados returned superior value throughout the marketing channels with higher FOB prices than imports whether shipped to points within or outside of California
- ▶ Avocado category pricing was 14 percent² higher during the California avocado season than the rest of the year
- ▶ California avocados drove superior category results during the California avocado season with a 23 percent² increase in dollar sales over the non-season

Connecting With Consumers Where They Are — in the Digital Space

The Commission refined its successful tiered-marketing strategy with hyper-focused targeting of key customers (corporate, regional and independents) in California, as well as Arizona, Colorado, Oregon and Washington. The Commission also conducted quantitative and qualitative consumer research that identified four unique consumer segment profiles. Two of these profiles, the “Mindful Adventurers” and the “Conscious Locavores” are in the sweet spot for premium avocado purchasers and CAC marketing, and the “Social Climbers” are an opportunistic target for social marketing.

Each segment has a unique relationship with food, specifically avocados.



CAC'S CONSUMER PROFILES WERE DEFINED BY LIFESTYLE CHOICES, PERSONALITY TRAITS AND THEIR UNIQUE RELATIONSHIP WITH FOOD AND CALIFORNIA AVOCADOS, IN PARTICULAR.

¹ AMRIC - avocados shipped within California, 2015 California Season = Mar-Aug 2015 vs. Non-California Season

² IRI/FreshLook California region, 26 weeks ending 9/25/16

³ IRI National Consumer Panel (NCP) — California Avocados = avocados purchased in the California region during the California Season (26 weeks ending 9/27/15). Avocados from other origins = avocados purchased in Total U.S. excluding California during the California Season



Made of California Campaign

Less Traditional Media Buys + Less Spend = Greater Flexibility, Interaction and Impact

THE PLAN

Engage Targeted Consumers in Their Space*

<p>Adults spend 3 HOURS 17 MINUTES per day on mobile devices</p>	<p>Social network usage ↑ since 2015</p> <table border="0"> <tr> <td>18-24</td> <td>42%</td> </tr> <tr> <td>25-34</td> <td>51%</td> </tr> </table>	18-24	42%	25-34	51%	<p>80% of Americans stream audio with adults spending 1 HOUR 17 MINUTES per day on digital radio</p>
18-24	42%					
25-34	51%					

*(Source: eMarketer)

THE CAMPAIGN

California Avocados are the Perfect Symbol of the California Lifestyle

PRINT



RADIO

<p>General market and in-store radio ads</p> <p>Clickable California avocado creative on Pandora and Spotify drove traffic to the California avocado website</p>		<p>333 MILLION IMPRESSIONS</p> <p>12.1 MILLION IMPRESSIONS</p>
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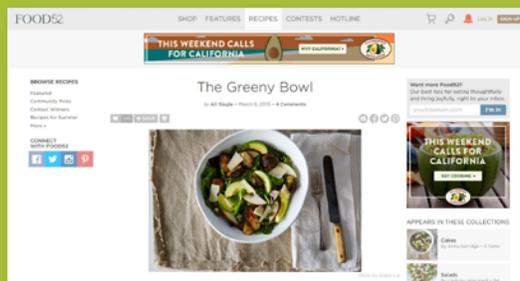
CUSTOM DIGITAL CONTENT

CAC blogs, recipes, articles and social media posts paired California avocados with California icons, artisans, chefs and destinations

58 MILLION IMPRESSIONS/
690,000 ENGAGEMENTS

Food 52 celebrated California Avocado Month with recipes, nutrition information, photos and “5 Ways to Eat Avocados All Day” on its website and social media

15.3 MILLION IMPRESSIONS



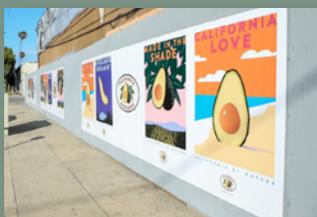
The Tasting Table’s “A Golden State of Mind” readers spent . . .

4X MORE TIME* ON CUSTOM ARTICLES
SPOTLIGHTING CALIFORNIA AVOCADOS

*VS. AVERAGE TIMES

OUTDOOR ADVERTISING FEATURING ARTWORK BY CALIFORNIA ARTISTS

The Wild Poster Campaign in Los Angeles



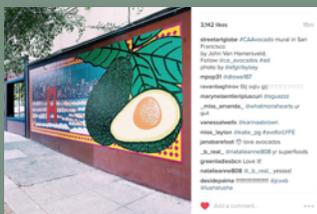
4.5 MILLION IMPRESSIONS

San Francisco mural



8.2 MILLION IMPRESSIONS/
30,000 SOCIAL MEDIA ENGAGEMENTS

Snapchat geofilter



OVER 28,000 VIEWS/
USED 600 TIMES



CALIFORNIA AVOCADO COMMISSION ANNUAL REPORT 2016

PR AND THIRD-PARTY ADVOCATES

Give California avocado fans what they want (and can share on social media): unique recipes and nutrition information



Food blogger ambassadors and health and wellness ambassadors



CRAFTED 48 POSTS FEATURING AVOCADO RECIPES, NUTRITION INFORMATION AND USAGE IDEAS

THE RESULTS

INCREASED SOCIAL MEDIA AUDIENCE OVER 2015: +22% +21% +10% +5%

478 MILLION CONSUMER ADVERTISING IMPRESSIONS

53 PERCENT INCREASE IN FACEBOOK IMPRESSIONS

25 MILLION SOCIAL MEDIA IMPRESSIONS

968 MILLION CONSUMER PR IMPRESSIONS

948,000 VISITS TO THE SCOOP BLOG (54% INCREASE OVER 2015)

3.67 MILLION CONSUMER WEBSITE VISITS (33% INCREASE OVER 2015)

1.47 BILLION CONSUMER MARKETING IMPRESSIONS

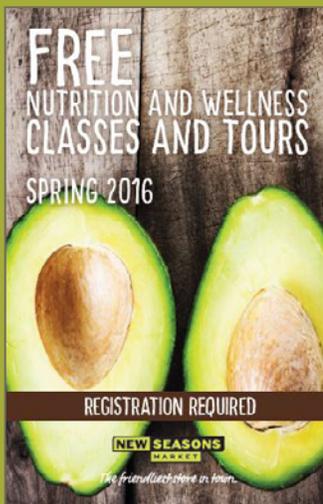


Retailer Highlights



Promoting Health & Wellness with California Avocados

Stores in Northern California, Oregon and Washington showcased California avocado in recipes, brochures, booklets and in-store nutrition and wellness classes (their produce managers also participated in CAC training).



Engaging with California Avocado Fans When They Are Out and About

Geo-targeted social media ads and geo-fenced ads notified fans of California avocado promotions at their local grocery store and provided them with digital coupons (that had a 35 percent redemption rate).



Generates Early and Late-Season Excitement

Small, upscale locations in Northern California kicked off the pre-season with California Bacon avocado promotions that reached more than 35,000 people. They ended the California avocado season with cross-promotional Hatch chile display contests and in-store demos.





Store-Made Guacamole Incremental to Avocado Sales

Stores in Northern and Southern California hosted Cinco de Mayo Sales Contests featuring store-made fresh California avocado guacamole and bulk avocados that led to increased sales for the holiday.



Organic California Avocados Drove Grand Opening Success

Retailer credited CAC Retail Marketing Directors' custom marketing programs for successful displays and live demos at four Grand Opening events.

Bristol Farms

Customized Cooking Classes Showcased California Avocados' Versatility

Southern California locations hosted California avocado cooking classes to inspire fans with new ideas for Father's Day (Dad's Day Potluck BBQ) and summer entertaining (Sunset Concert in the Park).

