

# CALIFORNIA AVOCADO COMMISSION



## 2019 ANNUAL REPORT



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## CHAIRMAN'S LETTER

This year, we celebrated the 40<sup>th</sup> anniversary of the California Avocado Commission. In the early years, the Commission focused its attention and resources on marketing and building the brand. But as it gained momentum, the Commission broadened its mission. During the 1983-1984 season, it launched the Avocado Marketing Research Information Center (AMRIC) and placed demand data into the hands of the marketing team and our growers — a critical first step in our efforts to secure premium pricing and optimize distribution. That same year the Commission established a vast support network for growers, under the leadership of a newly established vice president for industry affairs, and expanded its legislative and trade advocacy, production research and communications programs.

These programs have been invaluable as we've faced innumerable challenges — be it labor shortages, rising water rates and declining supplies, wildfires, drought, pests, disease, changes in legislation or limits placed on access to foreign markets. Through it all, the Commission has represented our best interests, challenged the status quo, considered the broader implications of legislation on our industry and pressed for collaborative solutions to ensure we can grow the highest quality fruit in a sustainable manner.

This year, as Congress wrestled with the passage of the Farm Bill, the Commission took every opportunity to impress upon congressional members the importance of Farm Bill funding and programs to our industry. CAC staff traveled to Washington, D.C. and met with California

congressional members, high-level United States Department of Agriculture (USDA) officials and Senate staff members to discuss immigration and the Farm Bill. CAC also hosted U.S. Secretary of Agriculture Sonny Perdue at Rancho Guejito Avocado Farm to demonstrate industry modernization and to discuss labor concerns, water and trade issues, and the importance of opening foreign markets. When the Farm Bill passed in December 2018, the Commission shared highlights of the bill with growers and noted how it would specifically benefit them.

CAC also advocated strongly for passage of the Farm Workforce Modernization Act to help ensure for agriculture a reliable, legal and skilled workforce. The Act's simplified H2A filing process and its provisions to provide workers with the opportunity to obtain Certified Agriculture



**John Lamb**  
Chairman

*Ken Melban, CAC vice president of industry affairs, and CAC Chairman John Lamb met with Congressman Ken Calvert (center) and other congressional members in Washington, D.C. to discuss the top priorities of California avocado growers.*





*The Commission continued to press for advances in access to Chinese markets and met with Republic of China Ag Attachés while in Washington, D.C.*

Worker visas or green cards are a sensible first step to solving labor and immigration issues faced by the industry.

The Commission also provided commentary on the Central Coast Regional Water Quality Control Board's Ag Order 4.0, seeking an exemption for California avocado growers. Dr. Tim Spann, Commission research program director, highlighted the responsible stewardship of our growers and the low risk of nitrogen discharge from California avocado production.

In light of heightened wildfire risks, the Commission met with Southern California Edison (SCE) representatives to voice concerns about current vegetation management practices and learn more about SCE's Public Safety Power Shutoff (PSPS) protocols. Throughout the season, CAC kept growers apprised of high wind and high wildfire risks, shared PSPS protocols and alerted growers of the likelihood of PSPS events so they could prepare in advance.

With the Food Safety Modernization Act (FSMA) Produce Safety Rule in effect, the mandatory FSMA Produce Safety Alli-

ance training sessions were both expensive and in high demand this year. To alleviate the costs and ensure growers were in compliance, the Commission hosted affordable training sessions in partnership with California avocado handlers.

The Commission also partnered with Land IQ to complete land acreage surveys using digital satellite imagery, aerial photography and analytical tools. The data was compiled into a database that CAC uses to make informed budgeting, forecasting and marketing decisions and a *2018 Statewide Avocado Acreage and Condition Analysis* report was shared on the grower website.

To advance international market opportunities, CAC secured support from congressional members and drafted a letter on their behalf to the USDA encouraging them to make California avocado access to China a priority. CAC staff also visited the People's Republic of China Embassy in Washington, D.C., to discuss market opportunities.

The Commission secured a \$200,000 Market Access Program grant from the USDA's Foreign Agricultural Service to conduct marketing and promotions in South Korea and China. As a result, CAC began export promotions in South Korea and chose INR Communications for in-country representation. Retail promotions resulted in a 51 percent increase in volume and a 72 percent increase in sales. CAC also collaborated with JULIO Restaurant on new recipes, table tents and canvas posters, and hosted cooking classes with Celebrity Chef Min Joo You for influential Instagrammers and bloggers.

This year we advanced opportunities for GEM fruit, successfully advocating for GEM maturity release dates and PLU codes, and holding discussions with University of California regents that led them to rethink their considerations about California's ability to export the fruit.

As part of our grower communica-

tions program, the production research team monitored industry concerns and consolidated research findings into a series of posts on the California avocado growers' website. The articles covered wildfire prevention and recovery, cover crop opportunities, managing floods and heavy rains, mulch myths, the laurel wilt threat, root rot and drought.

The Commission hosted a series of seminars and Pine Tree Ranch field day events for members of the industry including an avocado nutrition and cover crop usage seminar; GEM overview and field tour; presentations by Florida researchers concerning Laurel Wilt Disease; and a Phytophthora Root Rot management session.

To accompany the launch of the California avocado Decision Support Tools online system, the Commission created a series of tutorial videos to guide growers through the process of setting up their profiles and inputting their nutrition management data.

The Commission also took advantage of the opportunity to visit with industry thought leaders from across the globe at the World Avocado Congress held in Medellin, Colombia. Leo McGuire, CAC production research committee chair, and Dr. Tim Spann joined me on this trip, where we viewed the latest vision grading and sorting technologies at a packinghouse, toured mountainside groves and returned with insights gained from a wide range of scientific presentations.

As growers we take stock of the past year in order to prepare for the next. We review our challenges, celebrate our opportunities and utilize the lessons we learned to improve our returns. So as you review our 2018-19 season, I also encourage you to page through our online 40-year timeline. It tells a compelling story. *Our story*. And then, lessons in hand, let's move ahead and build our future.



*California avocado growers and CAC staff treated U.S. Secretary of Agriculture Sonny Perdue to avocado grove tours while discussing pertinent water and labor issues.*

*Commission representatives met industry thought leaders, and toured avocado groves and packinghouses while attending the World Avocado Congress in Medellin, Colombia.*



## PRESIDENT'S LETTER



**Tom Bellamore**  
President

When the California Avocado Commission was established in 1978, optimism ran high — and rightly so — the crop set a new record at \$79.7 million and avocado plantings had increased by 7,000 acres. California avocados were the only game in town because avocados from other origins had not yet been granted access to our shores. And granted the autonomy and freedom to operate promotional programs independent of the State, the Commission endeavored to embed the California Avocado brand into the hearts and homes of America by debuting ads on the pages of ladies' magazines and television screens.

We've come a long way since 1978. Today, California avocados compete for attention on a stage crowded with global competitors, growers are armed with daily market demand data, U.S. annual avocado consumption is in the billions of pounds and digital platforms have transformed marketing opportunities with their ability to reach consumers in virtually any location at any time.

As the landscape around us has shifted these past 40 years, a number of constants have woven themselves into the

fabric of our history. Our commitment to growing the finest avocado on the planet. Our belief in the California Avocado brand. And our ability to prepare for and adapt to change.

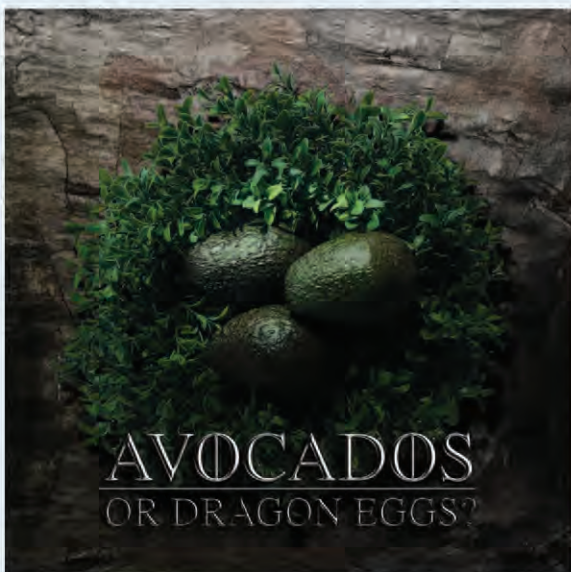
This year, we prepared for a light-volume season — tightening our fiscal belts and carefully outlining a geo-targeted, fiscally responsible integrated marketing program capitalizing on digital tools and campaigns that:

- Placed California branding and relevant, engaging content into the hands of consumers no matter where they are
- Ensured consumers knew where they could find California avocados in a tight crop year
- Produced timely data that allowed CAC to optimize results by adjusting strategies in an efficient and affordable manner

Despite the challenges of a light-volume season, we secured a record-setting average \$1.72 per pound that speaks to the premium character of our fruit, the power of the California Avocado brand and CAC's highly adaptable data-driven marketing strategies that focus on those willing to pay a premium for California avocados and the retailers they frequent.

With a smaller crop on the horizon, the Commission's marketing team had to make tough pre-season decisions about its marketing programs. The team conducted in-depth sales data and research analyses to hone in on which consumers to target and which customers to partner with. CAC opted to extend the highly successful Made of California campaign and optimized expenditures by focusing on California markets utilizing non-traditional — outdoor, audio, digital and social media — platforms to provide consumers with relevant, engaging content at home, on the street, in the store or on the road. Targeted consumer digital ads and custom content on platforms popular with Premium Californians garnered nearly 59 million

*The Commission's Game of Thrones-inspired social media post earned the highest level of engagement of CAC's social posts to date with more than 350,000 impressions, 36,000-plus likes, 800-plus comments and more than 3,000 shares and saves.*





*California Avocado Month - 131 million impressions (double expectations) CAC hosted a launch event for influencers and media at the Little Italy Food Hall showcasing unique California avocado dishes.*

impressions and nearly 27 million video views. Another 18 million impressions and nearly 2 million engagements were secured on CAC's social platforms. By targeting its Spotify ads to music by California artists and playlists for cooking, dinner parties and outdoor lifestyles, the Commission secured 16.6 million impressions.

Capitalizing on targeted consumers' preference for streaming digital video channels, the Commission embarked on a new consumer advertising tactic: placing highly-targeted and affordable California-lifestyle-themed ads within Hulu's premium food genre. These ads, which aired on popular shows including Top Chef, Master

*The Commission captured the attention of its targeted audience - Premium Californians - with ads on Hulu during premium food genre shows such as Chopped and Top Chef.*





*Dzung Lewis joined CAC's Mythbuster program this season, addressing consumers' questions such as how to ripen avocados, how to prevent the fruit from browning and how to cut an avocado safely.*

Chef and Chopped, also provided the Commission with expansive tracking data.

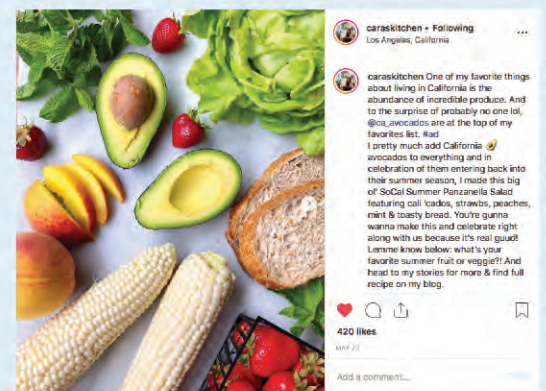
Well-respected blogger and recipe developer Dzung Lewis of Honeysuckle served as guest Mythbuster for the season, addressing avocado-related questions and misconceptions through a series of entertaining blogs and videos that were shared on The Scoop Blog and across the Commission's social media channels. The Mythbuster content garnered more than 1.8 million social media impressions and enticed consumers to spend about 22 percent more time on The Scoop Blog than anywhere else on the consumer website. The blog finished the season with a 12 percent increase in visits and a 128 percent increase in time on the site.

To capitalize on consumers' interest in dietary lifestyle trends and nutritional information, the Commission overhauled the recipe section of CaliforniaAvocado.

com allowing visitors to customize the layout of the page to their individual preferences, showcasing nutritional information and improving recipe categorization.

One thing we can be certain of each year is consumers' penchant for new California avocado recipes. The challenge is providing recipes that resonate with current lifestyle trends, are in sync with consumers' dietary and culinary preferences, and can easily be integrated into daily meals or special occasion menus. To meet that challenge, CAC partnered with eight top-tier blogger advocates who shared creative avocado-centric culinary ideas and recipes that appealed to a variety of lifestyles, including gluten free, vegan and paleo. Liz Shaw and Manuel Villacorta, high-profile Registered Dietitian Nutritionists, discussed the benefits of in-season eating, ideas for integrating California avocados into a healthy lifestyle and meal planning entertainment tips. Overall, CAC's integrated consumer public relations campaigns — including media events, press releases, social posts, artisanal chef and blogger advocate partnerships, blog posts and videos — secured 799 million impressions.