California Avocados Are the Patriotic Choice for American Summer Holidays and a Favorite All Summer Long

★ Top-tier retailers across the U.S. celebrated Memorial Day, the 4th of July and Labor Day with the American-grown favorite –

California avocados – via social media and in-store promotions
★ U.S. grown continues to be highly important to consumers in CAC's ad markets*

★ The majority of those surveyed associated California avocados with summer holidays and 31 percent ate avocados in new ways this summer*

*Source: 2016 Avocado Tracking Study

Results

5 MILLION IMPRESSIONS

Geo-targeted Social Media Ads for 14 retailers

15 MILLION IMPRESSIONS

Geo-fenced Ads on Digital Platforms for 14 retailers

10.1 MILLION IMPRESSIONS

Print and Digital Trade Advertising Campaigns



Foodservice Highlights

With slightly more than half of 2016 Total Food Dollars estimated to be spent in foodservice¹, CAC continued targeted marketing within this channel. To identify the best promotional impact potential, CAC’s foodservice marketing team analyzed foodservice operators’ previous promotion

results and sales volume, as well their geographic location within targeted regions. Once optimal foodservice operations were identified, CAC held menu ideation sessions and onsite culinary presentations to encourage new or greater use of fresh California avocados on their menus.

Onsite Culinary Presentations

- CHEDDAR’S (160 LOCATIONS)
- DAVE & BUSTERS (79 LOCATIONS)
- VEGGIE GRILL (29 LOCATIONS)

Menu Ideation Sessions

- ZPIZZA (91 LOCATIONS)
- LYFE KITCHEN (14 LOCATIONS)

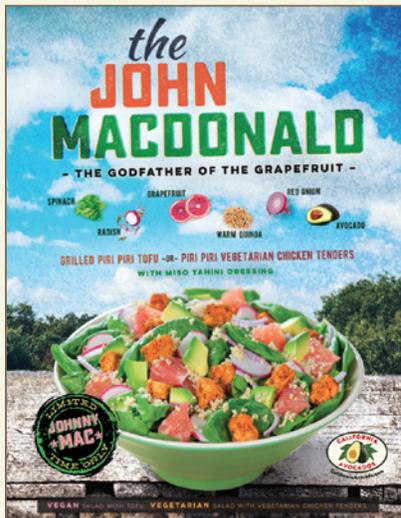


CHEF DAVE WOOLLEY, PART OF CAC’S FOODSERVICE TEAM, LEADS AN ONSITE CULINARY PRESENTATION.

New Fresh California Avocado Customers

Inspired by CAC’s onsite menu ideation culinary presentations from prior years, these foodservice chains featured fresh California avocados for the first time ever.

- **MAD GREENS**
25 locations in the Southwest
John MacDonald Salad and California avocado logo featured on menus, posters, merchandising tools, coupons and social media platforms



- **THE EGG AND I**
116 locations in the western U.S.
California Avocado Toast
“Spring Fresh. New Season. New Flavors.” promotion generated greatest impact per dollar spent



¹ Source: Technomic



■ NOODLES & COMPANY

380 locations across the U.S.

Chicken Veracruz featured in the “World Tour” limited time offer promotion



Kicking Off the Season with On-Trend Grain Bowl LTO Promotion

■ RUBIO'S

193 locations in Arizona, California, Colorado, Nevada and Utah

Featured *California Bowl with Guacamole*, *Chipotle Orange Salad with Fresh California Avocado Slices* and the California avocado logo in “beach club” themed social media and LTO menu promotion that showcased the fresh, farm-grown California fruit



RUBIO'S TABLE MERCHANDISING.

Results

26 CHAIN PROMOTIONS

6.1 MILLION IMPRESSIONS
via 80 PR
and Editorial Placements

1.5 MILLION IMPRESSIONS
via 16 Foodservice Advertising
Placements in *Restaurant
Business, FoodService Director
and Plate*



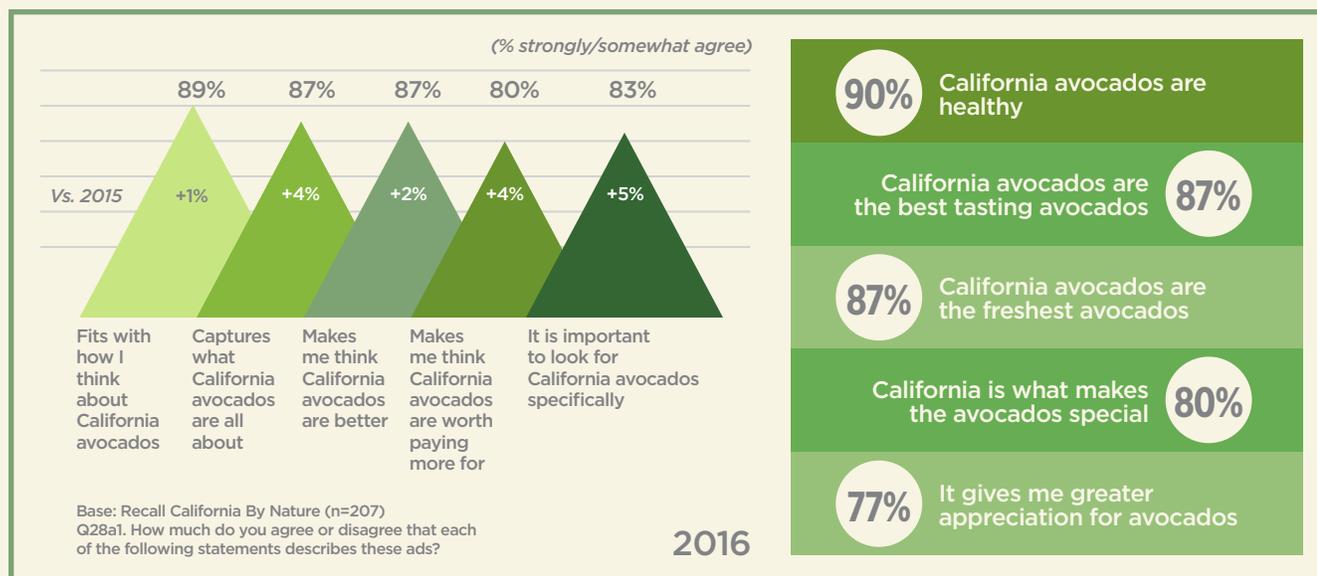
Research Confirms CAC Marketing is Working With Targeted Consumers

The *2016 California Avocado Tracking Study* indicated the newly minted Made of California campaign met strategic goals and exhibited strengths that will serve the Commission in coming years. Respondents overwhelmingly felt the new campaign captures the essence of California —

89 percent stating the campaign “fits with how I think about California avocados.” They also noted the campaign reinforces the perception that California avocados are best tasting and freshest (both 87 percent). The Made of California campaign did a better job of communicating the

versatility of the fruit — 21 percentage points higher than the previous campaign — and was perceived to be more appealing, relevant and attention getting than campaigns by other origins.

The new campaign also captures the essence of California and continues to reinforce the superiority and premium message.



The 2016 tracking study also showed that CAC’s multi-year promotion of California avocados for the American summer holidays — including Memorial Day,

4th of July and Labor Day — has resulted in strong linkage with California avocados and summer. In particular, 73 percent of those surveyed in ad markets strongly

associate California avocados with summer and 58 percent indicated the fruit is perfect for American summer holidays.



CAC Marketing Program Garners Awards

Once again, the Commission was recognized by some of the preeminent industry organizations and publications. Angela Fraser, CAC marketing manager, was recognized as a Produce for Better Health (PBH) Ambassador. Connie Stukenberg, CAC retail marketing director, accepted the PBH Role Model Award on behalf of the Commission. Jan DeLyster, vice president marketing, received Produce Marketing Association's Robert L. Carey Leadership Award. And the Commission was awarded the Produce Business Marketing Excellence Award for the fifth consecutive year.



Commission Logo Unifies Brand Across Consumer and Industry Circles

This year the Commission unveiled the new California Avocado Commission corporate logo at the Produce Marketing Association's Fresh Summit in Orlando, Florida. The redesigned corporate logo now aligns with the on-fruit label and California avocados consumer logo, creating a unified brand easily recognized by consumer and industry members alike.