Alignment between growers, handlers and the Commission is especially critical in a tight crop year. Working to-



*CAC partnered with 10 influential bloggers who crafted California avocado recipes and then shared them with compelling photos and narratives on social media.*





## Board of Directors

### District 1

Member/Jessica Hunter-**Secretary**  
Member/ Ryan Rochefort  
Alternate/Michael Perricone

### District 2

Member/Charley Wolk  
Member/Ohannes Karaoghlanian-**Vice Chair**  
Alternate/Bob Schaar

### District 3

Member/John Lamb-**Chairman**  
Member/Robert Grether-**Treasurer**  
Alternate/John Lloyd-Butler

### District 4

Member/Ed McFadden  
Member/Jason Cole  
Alternate/Bryce Bannatyne Jr.

### District 5

Member/Salvador Dominguez  
Member/Tyler Cobb  
Alternate/Randy Douglas

### Handlers

Member/Gary Caloroso  
Member/Peter Shore  
Alternate/Neil Witt

### Public Member

Daniella Malfitano

To contact a CAC representative, please visit:  
[CaliforniaAvocadoGrowers.com/Commission/your-representatives](http://CaliforniaAvocadoGrowers.com/Commission/your-representatives)

gether with AMRIC avocado handlers, the Commission's marketing team reviewed pre-season avocado forecasts, confirmed distribution targets and selected foodservice and retail accounts that could provide growers with the most value. Robust communication between the Commission, handlers, growers and customers throughout the season ensured growers had the flexibility to harvest on a timetable in sync with their own situations, an orderly supply of fruit was available to the market, and customers transitioned to California avocados at optimal times.

With fewer California avocados available, it was more important than ever to be certain consumers knew where they could find their favorite fruit. In partnership with its' select tiered accounts, the Commission crafted location-based, personalized ads for targeted consumers with calls-to-action about purchasing the fruit in season and used geo-targeted ads on Facebook and Twitter. Digital retail ads using location data earned more than 33 million impressions and nearly 8 million impressions were secured using hyper-targeted social ads for each retailer.

To ensure customers and trade media could find the information they needed for promotional purposes, the Commission redesigned the trade/media and foodservice portion of CaliforniaAvocado.com making it easier to access CAC-created resources, obtain nutritional information and view press releases and new recipes.

We also expanded partnerships with carefully chosen retailers, seizing on opportunities to "move beyond" point-of-sale. As host of the Albertsons-Vons-Pavilions LOCAL Influencer Grove Tour, we took advantage of the picturesque groves and avocado-centric luncheon to help the retailer team capture photos, shoot videos and generate content about the California avocado growing process, nutrition and recipes. Influential blogger Brandon Matzke helped expand the reach of the



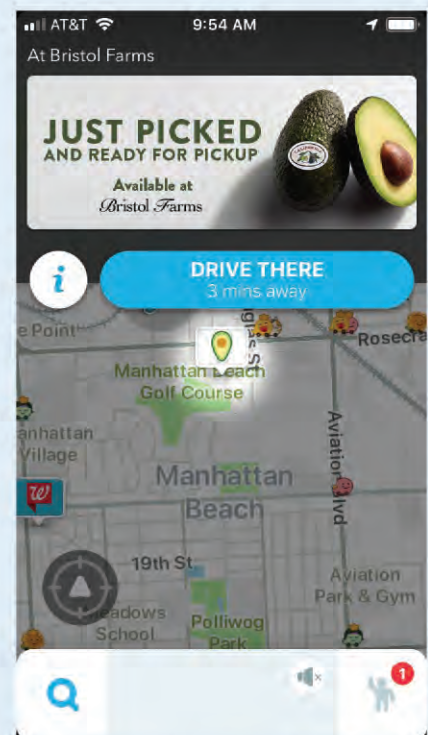
*The Commission's YouTube channel reported a 129 percent increase in views and 37 percent increase in subscribers with five new California avocado grower videos and fresh Mythbusters and influencer video content.*

retailer's buy LOCAL campaign by sharing his tour experiences with fans across his social media channels. And we inspired Gelson's to think-outside-of-the-box by providing them with a means of expanding avocado sales beyond the produce section —unique California avocado menu items they could prepare onsite and offer in the chain's deli and catering sectors. Insights from this partnership will be used to develop similar relationships with other retailers capable of meeting consumer demand for convenient, restaurant quality meals they can pick up at the grocers.

As we progressed through the season, it became clear volume was greater than expected and we had a robust late season crop on our hands. The Commission Board quickly took action — approving a budget amendment to extend the season's marketing program with posts on social media, streaming video, digital and audio channels. We also launched a first-time GPS-driven digital campaign on Waze. When a driver was in close proximity to a retailer selling California avocados, an avocado icon popped up on Waze, calculated drive time and shared directions to the store. The campaign rounded out the season with an additional 12.6 million impressions, about 84,000 clicks and nearly 32,700 Waze users who drove to a retail location after seeing the California avocado icon.

Pop-up icons pointing the way to in-store California avocados via devices you hold in the palm of your hand? Yes, we have come a long way since 1978.

CAC Chairman Crawford Teague noted after the Commission's first successful year, "...the future looks bright indeed." Forty years later, I would posit, our future appears even brighter. We produce the finest piece of fruit on earth. The power of the California Avocado brand commands premium prices and a discerning consumer base willing to pay it. Our top-tier partners make every effort to align their programs with ours. And through careful planning — and armed with a highly adaptable, data-driven digital marketing toolbox — we can adapt to challenges and embrace new opportunities as they are presented to us. The future is bright, indeed.



*Thanks to quick action by the Board, the Commission was able to extend the season's marketing program and launch GPS-driven ads on Waze that led to nearly 33,000 Waze users visiting a retailer after seeing a California avocado ad.*

**CALIFORNIA AVOCADO COMMISSION**

Annual Financial Report  
and Independent Auditor's Report

For the Years Ended October 31, 2019 and 2018



Certified  
Public  
Accountants

# 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, 2019 and 2018, 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, 2019 and 2018, and the 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.

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

### *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 31, 2020, 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 solely 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 the effectiveness of the Commission's 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 31, 2020

**CALIFORNIA AVOCADO COMMISSION**  
**Management's Discussion and Analysis**  
**For the Years Ended October 31, 2019 and 2018**  
**(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, 2019 and 2018. 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 2019 assets exceeded its liabilities as of October 31, 2019 by \$13,983,788 (total net position). This amount increased \$1,764,460 or 14% from the prior year amount of \$12,219,328.
- Of the total net position at the end of fiscal year 2019, net investment in capital assets decreased \$51,479 to \$184,314 or 22% from the prior year amount of \$235,793.
- Net position restricted for marketing at the end of fiscal year 2019 increased \$1,136,270 to \$4,327,047 or 36% from the prior year amount of \$3,190,777.
- Unrestricted net position at the end of fiscal year 2019 increased \$679,669 to \$9,472,427 or 8% from the prior year amount of \$8,792,758. This amount made up 68% of total net position.
- The Commission's 2018 assets exceeded its liabilities as of October 31, 2018 by \$12,219,328 (total net position). This amount increased \$1,102,554 or 10% from the prior year amount of \$11,116,774.
- Of the total net position at the end of fiscal year 2018, net investment in capital assets increased \$155,774 to \$235,793 or 195% from the prior year amount of \$80,019.
- Net position restricted for marketing at the end of fiscal year 2018 decreased \$116,880 to \$3,190,777 or 4% from the prior year amount of \$3,307,657
- Unrestricted net position at the end of fiscal year 2018 increased \$1,063,660 to \$8,792,758 or 14% from the prior year amount of \$7,729,098. This amount made up 72% 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 basic 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.