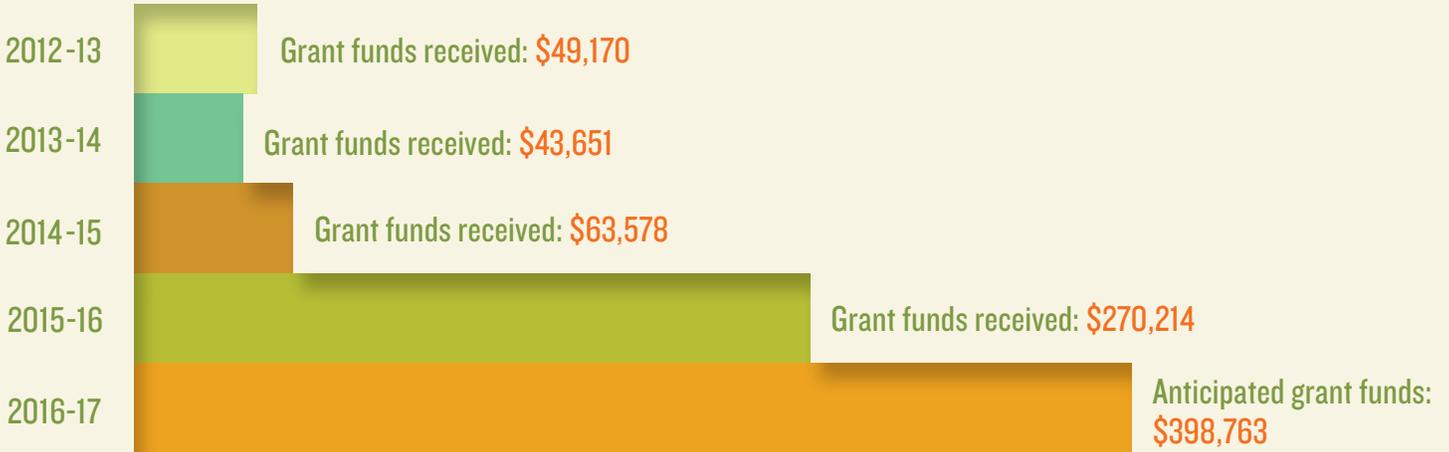
The Commission brand isn't simply the fruit grown in California, but the issues management, production research, industry-related activities and trusted information and resources it provides. As such, the new Commission logo will serve as an icon for relevant and important industry information and research.





Grants Support Critical Pest Management and Export Market Research

CAC Builds Momentum for Grant Funding



2015-16 Key Projects Funded by Grants

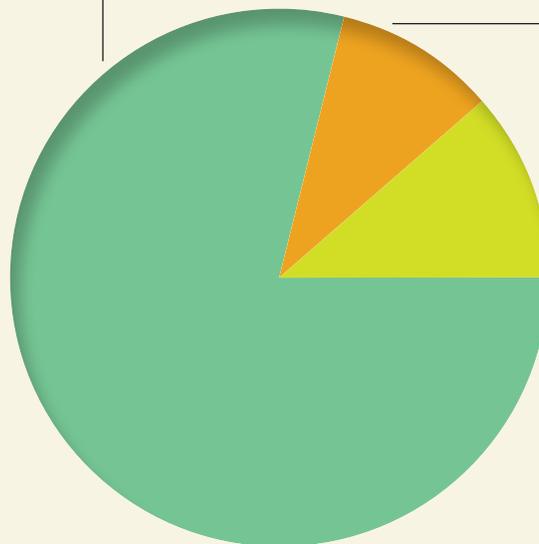
This fiscal year, the Commission secured more grants than ever before — more than \$270,000 in funds used to support pest and disease management initiatives, exploration of global markets and shot hole borer (SHB) research.

Work completed during fiscal year 2015-16 secured even greater dollar amounts for the following year with anticipated grant funds expected to reach nearly \$400,000. Funds for the next fiscal year will be used to continue the projects noted below,

as well as to further initiatives such as the development of online grower education and support tools and improved irrigation efficiency trials at Pine Tree Ranch.

\$213,026

2015 USDA APHIS Plant Pest and Disease Management and Disaster Prevention Program funds used for: “Risk assessment and epidemiology of polyphagous shot hole borer and Fusarium dieback throughout commercial avocado groves in California,” by Drs. Akif Eskalen and Tom Atkinson, Commission’s SHB survey and monitoring efforts in San Diego and Ventura counties and SHB grower outreach meetings



\$26,373

Technical Assistance for Specialty Crops funds used to partially offset activities related to opening market access for California avocados to China

\$30,814

CDFA E-funding used to offset a portion of the SHB research conducted by Drs. Eskalen and Atkinson



Progress Made in Accessing Global Markets

For the first time in nearly a decade, significant progress was made toward gaining access to Chinese markets for California avocados. The Commission hosted an official government-to-government visit in May with three officials from China’s Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and participated in a U.S.-China bilateral meeting on agriculture in late fall.

Commission Vice Presidents Jan DeLyser and Ken Melban also visited Tokyo markets and Asia Fruit Logistica in Hong Kong to discuss opportunities for California avocados. CAC staff discovered there is a tremendous amount of interest in having California avocados gain access to markets in China and Thailand and that these consumers — who primarily



THE AQSIQ TECHNICAL VISIT TO CALIFORNIA WAS A SIGNIFICANT STEP FORWARD IN GAINING ACCESS TO CHINA.

cook their produce due to contamination concerns — regard California avocados as very safe. CAC also met with two key U.S. Consulate General officials who indicated there remains strong support from the United States Department of Agriculture’s (USDA) Agricultural Trade Offices in China.

In addition, the Commission initiated the process with the USDA Animal and Plant Health Inspection Service (APHIS) to gain trade access to India and Thailand.



JAN DELYSER AND KEN MELBAN MET WITH TOMOKO SHIBATA, COSTCO’S BUYER FOR JAPAN AT ASIA FRUIT LOGISTICA.

Shot Hole Borer Threat Diminishes

The \$2.6 million CAC invested in SHB research and grower education has been well spent. Since 2012, CAC-funded programs have determined where the pests originated, which tree species they attack, obtained a Section 18 emergency exemption for Hero® EW insecticide, provided SHB grower education sessions and tracked and monitored SHB infestations in California avocado growing regions.

This fiscal year the Commission discovered that, for reasons not entirely clear, SHB attacks on avocado trees do not appear to result in the devastating tree

decline observed in other host species. The Commission’s survey and monitoring studies indicate that new beetle attacks have decreased since the infestation began and that while some trees may experience branch die back from initial beetle attacks, for the most part they are able to tolerate SHB and bear fruit.

While current evidence indicates that the SHB threat is diminishing, the Commission will continue to monitor the situation closely and take measures to control their spread and quantify the impact of SHB on crop yield. CAC’s biocontrol and epidemiology research, as

well as its transmissions, trapping and lure studies will enable the Commission to act quickly were the SHB infestation status to change.



PHOTO CREDIT: TIM THIBAUT, HUNTINGTON BOTANICAL GARDEN.

CALIFORNIA AVOCADO COMMISSION

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Independent Auditor's Report

Board of Directors
California Avocado Commission
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Avocado Commission (Commission), as of and for the years ended October 31, 2016 and 2015, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 Commission'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 Commission'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 the California Avocado Commission, as of October 31, 2016 and 2015, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2015, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the Commission's basic financial statements. The budgetary comparison schedule, combining statement of revenues, expenses and changes in net position, and schedule of program expenses (Schedules), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, on our consideration of the Commission's 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Commission's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
January 25, 2017

CALIFORNIA AVOCADO COMMISSION
Management's Discussion and Analysis
For the Years Ended October 31, 2016 and 2015
(Unaudited)

INTRODUCTION

Management's Discussion and Analysis (MD&A) provides an overview and analysis of the financial activities of the California Avocado Commission (Commission) for the years ended October 31, 2016 and 2015. It has been prepared by management and is required supplementary information to the financial statements. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

FINANCIAL HIGHLIGHTS

- The Commission's 2016 assets exceeded its liabilities as of October 31, 2016, by \$10,634,332 (total net position). This amount increased \$4,492,172 or 73% from the prior year amount of \$6,142,160.
- Of the total net position at the end of fiscal year 2016, net invested in capital assets decreased \$7,143 to \$54,403 or 12% from the prior year amount of \$61,546.
- Net position restricted for marketing at the end of fiscal year 2016 increased \$1,843,076 to \$2,890,227 or 176% from the prior year amount of \$1,047,151.
- Unrestricted net position at the end of fiscal year 2016 increased \$2,656,239 to \$7,689,702 or 53% from the prior year amount of \$5,033,463. This amount made up 72% of total net position.
- The Commission's 2015 assets exceeded its liabilities as of October 31, 2015, by \$6,142,160 (total net position). This amount decreased \$1,924,211 or 24% from the prior year amount of \$8,066,371.
- Of the total net position at the end of fiscal year 2015, net invested in capital assets decreased \$10,453 to \$61,546 or 15% from the prior year amount of \$71,999.
- Net position restricted for marketing at the end of fiscal year 2015 increased \$10,545 to \$1,047,151 or 1% from the prior year amount of \$1,036,606.
- Unrestricted net position at the end of fiscal year 2015 decreased \$1,924,303 to \$5,033,463 or 28% from the prior year amount of \$6,957,766. This amount made up 82% of total net position.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commission's financial report. The Commission's financial report includes three basic financial statements: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows. The Commission's basic financial statements also include notes to the financial statements. Financial statements are designed to present a broad overview of the financial data for the Commission, in a manner similar to a private-sector business.

The *Statements of Net Position* present information on all assets and liabilities of the Commission, using the accrual basis of accounting, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the current financial condition of the Commission.

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Management's Discussion and Analysis
For the Years Ended October 31, 2016 and 2015
(Unaudited)

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how the Commission's net position varied during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operating, non-capital financing, capital financing and investing activities.

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

Other Information:

In addition to the MD&A, the financial statements also present the following supplementary information: Budgetary Comparison Schedule, Combining Statement of Revenues, Expenses and Changes in Net Position (broken down by Restricted and Unrestricted), and Schedule of Program Expenses (Restricted).

FINANCIAL ANALYSIS

Comparative data for the prior year ended October 31, 2015, has been presented in the accompanying financial statements (including MD&A) to facilitate financial analysis for the current year ended October 31, 2016. A comparative analysis of fiscal year 2015 with fiscal year 2014 is also presented in the MD&A.

STATEMENTS OF NET POSITION:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$13,052,257	\$8,486,636	\$10,517,659
Capital assets, net	54,403	61,546	71,999
Total assets	<u>13,106,660</u>	<u>8,548,182</u>	<u>10,589,658</u>
Current liabilities	2,425,146	2,359,255	2,472,021
Non-current liabilities	47,182	46,767	51,266
Total liabilities	<u>2,472,328</u>	<u>2,406,022</u>	<u>2,523,287</u>
Net position:			
Net investment in capital assets	54,403	61,546	71,999
Restricted for marketing	2,890,227	1,047,151	1,036,606
Unrestricted	7,689,702	5,033,463	6,957,766
Total net position	<u><u>\$10,634,332</u></u>	<u><u>\$6,142,160</u></u>	<u><u>\$8,066,371</u></u>

CALIFORNIA AVOCADO COMMISSION
Management's Discussion and Analysis
For the Years Ended October 31, 2016 and 2015
(Unaudited)

As noted earlier, net position may serve over time as a useful indicator of the Commission's financial position. The largest portion (99.6%) of the Commission's assets are current assets consisting primarily of cash and cash equivalents, receivables and fiduciary cash amounts held for Avocado Inspection Program (AIP). Current assets at the end of fiscal year 2016 totaled \$13,052,257, increasing \$4,565,621 from the prior year amount of \$8,486,636. This increase is primarily due to higher total production volume which is reflected in the increased cash and assessments receivable balance. Total current assets cover current liabilities 5.4 times, indicating good liquidity.

At the end of fiscal year 2015, the largest portion (99.3%) of the Commission's assets are current assets consisting primarily of cash and cash equivalents, receivables and fiduciary cash amounts held for AIP. Current assets at the end of fiscal year 2015 totaled \$8,486,636, decreasing \$2,031,023 from the prior year amount of \$10,517,659. This decrease is primarily due to lower total production volume particularly at the end of the year which is reflected in the reduced assessments receivable balance. Total current assets cover current liabilities 3.6 times, indicating good liquidity.

The Commission's liabilities primarily consist of current liabilities including accounts payable, accrued liabilities, deposits due and fiduciary liability amounts held for AIP. Liabilities at the end of fiscal year 2016 totaled \$2,472,328 increasing from a balance of \$2,406,022 in 2015. This increase was due to higher non-marketing obligations owed to vendors. Liabilities at the end of fiscal year 2015 totaled \$2,406,022 decreasing from a balance of \$2,523,287 in 2014. These decreases were due to lower total production volume and shortened crop season which in turn reduced marketing activities and obligations owed to vendors.

Net position consists of three categories: Net investment in capital assets, restricted for marketing and unrestricted.

Net investment in capital assets represents the Commission's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net position invested in capital assets totaled \$54,403 at the end of fiscal year 2016, decreasing \$7,143 from the prior year amount of \$61,546. This decrease is due to the accumulated depreciation of capital assets as a result of current year depreciation expense. Net investment in capital assets represents 0.5% of total net position.

At the end of fiscal year 2015, net position invested in capital assets totaled \$61,546, decreasing \$10,453 from the prior year amount of \$71,999. This decrease is due to the accumulated depreciation of capital assets as a result of current year depreciation expense. Net investment in capital assets represents 1.0% of total net position.

Restricted net position for marketing activities is subject to imposed restrictions by federal statute governing their use. Restricted net position totaled \$2,890,227 at the end of 2016, increasing \$1,843,076 from the prior year amount of \$1,047,151, and increasing \$10,545 from 2014. Restricted net position represents 27% of total net position.

Unrestricted net position available for future activities at the end of fiscal year 2016 totaled \$7,689,702, increasing \$2,656,239 from the prior year amount of \$5,033,463. Unrestricted net position available for future activities at the end of fiscal year 2015 totaled \$5,033,463, decreasing \$1,924,303 from the prior year amount of \$6,957,766.

CALIFORNIA AVOCADO COMMISSION
Management's Discussion and Analysis
For the Years Ended October 31, 2016 and 2015
(Unaudited)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$17,348,241	\$12,628,419	\$13,131,077
Operating expenses	13,222,755	14,717,545	14,500,406
Operating income (loss)	<u>4,125,486</u>	<u>(2,089,126)</u>	<u>(1,369,329)</u>
Nonoperating revenues	366,686	164,915	204,228
Change in net position	<u>4,492,172</u>	<u>(1,924,211)</u>	<u>(1,165,101)</u>
Net position – beginning of year	6,142,160	8,066,371	9,231,472
Net position – ending of year	<u>\$10,634,332</u>	<u>\$6,142,160</u>	<u>\$8,066,371</u>

Operating revenues totaled \$17,348,241 in 2016, increasing \$4,719,822 or 37% from \$12,628,419 earned in 2015. This increase is due to an increase in assessment revenue received due to larger total crop volume; 401 million pounds were reported in 2016 as compared to 279 million pounds in 2015. The majority of operating revenue consisted of assessment revenue, totaling \$17,262,241 (99.5%). The remaining portion of \$86,000 (0.5%) was from administrative fees generated from AIP.

Operating revenues totaled \$12,628,419 in 2015, decreasing \$502,658 or 4% from \$13,131,077 earned in 2014. This decrease is primarily due to a reduction in assessment revenue received from the Hass Avocado Board (HAB) assessment. This was due to the total crop volume decreasing to 279 million pounds in 2015 as compared to 297 million pounds in 2014. The majority of operating revenue consisted of assessment revenue totaling \$12,542,419 (99%). The remaining portion of \$86,000 (1%) was from administrative and marketing fees generated from HAB and AIP.

Operating expenses totaled \$13,222,755 in 2016, decreasing \$1,494,790 or 10% from \$14,717,545 in 2014. This decrease is primarily due to decreased activities in both marketing and non-marketing programs in 2016. Operating expenses totaled \$14,717,545 in 2015, increasing \$217,139 or 1% from \$14,500,406 in 2014. This increase is primarily due to increased activities in non-marketing programs in 2015.