**CALIFORNIA AVOCADO COMMISSION**  
**Management's Discussion and Analysis**  
**For the Years Ended October 31, 2019 and 2018**  
**(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). Also included in the financial statements is the Independent Auditor's Report in accordance with Government Auditing Standards.

**FINANCIAL ANALYSIS**

Comparative data for the prior year ended October 31, 2018, has been presented in the accompanying financial statements (including MD&A) to facilitate financial analysis for the current year ended October 31, 2019. A comparative analysis of fiscal year 2018 with fiscal year 2017 is also presented in the MD&A.

**STATEMENTS OF NET POSITION:**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$15,769,842	\$14,047,999	\$13,155,432
Capital assets, net	184,314	235,793	80,019
<b>Total assets</b>	<u>15,954,156</u>	<u>14,283,792</u>	<u>13,235,451</u>
Current liabilities	1,959,923	1,991,645	2,047,856
Noncurrent liabilities	10,445	72,819	70,821
<b>Total liabilities</b>	<u>1,970,368</u>	<u>2,064,464</u>	<u>2,118,677</u>
Net position:			
Net investment in capital assets	184,314	235,793	80,019
Restricted for marketing	4,327,047	3,190,777	3,307,657
Unrestricted	9,472,427	8,792,758	7,729,098
<b>Total net position</b>	<u><u>\$13,983,788</u></u>	<u><u>\$12,219,328</u></u>	<u><u>\$11,116,774</u></u>

**CALIFORNIA AVOCADO COMMISSION**  
**Management's Discussion and Analysis**  
**For the Years Ended October 31, 2019 and 2018**  
**(Unaudited)**

As noted earlier, net position may serve over time as a useful indicator of the Commission's financial position. The largest portion (99%) of the Commission's assets are current assets consisting primarily of cash and cash equivalents, restricted cash, receivables and fiduciary cash amounts held for the Avocado Inspection Program (AIP). Current assets at the end of fiscal year 2019 totaled \$15,769,842, increasing \$1,721,843 from the prior year amount of \$14,047,999. This increase is primarily due to higher total production value along with decreased activities in marketing programs which is reflected in the increased cash balance. Total current assets cover current liabilities 8.0 times, indicating good liquidity.

At the end of fiscal year 2018, the largest portion (98%) of the Commission's assets were current assets consisting primarily of cash and cash equivalents, restricted cash, receivables and fiduciary cash amounts held for the Avocado Inspection Program (AIP). Current assets at the end of fiscal year 2018 totaled \$14,047,999, increasing \$892,567 from the prior year amount of \$13,155,432. This increase was primarily due to higher total production volume which is reflected in the increased cash and assessment receivable balance. Total current assets cover current liabilities 7.1 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 2019 totaled \$1,970,368 decreasing from a balance of \$2,064,464 in 2018. This decrease was due to lower marketing and non-marketing obligations owed to vendors. Liabilities at the end of fiscal year 2018 totaled \$2,064,464 decreasing from a balance of \$2,118,677 in 2017. This decrease was due to lower marketing and non-marketing 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 investment in capital assets totaled \$184,314 at the end of fiscal year 2019, decreasing \$51,479 from the prior year amount of \$235,793. This decrease is due to the depreciation of capital assets. Net investment in capital assets represents 1% of total net position.

At the end of fiscal year 2018, net investment in capital assets totaled \$235,793, increasing \$155,774 from the prior year amount of \$80,019. This increase is due to the acquisition of capital assets. Net investment in capital assets represents 2% 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 \$4,327,047 at the end of 2019, increasing \$1,136,270 from the prior year amount of \$3,190,777, and decreasing \$116,880 from 2017. Restricted net position represents 31% of total net position.

Unrestricted net position available for future activities at the end of fiscal year 2019 totaled \$9,472,427, increasing \$679,669 from the prior year amount of \$8,792,758. Unrestricted net position available for future activities at the end of fiscal year 2018 totaled \$8,792,758, increasing \$1,063,660 from the prior year amount of \$7,729,098.

**CALIFORNIA AVOCADO COMMISSION**  
**Management's Discussion and Analysis**  
**For the Years Ended October 31, 2019 and 2018**  
**(Unaudited)**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION:**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$12,561,835	\$15,107,394	\$12,161,600
Operating expenses	11,160,339	14,390,030	12,193,171
Operating income (loss)	<u>1,401,496</u>	<u>717,364</u>	<u>(31,571)</u>
Nonoperating revenues	362,964	385,190	514,013
Change in net position	<u>1,764,460</u>	<u>1,102,554</u>	<u>482,442</u>
Net position – beginning of year	12,219,328	11,116,774	10,634,332
Net position – end of year	<u><b>\$13,983,788</b></u>	<u><b>\$12,219,328</b></u>	<u><b>\$11,116,774</b></u>

Operating revenues totaled \$12,561,835 in 2019, decreasing \$2,545,559 or 17% from \$15,107,394 earned in 2018. This decrease is due to a decrease in assessment revenue received due to a smaller total crop volume; 220 million pounds were reported in 2019 as compared to 338 million pounds in 2018. The majority of operating revenue consisted of assessment revenue, totaling \$12,500,839 (99%). The remaining portion of \$60,996 (0.5%) was from administrative fees generated from AIP.

Operating revenues totaled \$15,107,394 in 2018, increasing \$2,945,794 or 24% from \$12,161,600 earned in 2017. This increase is due to an increase in assessment revenue received due to a larger total crop volume; 338 million pounds were reported in 2018 as compared to 216 million pounds in 2017. The majority of operating revenue consisted of assessment revenue, totaling \$15,046,395 (99%). The remaining portion of \$61,000 (0.4%) was from administrative fees generated from AIP.

Operating expenses totaled \$11,160,339 in 2019, decreasing \$3,229,691 or 22% from \$14,390,030 in 2018. This decrease is primarily due to decreased activities in marketing programs as a result of smaller total crop volume in 2019. Operating expenses totaled \$14,390,030 in 2018, increasing \$2,196,859 or 18% from \$12,193,171 in 2017. This increase is primarily due to increased activities in marketing programs in 2018.

At the end of the fiscal year 2019, the Commission reported an ending net position of \$13,983,788, an increase of \$1,764,460 from the prior year amount of \$12,219,328. This is primarily due to a decrease in marketing expenses as a result of a small total crop volume in 2019.

At the end of the fiscal year 2018, the Commission reported an ending net position of \$12,219,328, an increase of \$1,102,554 from the prior year amount of \$11,116,774. This is primarily due to an increase in assessment revenue received due to a larger total crop volume.

**CALIFORNIA AVOCADO COMMISSION**  
**Management's Discussion and Analysis**  
**For the Years Ended October 31, 2019 and 2018**  
**(Unaudited)**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The Commission's net investment in capital assets totaled \$184,314 as of October 31, 2019, decreasing \$51,479 from the prior year amount of \$235,793, and increasing \$104,295 from \$80,019 in 2017 (net of accumulated depreciation). This decrease in current year represents the depreciation of capital assets during the fiscal year. The increase in the prior year represents the acquisition of capital assets during the fiscal year.

**COMPENSATED ABSENCES**

At the end of fiscal year 2019, the Commission accumulated an accrued compensated absences balance of \$172,960; a decrease of \$25,888 from the prior year balance of \$198,848. This decrease is due to vacation time being utilized by employees and also accrued vacation time being paid out to a terminated employee.

At the end of fiscal year 2018, the Commission accumulated an accrued compensated absences balance of \$198,848, an increase of \$18,073 from the prior year balance of \$180,775. This increase is due to unused vacation time by employees.

**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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Current assets:</b>		
Cash and cash equivalents	9,978,475	\$ 9,148,103
Assessments receivable	112,506	303,509
Other receivables	171,923	140,840
Prepaid expenses	142,908	61,033
Fiduciary cash and cash equivalents, amounts held for AIP	795,510	827,085
Restricted:		
Cash and cash equivalents	4,296,269	3,031,587
Assessments receivable	272,251	535,842
Total current assets	<u>15,769,842</u>	<u>14,047,999</u>
<b>Noncurrent assets:</b>		
Capital assets being depreciated, net	184,314	235,793
Total assets	<u>15,954,156</u>	<u>14,283,792</u>
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	742,425	643,879
Accounts payable and accrued liabilities, payable from restricted assets	241,473	376,652
Fiduciary liabilities, amounts held for AIP	795,510	827,085
Deposits	18,000	18,000
Compensated absences, due within one year	162,515	126,029
Total current liabilities	<u>1,959,923</u>	<u>1,991,645</u>
<b>Noncurrent liabilities:</b>		
Compensated absences, due in more than one year	10,445	72,819
Total noncurrent liabilities	<u>10,445</u>	<u>72,819</u>
Total liabilities	<u>1,970,368</u>	<u>2,064,464</u>
<b>Net position:</b>		
Net investment in capital assets	184,314	235,793
Restricted for marketing	4,327,047	3,190,777
Unrestricted	9,472,427	8,792,758
Net position	<u>\$ 13,983,788</u>	<u>\$ 12,219,328</u>

See accompanying notes to basic financial statements.

**CALIFORNIA AVOCADO COMMISSION**  
 Statements of Revenues, Expenses and Changes in Net Position  
 For the Years Ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Operating revenues:</b>		
Assessment revenue	\$ 8,364,916	\$ 8,660,863
HAB rebate assessment revenue (restricted)	4,135,923	6,385,531
Administrative and marketing fees	60,996	61,000
Total operating revenues	<u>12,561,835</u>	<u>15,107,394</u>
<b>Operating expenses:</b>		
Marketing	6,731,188	9,612,755
Nonmarketing programs	1,022,239	1,550,413
Administration	3,406,912	3,226,862
Total operating expenses	<u>11,160,339</u>	<u>14,390,030</u>
Operating income	<u>1,401,496</u>	<u>717,364</u>
<b>Nonoperating revenues:</b>		
Interest income	31,380	26,864
Grant income	135,174	255,063
Other income	196,410	103,263
Total nonoperating revenues	<u>362,964</u>	<u>385,190</u>
Change in net position	1,764,460	1,102,554
Net position, beginning of year	<u>12,219,328</u>	<u>11,116,774</u>
Net position, end of year	<u>\$ 13,983,788</u>	<u>\$ 12,219,328</u>

See accompanying notes to basic financial statements.

**CALIFORNIA AVOCADO COMMISSION**  
 Statements of Cash Flows  
 For the Years Ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 12,953,772	\$ 14,345,688
Cash payments to suppliers for goods and services	(8,558,897)	(11,893,302)
Cash payments to employees for services	(2,694,359)	(2,541,829)
Net cash provided by (used for) operating activities	<u>1,700,516</u>	<u>(89,443)</u>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from grants	135,174	255,064
Other income	196,410	103,263
Net cash provided by non-capital financing activities	<u>331,584</u>	<u>358,327</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchases of capital assets	-	(176,766)
Net cash used by capital and related financing activities	<u>-</u>	<u>(176,766)</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	31,380	26,864
Net increase in cash and cash equivalents	2,063,479	118,982
Cash and cash equivalents, beginning of year	13,006,775	12,887,793
Cash and cash equivalents, end of year	<u>\$ 15,070,254</u>	<u>\$ 13,006,775</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 1,401,496	\$ 717,364
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>		
Depreciation expense	51,478	20,991
Changes in assets and liabilities:		
(Increase) decrease in assessments receivable	454,594	(790,232)
(Increase) decrease in other receivables	(31,083)	17,927
(Increase) decrease in prepaid expenses	(81,875)	(1,280)
Increase (decrease) in accounts payable and accrued liabilities	(36,633)	(82,885)
Increase (decrease) in fiduciary liabilities	(31,575)	10,599
Increase (decrease) in compensated absences	(25,886)	18,073
Net cash provided by (used for) operating activities	<u>\$ 1,700,516</u>	<u>\$ (89,443)</u>

See accompanying notes to basic financial statements.



## CALIFORNIA AVOCADO COMMISSION

Notes to Basic Financial Statements

October 31, 2019 and 2018

### (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 grown 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, 2019 and 2018, 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.

The Commission's Board of Directors is composed of no fewer than eight and no more than ten producer members who do not handle avocados through the same legal entity under which they were elected as a producer member of the Commission, two handler members and one public member.

#### (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, 2019 and 2018

(c) ***Assets, Liabilities, 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, 2019 and 2018. 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, 2019 and 2018

**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, 2019 and 2018, the Commission had net investment in capital assets in the amounts of \$184,314 and \$235,793, respectively. There was no outstanding debt related to capital assets at October 31, 2019 and 2018.