At the end of the fiscal year 2016, the Commission reported an ending net position of \$10,634,332, an increase of \$4,492,172 from the prior year amount of \$6,142,160. This is primarily due to an increase in assessment revenue received, resulting from increased total volume production, as aforementioned.

At the end of the fiscal year 2015, the Commission reported an ending net position of \$6,142,160, a decrease of \$1,924,211 from the prior year amount of \$8,066,371. This is primarily due to a decrease in assessment revenue received from the HAB assessment, resulting from reduced total volume production.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Commission's net investment in capital assets totaled \$54,403 as of October 31, 2016, decreasing \$7,143 from the prior year amount of \$61,546, and \$10,453 from \$71,999 in 2014 (net of accumulated depreciation). This decrease represents the depreciation expense of capital assets during the fiscal year, which increased accumulated depreciation.

CALIFORNIA AVOCADO COMMISSION
Management's Discussion and Analysis
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(Unaudited)

COMPENSATED ABSENCES

At the end of fiscal year 2016, the Commission accumulated an accrued compensated absences balance of \$163,474; an increase of \$13,502 from the prior year balance of \$149,972. This increase is due to unused vacation time by employees. At the end of fiscal year 2015, the Commission accumulated an accrued compensated absences balance of \$149,972, an increase of \$16,570 from the prior year balance of \$133,402. This increase is due to unused vacation time by employees and the addition of an employee in 2015.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to California Avocado Commission, 12 Mauchly, Suite L, Irvine, California 92618; phone number 949-341-1955.

BASIC FINANCIAL STATEMENTS

CALIFORNIA AVOCADO COMMISSION

Statements of Net Position

October 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 11,366,642	\$ 7,217,726
Assessments receivable	81,584	3,516
Other receivables	65,591	76,474
Prepaid expenses	365,622	54,041
Fiduciary cash and cash equivalents, amounts held for AIP	914,493	1,003,776
Restricted:		
Assessments receivable	<u>258,325</u>	<u>131,103</u>
Total current assets	13,052,257	8,486,636
Noncurrent assets:		
Capital assets being depreciated, net	<u>54,403</u>	<u>61,546</u>
Total assets	<u>13,106,660</u>	<u>8,548,182</u>
Current liabilities:		
Accounts payable and accrued liabilities	1,021,782	928,245
Accounts payable and accrued liabilities, payable from restricted assets	354,579	306,029
Fiduciary liabilities, amounts held for AIP	914,493	1,003,776
Deposits	18,000	18,000
Compensated absences, due within one year	<u>116,292</u>	<u>103,205</u>
Total current liabilities	2,425,146	2,359,255
Noncurrent liabilities:		
Compensated absences, due in more than one year	<u>47,182</u>	<u>46,767</u>
Total liabilities	<u>2,472,328</u>	<u>2,406,022</u>
Net position:		
Net investment in capital assets	54,403	61,546
Restricted for marketing	2,890,227	1,047,151
Unrestricted	<u>7,689,702</u>	<u>5,033,463</u>
Net position	<u>\$ 10,634,332</u>	<u>\$ 6,142,160</u>

See accompanying notes to the basic financial statements.

CALIFORNIA AVOCADO COMMISSION
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended October 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Assessment revenue	\$ 9,493,670	\$ 6,972,742
HAB rebate assessment revenue (restricted)	7,768,571	5,569,677
Administrative and marketing fees	86,000	86,000
Total operating revenues	<u>17,348,241</u>	<u>12,628,419</u>
Operating expenses:		
Marketing	8,192,468	9,362,120
Nonmarketing programs	1,806,463	2,378,460
Administration	3,145,824	2,915,015
Total operating expenses	<u>13,144,755</u>	<u>14,655,595</u>
Operating income (loss)	<u>4,203,486</u>	<u>(2,027,176)</u>
Nonoperating revenues:		
Interest income	14,661	16,675
Grant Income	270,214	62,860
Other income	3,811	23,430
Total nonoperating revenues	<u>288,686</u>	<u>102,965</u>
Change in net position	4,492,172	(1,924,211)
Net position, beginning of year	<u>6,142,160</u>	<u>8,066,371</u>
Net position, end of year	<u><u>\$ 10,634,332</u></u>	<u><u>\$ 6,142,160</u></u>

See accompanying notes to the basic financial statements.

CALIFORNIA AVOCADO COMMISSION
 Statements of Cash Flows
 For the Years Ended October 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 17,064,551	\$ 12,640,452
Cash payments to suppliers for goods and services	(10,841,430)	(12,282,136)
Cash payments to employees for services	(2,451,288)	(2,265,114)
Net cash provided (used) by operating activities	3,771,833	(1,906,798)
Cash flows from non-capital financing activities:		
Proceeds from grants	270,214	62,860
Other Income	3,811	23,405
Net cash provided by non-capital financing activities	274,025	86,265
Cash flows from capital and related financing activities:		
Purchases of capital assets	(886)	(2,210)
Proceeds from sale of assets	-	25
Net cash used by capital and related financing activities	(886)	(2,185)
Cash flows from investing activities:		
Interest on investments	14,661	16,675
Net increase (decrease) in cash and cash equivalents	4,059,633	(1,806,043)
Cash and cash equivalents, beginning of year	8,221,502	10,027,545
Cash and cash equivalents, end of year	<u>\$ 12,281,135</u>	<u>\$ 8,221,502</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 4,203,486	\$ (2,027,176)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	8,029	12,663
Changes in assets and liabilities:		
(Increase) decrease in assessments receivable	(205,290)	236,387
(Increase) decrease in other receivables	10,883	(15,912)
(Increase) decrease in prepaid expenses	(311,581)	4,505
Increase (decrease) in accounts payable and accrued liabilities	142,087	74,607
Increase (decrease) in fiduciary liabilities	(89,283)	(208,442)
Increase (decrease) in compensated absences	13,502	16,570
Net cash provided (used) by operating activities	<u>\$ 3,771,833</u>	<u>\$ (1,906,798)</u>

See accompanying notes to the basic financial statements.

CALIFORNIA AVOCADO COMMISSION

Notes to Basic Financial Statements

October 31, 2016 and 2015

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the California Avocado Commission (Commission):

(a) *Activities of the Commission*

The California Avocado Commission is authorized under California law to engage in programs of advertising, promotion, marketing research, and production research related to the sale of California avocados. The Commission is authorized to levy an assessment against producers of avocados for the purposes of carrying out its programs. The assessment for the years ended October 31, 2016 and 2015, was 2.30% of the gross revenues received by producers. The Commission also receives 85% of the assessments collected by the Federal Hass Avocado Board (HAB) on Hass avocados produced and sold in California, which is restricted for use on marketing activities.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The Commission operates as an enterprise activity. An enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the industry on a continuing basis be financed or recovered primarily through assessment revenues.

Enterprise 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the Commission are assessment revenues and administrative and marketing fees. Operating expenses for enterprise funds include the cost of marketing programs, production research, industry affairs and administrative expenses, including depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when incurred, regardless of the timing of related cash flows.

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.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

(c) *Assets, Deferred Inflows of Recourses, Liabilities, Deferred Outflows of Recourses, and Net Position*

1. Cash Equivalents

For purposes of the statements of cash flows, the Commission considers cash and funds invested in the Local Agency Investment Fund (LAIF) of the State of California for both restricted and unrestricted funds to be cash equivalents. Additionally, investments with original maturities of three months or less at the time of purchase are considered cash equivalents.

2. Investments

The Commission values its investment in accordance with the provision of Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, which requires entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. Restricted and unrestricted cash are pooled for investment purposes.

3. Receivables

No allowance for uncollectible accounts has been recorded for the years ended October 31, 2016 and 2015. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable, and if it is determined that they are uncollectible, they are written off directly as a bad debt expense.