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, 2019 and 2018, the Commission had restricted net position in the amounts of \$4,327,047 and \$3,190,777, 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, 2019 and 2018

**(2) DETAILED NOTES ON ASSETS AND LIABILITIES**

**(a) Cash and Cash Equivalents**

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

	<u>2019</u>	<u>2018</u>
Petty cash	\$ 200	\$ 200
Demand deposits	15,059,906	12,996,692
Local Agency Investment Fund	<u>10,148</u>	<u>9,883</u>
Total cash and cash equivalents	<u>\$ 15,070,254</u>	<u>\$ 13,006,775</u>

***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 Commission considers its investments in the LAIF pool to be a demand deposit account (cash and cash equivalent) where funds may be withdrawn and deposited at any time without prior notice or penalty.

The total amount invested by all public agencies in LAIF as of October 31, 2019, was \$24.8 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at October 31, 2019, had a balance of \$91.4 billion. Of that amount, 2.26% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 203 days as of October 31, 2019.

The total amount invested by all public agencies in LAIF as of October 31, 2018, was \$20.2 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at October 31, 2018, had a balance of \$84.7 billion. Of that amount, 2.42% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 201 days as of October 31, 2018.

***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).

**CALIFORNIA AVOCADO COMMISSION**  
Notes to Basic Financial Statements (Continued)  
October 31, 2019 and 2018

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 Commission 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.

***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	30%	None
Banker's Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	10%
Corporate Bonds and Notes	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65 million

**CALIFORNIA AVOCADO COMMISSION**  
Notes to Basic Financial Statements (Continued)  
October 31, 2019 and 2018

***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:

<b>Investment Type</b>	<b>Remaining Maturity 12 Months or Less</b>	
	<b>2019</b>	<b>2018</b>
Local Agency Investment Fund	\$ 10,148	\$ 9,883

***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, 2019 and 2018.

***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. At October 31, 2019, the bank balance of the deposit was \$15,140,619. \$500,000 of the bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$14,640,619 was collateralized at 100% of the total amount deposited by the Commission in accordance with the federal regulation under US Department of Agriculture.

**CALIFORNIA AVOCADO COMMISSION**  
Notes to Basic Financial Statements (Continued)  
October 31, 2019 and 2018

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).

**(b) Capital Assets**

	<b>November 1, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>October 31, 2019</b>
<b>Capital assets, being depreciated:</b>				
Furniture	\$ 187,904	\$ -	\$ -	\$ 187,904
Office equipment	61,002	-	-	61,002
Software	15,022	-	-	15,022
Land improvements	108,559	-	-	108,559
Total capital assets, being depreciated	<u>372,487</u>	<u>-</u>	<u>-</u>	<u>372,487</u>
<b>Less accumulated depreciation for:</b>				
Furniture	28,856	32,349	-	61,205
Office equipment	61,002	-	-	61,002
Software	4,173	5,007	-	9,180
Land improvements	42,663	14,123	-	56,786
Total accumulated depreciation	<u>136,694</u>	<u>51,479</u>	<u>-</u>	<u>188,173</u>
Capital assets, net of depreciation	<u>\$ 235,793</u>	<u>\$ (51,479)</u>	<u>\$ -</u>	<u>\$ 184,314</u>
	<b>November 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>October 31, 2018</b>
<b>Capital assets, being depreciated:</b>				
Furniture	\$ 26,160	\$ 161,744	\$ -	\$ 187,904
Office equipment	61,002	-	-	61,002
Software	-	15,022	-	15,022
Land improvements	108,559	-	-	108,559
Total capital assets, being depreciated	<u>195,721</u>	<u>176,766</u>	<u>-</u>	<u>372,487</u>
<b>Less accumulated depreciation for:</b>				
Furniture	26,160	2,696	-	28,856
Office equipment	61,002	-	-	61,002
Software	-	4,173	-	4,173
Land improvements	28,541	14,122	-	42,663
Total accumulated depreciation	<u>115,703</u>	<u>20,991</u>	<u>-</u>	<u>136,694</u>
Capital assets, net of depreciation	<u>\$ 80,018</u>	<u>\$ 155,775</u>	<u>\$ -</u>	<u>\$ 235,793</u>

Depreciation expense was \$51,479 and \$20,991 for the years ended October 31, 2019 and 2018, respectively.

**CALIFORNIA AVOCADO COMMISSION**  
Notes to Basic Financial Statements (Continued)  
October 31, 2019 and 2018

(c) *Long-term Liabilities*

	<u>November 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>October 31, 2019</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 198,848	\$ 136,627	\$ (162,515)	\$ 172,960	\$ 162,515

	<u>November 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>October 31, 2018</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 180,775	\$ 144,102	\$ (126,029)	\$ 198,848	\$ 126,029

(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, 2019 and 2018, \$795,510 and \$827,085, 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 28, 2021, under the same terms as the original agreement. At October 31, 2019 and 2018, 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 Fireman's Fund Insurance – General aggregate coverage of \$2,000,000 and \$1,000,000 for each occurrence.

*Automobile Liability* - insured by Fireman's Fund Insurance – 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, 2019 and 2018

*Umbrella Liability* - insured by American Insurance Company – 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 aggregate limit.

*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 Federal Insurance Company – Coverage is \$1,000,000 aggregate limit, with a \$5,000 retention.

*Fiduciary Liability* - insured by Lloyds of London – Coverage is \$1,000,000 each claim and in aggregate, subject to a \$2,500 deductible.

*Media Content/Network Security and Privacy* - insured by Lloyds of London – Coverage is \$1,000,000 each claim and in aggregate, 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.

*International Business Auto* - insured by Fireman’s Fund Insurance – Coverage is \$1,000,000 hired or non-owned auto liability and \$10,000 medical payment each person/accident.

*International Foreign Voluntary Workers’ Compensation and Employer Liability* – insured by Fireman’s Fund Insurance Company – Coverage is \$1,000,000 per occurrence

*Workers’ Compensation Coverage* – insured by Hartford Casualty Insurance Company – 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 2019.

**(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 twelve employees eligible to participate in the PSP for the plan year ended October 31, 2019, was \$1,986,814. Total payroll for the thirteen employees eligible to participate in the PSP for the plan year ended October 31, 2018, was \$1,856,977. Total contributions for the years ended October 31, 2019 and 2018 were \$215,766 and \$195,698, respectively.