4. Capital Assets

Capital assets consist of furniture, office equipment, leasehold improvements, software, and land improvements. The Commission capitalizes assets with values of \$10,000 or more and useful lives of greater than one year. Capital assets are valued at cost, or estimated historical cost, if actual historical cost is not available. Contributed assets are recorded at acquisition value on the date donated. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Capital assets are depreciated on the straight-line basis, using the following asset lives:

<u>Asset Category</u>	<u>Years</u>
Furniture	5
Office equipment	3
Leasehold improvements	5 (or term of lease, whichever is less)
Software	3
Land Improvements	Remaining term of the property lease

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

5. Compensated Absences

Commission employees receive from 10 to 20 days of vacation each year, depending upon length of service. An employee may accumulate earned vacation time to a maximum of 40 days. Once an employee accrues 40 days of unused vacation time, the Commission compensates the employee 10 days of accrued and unused vacation time at the employee's current rate of pay. Upon termination, employees are paid for all accrued, but unused vacation at their current rate of pay.

Compensated absences include accrued vacation that is available to employees in future years, either as time off or in cash (upon leaving the employment of the Commission). All compensated absences are accrued when incurred.

6. 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 certain reported amounts and disclosures. Actual results may differ from such estimates.

7. Fiduciary and Restricted Assets

Fiduciary assets are held for the Avocado Inspection Program (AIP) and are off-set by fiduciary liabilities. Restricted assets are restricted for marketing-related activities and are subject to restrictions imposed by federal statute governing their use.

8. Net Position

Net position represents the difference between assets less liabilities. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if any. Net investment in capital assets, excludes debt attributable to the unspent related debt proceeds amount. At October 31, 2016 and 2015, the Commission had net investment in capital assets in the amounts of \$54,403 and \$61,546, respectively. There was no outstanding debt related to capital assets at October 31, 2016 and 2015.

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At October 31, 2016 and 2015, the Commission had restricted net position in the amounts of \$2,890,227 and \$1,047,151, respectively, for marketing-related activities.

The unrestricted component of net position is the net amount of the assets, and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

(d) Reclassification

Certain reclassifications have been made in the prior year fiscal financial statements to conform to the current year presentation.

(e) Implementation of new accounting pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the year ended October 31, 2016:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Commission implemented this Statement in the year ended October 31, 2016. Refer to Note 2(a) Cash and Cash Equivalents, for additional information.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in order to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The *GAAP hierarchy* consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Commission implemented this Statement in the year ended October 31, 2016; however, this statement did not affect the Commission’s financial statements.

(2) DETAILED NOTES ON ASSETS AND LIABILITIES

(a) Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at October 31:

	<u>2016</u>	<u>2015</u>
Petty cash	\$ 200	\$ 200
Demand deposits	12,271,270	8,211,688
Local Agency Investment Fund	<u>9,665</u>	<u>9,614</u>
Total cash and cash equivalents	<u>\$ 12,281,135</u>	<u>\$ 8,221,502</u>

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

Investment in State Investment Pool

The Commission is a voluntary participant in LAIF, which is regulated by CGC Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The total amount invested by all public agencies in LAIF as of October 31, 2016, was \$20.9 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at October 31, 2016, had a balance of \$70.0 billion. Of that amount, 3.01% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 163 days as of October 31, 2016.

The total amount invested by all public agencies in LAIF as of October 31, 2015, was \$19.7 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at October 31, 2015, had a balance of \$64 billion. Of that amount, 2.31% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 200 days as of October 31, 2015.

Fair Value Measurement and Application

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Associated Students has the ability to access.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments in an external government investment pool, such as LAIF, are not subject to reporting within the level hierarchy.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

Investments Authorized by the California Government Code and the Commission's Investment Policy

The Commission adopted California Government Code (CGC) Section 16430 and the United States Department of Agriculture (USDA) Directive 2210.2 as its investment policy. The table below identifies the investment types that are authorized under CGC Section 16430, as well as certain provisions of CGC Section 16430 and USDA Directive 2210.2 that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
State of California Bonds and Notes	1 year	None	None
U. S. Treasury Obligations	1 year	None	None
U. S. Agency Securities	1 year	None	None
Bank Loans	1 year	None	None
Student Loan Notes	1 year	None	None
Obligations issued for Reconstruction and Development	1 year	None	None
Negotiable Certificates of Deposits	1 year	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	180 days	30%	10%
Corporate Bonds and Notes	5 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 million

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Commission's investments to market interest rate fluctuations is provided by the following table that shows the Commission's investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity 12 Months or Less</u>	
	<u>2016</u>	<u>2015</u>
Local Agency Investment Fund	<u>\$ 9,665</u>	<u>\$ 9,614</u>

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the CGC 16430. The Commission had no investments in any one issuer (other than external investment pools) that represented 5% or more of total Commission investments at October 31, 2016 and 2015.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The CGC and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the CGC 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 governmental 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.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

(b) Capital Assets

	November 1, 2015	Additions	Deletions	October 31, 2016
Capital assets, being depreciated:				
Furniture	\$ 26,160	\$ -	\$ -	\$ 26,160
Office equipment	61,002	-	-	61,002
Land Improvements	71,998	886	-	72,884
Total capital assets, being depreciated	<u>159,160</u>	<u>886</u>	<u>-</u>	<u>160,046</u>
Less accumulated depreciation for:				
Furniture	26,160	-	-	26,160
Office equipment	61,002	-	-	61,002
Land Improvements	10,452	8,029	-	18,481
Total accumulated depreciation	<u>97,614</u>	<u>8,029</u>	<u>-</u>	<u>105,643</u>
Capital assets, net of depreciation	<u>\$ 61,546</u>	<u>\$ (7,143)</u>	<u>\$ -</u>	<u>\$ 54,403</u>
	November 1, 2014	Additions	Deletions	October 31, 2015
Capital assets, being depreciated:				
Furniture	\$ 26,160	\$ -	\$ -	\$ 26,160
Office equipment	61,002	-	-	61,002
Land Improvements	69,788	2,210	-	71,998
Total capital assets, being depreciated	<u>156,950</u>	<u>2,210</u>	<u>-</u>	<u>159,160</u>
Less accumulated depreciation for:				
Furniture	21,364	4,796	-	26,160
Office equipment	61,002	-	-	61,002
Land Improvements	2,585	7,867	-	10,452
Total accumulated depreciation	<u>84,951</u>	<u>12,663</u>	<u>-</u>	<u>97,614</u>
Capital assets, net of depreciation	<u>\$ 71,999</u>	<u>\$ (10,453)</u>	<u>\$ -</u>	<u>\$ 61,546</u>

Depreciation expense was \$8,029 and \$12,663 for the years ended October 31, 2016 and 2015, respectively.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

(c) ***Long-term Liabilities***

	<u>November 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>October 31, 2016</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 149,972	\$ 126,126	\$ (112,624)	\$ 163,474	\$ 116,292

	<u>November 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>October 31, 2015</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 133,402	\$ 114,032	\$ (97,462)	\$ 149,972	\$ 103,205

(3) **OTHER INFORMATION**

(a) ***Avocado Inspection Program***

During February 1986, the Commission contracted with the State Department of Food and Agriculture to administer the Avocado Inspection Program (AIP) for the State of California (State). Since the Commission is, in substance, an agent for the State, fiduciary cash and cash equivalents, amounts held for AIP are offset by fiduciary liabilities, amounts held for AIP. As of October 31, 2016 and 2015, \$914,493 and \$1,003,776, respectively, was held by the Commission for the AIP.

(b) ***Line of Credit***

On March 8, 2011, the Commission obtained a revolving line of credit from Bank of the West, in the amount of \$3,000,000, with a variable interest rate at prime rate plus 0.5% and a floor of 4.0%. The original maturity date for the line of credit was February 15, 2013, which was extended to February 15, 2017, under the same terms as the original agreement. At October 31, 2016 and 2015, there was no outstanding balance due on the line of credit.

(c) ***Risk Management***

Insurance Programs of the Commission

The Commission utilizes insurance broker Brown & Brown of California, Inc., to obtain its insurance coverage from various insurers. The Commission's coverage is as follows:

Commercial General Liability - insured by Associated Indemnity Corporation – General aggregate coverage of \$2,000,000 and \$1,000,000 for each occurrence.

Automobile Liability - insured by Sentinel Insurance Company – Coverage is \$1,000,000 per bodily injury or property damage, subject to a \$500 deductible.

Crime Liability - insured by Travelers Casualty & Surety – Coverage is \$1,000,000, subject to a \$5,000 deductible.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

Umbrella Liability - insured by Associated Indemnity Corporation – General aggregate coverage of \$5,000,000 and \$5,000,000 for each occurrence.

Travel Accident Liability - insured by Hartford Life Insurance Company – Coverage is \$100,000 per person and \$500,000 per accident.

Directors and Officers Liability and Employment Practices Liability - insured by Great American Insurance Company – Coverage is \$5,000,000 aggregate limit, with a \$25,000 retention.

Employed Lawyers Professional Liability - insured by Executive Risk Indemnity, Inc. – Coverage is \$1,000,000 aggregate limit.

Fiduciary Liability - insured by U.S. Specialty Insurance Company – Coverage is \$1,000,000 each claim and in aggregate, subject to a \$2,500 deductible.

Media Content/Network Security and Privacy - insured by Aspen Specialty Insurance Company – Coverage is \$1,000,000 each claim and in aggregate, with a \$25,000 self insurance retention for each loss.

First Party Network Security and Privacy - insured by Aspen Specialty Insurance Company – Privacy notification costs limit is \$1,000,000, with a \$25,000 self insurance retention for each loss.

Foreign Liability - insured by Fireman’s Fund Insurance Company – General aggregate coverage is \$2,000,000 and \$1,000,000 for each occurrence.

Workers’ Compensation Coverage

The Commission is a member of the State Compensation Insurance Fund, a self-supporting, non-profit enterprise that provides workers’ compensation insurance to California employers. The coverage is \$1,000,000 per occurrence.

Adequacy of Protection

During the past three fiscal (claims) years, none of the above programs of protection have had settlements or judgments that exceeded insured coverage. There have been no significant changes in insurance coverage during fiscal year 2016.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

(d) *Employee Retirement Plans*

The Board of Directors of the Commission implemented a defined contribution plan, California Avocado Commission Profit Sharing Plan (PSP), administered by “The Retirement Plan Company,” for eligible Commission employees effective November 1, 2000. The Commission’s payroll for the thirteen employees eligible to participate in the PSP for the plan year ended October 31, 2016, was \$1,805,645. Total payroll for the eleven employees eligible to participate in the PSP for the plan year ended October 31, 2015, was \$1,446,376. Total contributions for the years ended October 31, 2016 and 2015 were \$229,423 and \$159,638, respectively.

The Commission may make annual, discretionary contributions to the PSP. With a few exceptions, each eligible employee received an allocation of 10% of compensation, up to a maximum of \$53,000, for each of the plan years ended October 31, 2016 and 2015. To receive an allocation, each employee must meet a minimum service requirement of one year and must be credited with at least 1,000 hours of service.

(e) *Operating Leases*

On November 5, 2009, the Commission entered into a lease agreement for the current office space, within the City of Irvine, California, under a five-year lease ending November 30, 2014 which was extended an additional five years ending November 30, 2019. During the years ended October 31, 2016 and 2015, the Commission paid \$68,527 and \$49,414, respectively, for office rent, exclusive of operating expenses.

On September 15, 2011, the Commission entered into an agreement to lease a postage machine under a three-year lease ending on October 1, 2014, which was extended to April 30, 2017 with quarterly payments due at the end of each quarter ranging from \$200 to \$400. Quarterly payments began January 1, 2012. During the years ended October 31, 2016 and 2015, the Commission paid \$1,343 for each year respectively, including tax, for this lease.

On February 9, 2015, the Commission entered into an agreement to lease two printers under a three-year lease agreement ending on January 31, 2018, with monthly payments of \$441 beginning February 1, 2015. During the year ended October 31, 2016 and 2015, the Commission paid \$6,000 and \$3,929, respectively, including tax, for this lease.

On May 22, 2013, the Commission entered into a lease agreement for the office space within the City of Santa Paula, California, under a three-year lease ending April 30, 2016. During the year ended October 31, 2016 and 2015, the Commission paid \$12,278 and \$8,881, respectively, for office rent, exclusive of operating expenses.

On July 1, 2013, the Commission entered into a lease agreement for the Pine Tree Ranch property within the City of Santa Paula, California, under a ten-year lease ending June 30, 2023. During the year ended October 31, 2016 and 2015, the Commission paid \$20,056 and \$19,412 for rent, respectively, including rent paid for a garage on the property for \$100 a month.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2016 and 2015

The annual requirements to amortize the operating lease obligations as of October 31, 2016, are as follows:

Year Ending October 31,	Office Spaces	Printers	Postage Machine	Pine Tree Ranch	Total
2017	94,284	5,292	550	20,720	120,846
2018	87,781	1,323	-	21,400	110,504
2019	74,836	-	-	22,104	96,940
2020	6,251	-	-	22,836	29,087
2021	-	-	-	23,600	23,600
2022 - 2023	-	-	-	40,992	40,992
Total	<u>\$ 263,152</u>	<u>\$ 6,615</u>	<u>\$ 550</u>	<u>\$ 151,652</u>	<u>\$ 421,969</u>

SUPPLEMENTARY INFORMATION

CALIFORNIA AVOCADO COMMISSION
 Budgetary Comparison Schedule
 For the Year Ended October 31, 2016
 (with comparative actual totals for the year ended October 31, 2015)

	2016			Variance Positive (Negative)	2015 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Assessment revenue	\$ 7,866,000	\$ 7,866,000	\$ 9,493,670	\$ 1,627,670	\$ 6,972,742
HAB rebate assessment revenue (restricted)	7,114,500	7,114,500	7,768,571	654,071	5,569,677
Administrative and marketing fees	86,000	86,000	86,000	-	86,000
Interest income	14,400	14,400	14,661	261	16,675
Grant revenue	157,030	300,653	270,214	(30,439)	62,860
Other income	55,000	55,000	3,811	(51,189)	23,430
Total revenues	15,292,930	15,436,553	17,636,927	2,200,374	12,731,384
Expenses:					
Marketing:					
Consumer advertising	6,173,975	6,242,725	4,745,291	1,497,434	5,172,194
Merchandising promotions	1,804,825	1,804,825	1,640,864	163,961	1,627,422
Foodservice	854,000	854,000	854,319	(319)	827,994
Consumer public relations and nutrition communication	895,000	895,000	869,556	25,444	900,000
Internet marketing	-	-	-	-	667,432
Marketing activities support	86,200	86,200	82,438	3,762	167,078
Total marketing	9,814,000	9,882,750	8,192,468	1,690,282	9,362,120
Non-marketing programs:					
Industry affairs	1,166,176	1,097,550	648,587	448,963	1,101,340
Production research	981,004	942,707	887,662	55,045	1,214,260
Grant expenses	157,030	300,653	270,214	30,439	62,860
Total non-marketing programs	2,304,210	2,340,910	1,806,463	534,447	2,378,460
Administration:					
Administration	3,070,299	3,099,558	3,064,663	34,895	2,829,632
Information systems	96,755	96,755	73,132	23,623	72,721
Depreciation	8,400	8,400	8,029	371	12,662
Total administration	3,175,454	3,204,713	3,145,824	58,889	2,915,015
Total expenses	15,293,664	15,428,373	13,144,755	2,283,618	14,655,595
Change in net position	(734)	8,180	4,492,172	4,483,992	(1,924,211)
Net position, beginning of year	6,142,160	6,142,160	6,142,160	-	8,066,371
Net position, ending of year	\$ 6,141,426	\$ 6,150,340	\$ 10,634,332	\$ 4,483,992	\$ 6,142,160

See accompanying note to supplementary information.

CALIFORNIA AVOCADO COMMISSION

Note to Supplementary Information

October 31, 2016 and 2015

(1) BUDGETARY INFORMATION:

(a) Budgets and Budgetary Accounting:

Each year, the California Avocado Commission (Commission) adopts a budget that provides for its general operations. Budgets are prepared on the accrual basis of accounting. Department Heads are responsible for preparing and presenting their departmental budgets. Each Department Head is required to meet with the President and Director of Finance and Administration of the Commission to review each line item. The overall combined budget is prepared by the President and Director of Finance and Administration of the Commission and presented to the Board of Directors. Line item transfers do not need Board of Directors approval, but require notification to the Finance Committee of the Board of Directors. Any increases or decreases in a department's budget must be approved by the Board of Directors.