**CALIFORNIA AVOCADO COMMISSION**  
Notes to Basic Financial Statements (Continued)  
October 31, 2019 and 2018

The Commission may make annual, discretionary contributions, as determined by the President, to the PSP. With a few exceptions, each eligible employee received an allocation of 10% of compensation, up to a maximum of \$56,000 and \$55,000, for each of the plan years ended October 31, 2019 and 2018, respectively. 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 to November 30, 2025. During the years ended October 31, 2019 and 2018, the Commission paid \$74,836 and \$72,733, 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 ended on October 1, 2014, which was extended to December 31, 2019, with quarterly payments due at the end of each quarter of \$275. Quarterly payments began January 1, 2012. During the years ended October 31, 2019 and 2018, the Commission paid \$948 and \$956, 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 ended on January 31, 2018, with monthly payments of \$441 beginning February 1, 2015. The original lease was terminated as of August 31, 2017. On September 1, 2017, the Commission entered into an agreement to lease two new printers under a three-year lease agreement ending on August 31, 2020, with monthly payments of \$575. During the years ended October 31, 2019 and 2018, the Commission paid \$7,434 and \$6,959, respectively, including tax, for this lease.

On October 19, 2016, the Commission entered into an agreement to lease a printer under a three-year lease agreement ending on November 30, 2019, with monthly payments of \$499 beginning December 1, 2016. During the years ended October 31, 2019 and 2018, the Commission paid \$6,787 and \$6,819 including tax, for this lease.

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, 2019 and 2018, the Commission paid \$22,104 and \$21,400 for rent, respectively, including rent paid for a garage on the property for \$100 a month.

On January 1, 2019, the Commission entered into an agreement for security alarm services under a three-year lease agreement ending on November 31, 2021, with monthly payments of \$195 beginning January 9, 2019. During the year ended October 31, 2019, the Commission paid \$3,308, including service charges, for this lease.

**CALIFORNIA AVOCADO COMMISSION**  
Notes to Basic Financial Statements (Continued)  
October 31, 2019 and 2018

The annual requirements to amortize the operating lease obligations as of October 31, 2019, are as follows:

<u>Year Ending October 31,</u>	<u>Office Spaces</u>	<u>Printers</u>	<u>Postage Machine</u>	<u>Alarm System</u>	<u>Pine Tree Ranch</u>	<u>Total</u>
2020	\$ 105,857	\$ 6,756	\$ 196	\$ 3,129	\$ 22,836	\$ 138,774
2021	118,301	-	-	3,129	23,600	145,030
2022	122,390	-	-	-	24,384	146,774
2023	125,895	-	-	-	16,608	142,503
2024	130,043	-	-	-	-	130,043
Total	<u>\$ 602,486</u>	<u>\$ 6,756</u>	<u>\$ 196</u>	<u>\$ 6,258</u>	<u>\$ 87,428</u>	<u>\$ 703,124</u>

**SUPPLEMENTARY INFORMATION**

**CALIFORNIA AVOCADO COMMISSION**  
 Budgetary Comparison Schedule  
 For the Year Ended October 31, 2019  
 (with comparative actual totals for the year ended October 31, 2018)

	<b>2019</b>			<b>Variance Positive (Negative)</b>	<b>2018 Actual</b>
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>		
<b>Revenues:</b>					
Assessment revenue	\$ 4,305,600	\$ 4,305,600	\$ 8,364,916	\$ 4,059,316	\$ 8,660,863
HAB rebate assessment revenue (restricted)	3,162,000	3,162,000	4,135,923	973,923	6,385,531
Administrative and accounting fees	61,000	61,000	60,996	(4)	61,000
Interest income	15,000	15,000	31,380	16,380	26,864
Grant revenue	53,648	53,648	135,174	81,526	255,063
Other income	94,000	94,000	196,410	102,410	103,263
Total revenues	<u>7,691,248</u>	<u>7,691,248</u>	<u>12,924,799</u>	<u>5,233,551</u>	<u>15,492,584</u>
<b>Expenses:</b>					
Marketing:					
Consumer marketing	3,631,996	3,931,996	3,870,353	61,643	5,647,828
Merchandising	1,500,845	1,500,845	1,395,505	105,340	1,793,335
Foodservice	650,000	650,000	622,529	27,471	831,868
Consumer public relations	680,000	680,000	649,753	30,247	1,139,745
Consumer registered dietitian nutritionist program	103,750	103,750	98,906	4,844	122,464
Marketing activities support	102,345	102,345	94,142	8,203	77,515
Total marketing	<u>6,668,936</u>	<u>6,968,936</u>	<u>6,731,188</u>	<u>237,748</u>	<u>9,612,755</u>
Non-marketing programs:					
Industry affairs	997,110	997,110	692,622	304,488	828,263
Production research	227,483	227,483	184,443	43,040	464,158
Grant expenses	53,648	253,648	145,174	108,474	257,992
Total non-marketing programs	<u>1,278,241</u>	<u>1,478,241</u>	<u>1,022,239</u>	<u>456,002</u>	<u>1,550,413</u>
Administration:					
Administration	3,346,317	3,355,517	3,261,309	94,208	3,113,533
Information systems	105,266	105,266	94,124	11,142	92,338
Depreciation	42,840	42,840	51,479	(8,639)	20,991
Total administration	<u>3,494,423</u>	<u>3,503,623</u>	<u>3,406,912</u>	<u>96,711</u>	<u>3,226,862</u>
Total expenses	<u>11,441,600</u>	<u>11,950,800</u>	<u>11,160,339</u>	<u>790,461</u>	<u>14,390,030</u>
Change in net position	(3,750,352)	(4,259,552)	1,764,460	6,024,012	1,102,554
Net position, beginning of year	12,219,328	12,219,328	12,219,328	-	11,116,774
Net position, ending of year	<u>\$ 8,468,976</u>	<u>\$ 7,959,776</u>	<u>\$ 13,983,788</u>	<u>\$ 6,024,012</u>	<u>\$ 12,219,328</u>

See accompanying note to supplementary information.

**CALIFORNIA AVOCADO COMMISSION**

Note to Supplementary Information

October 31, 2019 and 2018

**(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 VP of Finance and Administration of the Commission to review each line item. The overall combined budget is prepared by the President and VP of Finance and Administration of the Commission and presented to the Board of Directors. Line item transfers do not need Board of Directors approval. Any increases 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, 2019

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
<b>Operating revenues:</b>			
Assessment revenue	\$ -	\$ 8,364,916	\$ 8,364,916
HAB rebate assessment revenue (restricted)	4,135,923	-	4,135,923
Administrative and accounting fees	-	60,996	60,996
Total operating revenues	<u>4,135,923</u>	<u>8,425,912</u>	<u>12,561,835</u>
<b>Operating expenses:</b>			
Marketing	3,009,067	3,722,121	6,731,188
Nonmarketing programs	-	1,022,239	1,022,239
Administration	-	3,406,912	3,406,912
Total operating expenses	<u>3,009,067</u>	<u>8,151,272</u>	<u>11,160,339</u>
Operating income (loss)	<u>1,126,856</u>	<u>274,640</u>	<u>1,401,496</u>
<b>Non-operating revenues (expenses):</b>			
Interest income (expense)	9,414	21,966	31,380
Other income	-	331,584	331,584
Total nonoperating revenues	<u>9,414</u>	<u>353,550</u>	<u>362,964</u>
Change in net position	1,136,270	628,190	1,764,460
Net position, beginning of year	<u>3,190,777</u>	<u>9,028,551</u>	<u>12,219,328</u>
Net position, ending of year	<u>\$ 4,327,047</u>	<u>\$ 9,656,741</u>	<u>\$ 13,983,788</u>

## CALIFORNIA AVOCADO COMMISSION

### Program Expenses

For the Year Ended October 31, 2019

	<b>Restricted</b>	<b>Budget</b>
<b>Marketing Programs:</b>		
Media-Flex-85% Rebate	\$ 69,448	\$ 97,500
Media-85% Rebate-Mullen	374,271	375,000
Program Administration Fees-85% Rebate-Mullen	985,146	985,146
<b>Subtotal Consumer Advertising</b>	1,428,865	1,457,646
Artisan Chef Program-85% Rebate-Golin	46,777	55,000
California Avocado Month-85% Rebate-Golin	89,283	109,000
News Bureau-85% Rebate-Golin	213,325	230,000
Media Tracking & Reporting-85% Rebate-Golin	55,988	80,000
Blog & Social Media Support-85% Rebate-Golin	68,431	71,000
Blogger Advocates-85% Rebate-Golin	52,435	45,000
Program Administration Fees-85% Rebate-Golin	116,504	83,000
Program Administration Expenses-85% Rebate-Golin	7,011	7,000
<b>Subtotal Consumer Public Relations</b>	649,753	680,000
Conventions-85% Rebate	240,466	200,000
Booth Storage-85% Rebate	6,180	10,000
Key Account Coverage-MW/SE-Anderson-85% Rebate	66,250	76,000
Key Account Coverage-West-Becker-85% Rebate	45,977	51,500
Premiums-85% Rebate	15,510	20,000
POS Materials-85% Rebate	16,813	30,000
<b>Subtotal Merchandising</b>	391,195	387,500
Public Relations-85% Rebate-KC	51,872	57,000
Foodservice Events-85% Rebate-CDCA	4,915	25,000
Foodservice Events-85% Rebate-KC	254,507	196,000
Chain Promotions-85% Rebate-CDCA	33,895	30,000
Chain Promotions-85% Rebate-KC	155,833	204,000
Program Administration Fees-85% Rebate-KC	33,700	50,000
Program Administration Expenses-85% Rebate-KC	4,530	4,000
<b>Subtotal Foodservice</b>	539,252	566,000
<b>Total Marketing</b>	3,009,065	3,091,146
<b>Total Program Expenses</b>	\$ 3,009,065	\$ 3,091,146





**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, 2019, 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 31, 2020.

**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 31, 2020

# INDUSTRY STATISTICAL DATA

## 10 YEAR INDUSTRY STATISTICAL DATA FROM 2009/10 THROUGH 2018/19

YEAR	PRODUCING ACRES	VOLUME	CROP VALUE	PRICE PER POUND (¢)	DOLLARS PER PRODUCING ACRE	POUNDS PER PRODUCING ACRE
09/10	58,268	534.5	\$402,770,893	75.35	\$6,912	9,173
10/11	57,532	302.5	\$460,209,682	152.1	\$7,999	5,258
11/12	59,629	462.3	\$381,852,467	82.6	\$6,404	7,753
12/13	57,838	500.2	\$435,023,142	87.0	\$7,521	8,648
13/14	57,219	297.5	\$333,216,563	112	\$5,823	5,199
14/15	51,478	279.0	\$303,160,400	108.6	\$5,889	5,420
15/16	51,902	401.4	\$412,332,493	102.7	\$7,944	7,733
16/17	51,249	215.9	\$345,875,896	160.2	\$6,749	4,213
17/18	49,986	337.8	\$383,136,193	113.4	\$7,665	6,758
18/19	47,158	216.6	\$372,285,783	171.8	\$7,894	4,594

**Footnotes:**

Producing acres based on CAC's acreage inventory, attrition factors and other sources.

Industry statistical data from 1971-72 through 2018-19 are available on [CaliforniaAvocadoGrowers.com/industry/industry-statistical-data](http://CaliforniaAvocadoGrowers.com/industry/industry-statistical-data)

## CALIFORNIA AVOCADO POUNDS & DOLLARS BY VARIETY NOVEMBER 2018 THROUGH OCTOBER 2019

Month	Hass Pounds	Lamb Pounds	Others Pounds	Total Pounds	Hass Dollars	Lamb Dollars	Others Dollars	Total Dollars	Avg \$/Lb
1st QTR	578,986	12,216	281,202	872,404	705,019	18,525	175,759	899,303	1.031
2nd QTR	48,750,784	-	428,205	49,178,989	69,286,142	-	527,606	69,813,748	1.420
3rd QTR	132,282,673	8,462,730	339,044	141,084,447	243,889,886	15,547,107	503,755	259,940,748	1.842
4th QTR	22,184,197	3,261,896	103,910	25,550,003	36,376,885	5,178,310	159,054	41,714,249	1.633
<b>Total</b>	<b>203,796,640</b>	<b>11,736,842</b>	<b>1,152,361</b>	<b>216,685,843</b>	<b>350,257,932</b>	<b>20,743,942</b>	<b>1,366,174</b>	<b>372,368,048</b>	<b>1.718</b>
<b>Grand Total</b>								<b>372,368,048</b>	<b>1.718</b>
Y-T-D (%)	94.05%	5.42%	.53%	100.00%	94.06%	5.57%	.37%	100.00%	
Y-T-D AVG \$/LB					1.719	1.767	1.186	1.718	

## TOTAL US VOLUME AND CALIFORNIA PRICE PER POUND FROM 2009/10 THROUGH 2018/19

YEAR	CA VOLUME (MM LBS.)	TOTAL US VOLUME (MM LBS.)	CA AVERAGE PRICE PER POUND (¢)
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
16/17	215.9	2,174	160.2
17/18	337.8	2,483	113.4
18/19	216.6	2,632	171.8

**Footnotes:**

Total US Volume represents the estimated volume of fresh avocados sold in the US from the November through October time period



# 2019 ANNUAL REPORT

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[CaliforniaAvocadoGrowers.com](http://CaliforniaAvocadoGrowers.com)

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