CALIFORNIA AVOCADO COMMISSION

Combining Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended October 31, 2016

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Operating revenues:			
Assessment revenue	\$ -	\$ 9,493,670	\$ 9,493,670
HAB rebate assessment revenue (restricted)	7,768,571	-	7,768,571
Administrative and marketing fees	-	86,000	86,000
Total operating revenues	<u>7,768,571</u>	<u>9,579,670</u>	<u>17,348,241</u>
Operating expenses:			
Marketing	5,922,348	2,270,120	8,192,468
Nonmarketing programs	-	1,806,463	1,806,463
Administration	-	3,145,824	3,145,824
Total operating expenses	<u>5,922,348</u>	<u>7,222,407</u>	<u>13,144,755</u>
Operating income	<u>1,846,223</u>	<u>2,357,263</u>	<u>4,203,486</u>
Nonoperating revenues:			
Interest income (loss)	(3,147)	17,808	14,661
Grant revenue	-	270,214	270,214
Other income	-	3,811	3,811
Total nonoperating revenues	<u>(3,147)</u>	<u>291,833</u>	<u>288,686</u>
Change in net position	1,843,076	2,649,096	4,492,172
Net position, beginning of year	<u>1,047,151</u>	<u>5,095,009</u>	<u>6,142,160</u>
Net position, ending of year	<u>\$ 2,890,227</u>	<u>\$ 7,744,105</u>	<u>\$ 10,634,332</u>

CALIFORNIA AVOCADO COMMISSION

Schedule of Program Expenses

For the Year Ended October 31, 2016

	<u>Restricted</u>	<u>Budget</u>
Marketing Programs:		
Media-85% Rebate-Mullen	\$ 2,858,609	\$ 4,064,600
Program Administration Fees-85% Rebate-Mullen	1,015,875	1,015,875
Subtotal Consumer Advertising	<u>3,874,484</u>	<u>5,080,475</u>
Artisan Chef Program-85% Rebate-Golin	53,153	64,500
California Avocado Grove Tour-85% Rebate-Golin	92,663	90,000
American Summer Holidays-85% Rebate-Golin	90,928	122,000
California Avocado Month-85% Rebate-Golin	57,174	57,000
News Bureau-85% Rebate-Golin	160,143	149,500
Media Tracking & Reporting-85% Rebate-Golin	69,067	69,000
Crisis Readiness-85% Rebate-Golin	9,975	10,000
Nutrition Communication-85% Rebate-Golin	60,339	64,500
Media RD Engagement-85% Rebate-Golin	115,747	108,500
Blog & Social Media Support-85% Rebate-Golin	45,189	46,500
Blogger Ambassadors-85% Rebate-Golin	42,017	38,500
Program Administration Fees-85% Rebate-Golin	65,875	68,000
Program Administration Expenses-85% Rebate-Golin	7,286	7,000
Subtotal Consumer Public Relations	<u>869,556</u>	<u>895,000</u>
Trade Advertising-Media-85% Rebate-Fusion	289,188	290,000
Trade Advertising-Production-85% Rebate-Fusion	34,801	35,000
Subtotal Merchandising Promotions	<u>323,989</u>	<u>325,000</u>
Media-85% Rebate-MMM	99,127	100,000
Production-85% Rebate-MMM	17,934	20,000
Public Relations & Collateral Mat-85% Rebate-MMM	70,759	75,000
Foodservice Events-85% Rebate-MMM	302,572	255,000
Chain Promotions-85% Rebate-MMM	266,900	315,000
Culinary Education Program-85% Rebate-MMM	25,102	25,000
Market Research-85% Rebate-MMM	7,350	10,000
Program Administration Fees-85% Rebate-MMM	56,500	45,000
Program Administration Expenses-85% Rebate-MMM	8,075	9,000
Subtotal Foodservice	<u>854,319</u>	<u>854,000</u>
Total Marketing	<u>5,922,348</u>	<u>7,154,475</u>
Total Program Expenses	<u><u>\$ 5,922,348</u></u>	<u><u>\$ 7,154,475</u></u>



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

Board of Directors
California Avocado Commission
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Avocado Commission (Commission), as of and for the year ended October 31, 2016, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements, and have issued our report thereon dated January 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission’s 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 financial statements 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 the Commission's financial statements are 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 determination of financial statement amounts. 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 the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Newport Beach, California
January 25, 2017



Industry Statistics

10 YEAR INDUSTRY STATISTICAL DATA FROM 2006/07 THROUGH 2015/16

YEAR	BEARING ACRES	VOLUME (MM/LBS.)	CROP VALUE (\$)	PRICE PER POUND (¢)	DOLLARS PER BEARING ACRE (\$)	POUNDS PER BEARING ACRE
06/07	64,999	259.3	\$244,911,167	94.45	\$3,768	3,989
07/08	65,497	328.8	\$327,141,689	99.50	\$4,995	5,020
08/09	64,555	174.5	\$199,625,988	114.40	\$3,092	2,703
09/10	58,268	534.5	\$402,770,893	75.35	\$6,912	9,173
10/11	57,532	302.5	\$460,209,682	152.10	\$7,999	5,258
11/12	59,629	462.3	\$381,852,467	82.60	\$6,404	7,753
12/13	57,838	500.2	\$435,023,142	87.00	\$7,521	8,648
13/14	57,219	297.5	\$333,216,563	112.00	\$5,823	5,199
14/15	51,478	279.0	\$303,160,400	108.60	\$5,889	5,420
15/16	51,902	401.4	\$412,332,493	102.70	\$7,944	7,733

FOOTNOTES: Bearing acres based on CAC's acreage inventory, attrition factors and other sources.

Industry statistical data from 1971/72 through 2015/16 are available on CaliforniaAvocadoGrowers.com/Industry/Industry-statistical-data

CALIFORNIA AVOCADO COMMISSION POUNDS & DOLLARS BY VARIETY NOVEMBER 2015 THROUGH OCTOBER 2016

MONTH	HASS POUNDS	LAMB POUNDS	OTHERS POUNDS	TOTAL POUNDS	HASS DOLLARS	LAMB DOLLARS	OTHERS DOLLARS	TOTAL DOLLARS	AVG \$/LB
1st QTR	5,736,325	2,340	878,068	6,616,733	4,275,238	4,250	387,763	4,667,251	0.705
2nd QTR	111,916,196	863	909,767	112,826,799	74,531,420	491	229,586	74,761,497	0.663
3rd QTR	221,784,053	10,764,796	389,784	232,938,633	248,205,839	16,399,575	321,458	264,926,872	1.137
4th QTR	46,828,470	1,633,777	553,106	49,015,353	64,699,445	2,707,347	570,081	67,976,873	1.387
Y-T-D (%)	96.23%	3.09%	.68%	100.00%	95.00%	4.64%	.37%	100.00%	
Y-T-D AVG \$/LB					1.014	1.541	0.553	1.027	
GRAND TOTAL	386,265,017	12,401,776	2,730,725	401,397,518	391,711,942	19,111,663	1,508,888	412,332,493	1.027

TOTAL U.S. VOLUME AND CALIFORNIA PRICE PER POUND 2006/07 to 2015/16

YEAR	CA VOLUME (MM/LBS.)	TOTAL US VOLUME (MM/LBS.)	CA AVERAGE PRICE PER POUND (¢)
06/07	259.3	1,055	94.45
07/08	328.8	1,065	99.50
08/09	174.5	1,145	114.40
09/10	534.5	1,350	75.35
10/11	302.5	1,227	152.10
11/12	462.3	1,589	82.60
12/13	500.2	1,684	87.00
13/14	297.5	1,941	112.00
14/15	279.0	2,184	108.60
15/16	401.4	2,348	102.70



2016 ANNUAL REPORT

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