

CALIFORNIA AVOCADO COMMISSION

Annual Financial Report
and Independent Auditor's Report

For the years ended October 31, 2017 and 2016



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, 2017 and 2016, 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, 2017 and 2016, 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.

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 29, 2018, 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 29, 2018

CALIFORNIA AVOCADO COMMISSION
Management's Discussion and Analysis
For the Years Ended October 31, 2017 and 2016
(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, 2017 and 2016. 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 2017 assets exceeded its liabilities as of October 31, 2017 by \$11,116,774 (total net position). This amount increased \$482,442 or 5% from the prior year amount of \$10,634,332.
- Of the total net position at the end of fiscal year 2017, net investment in capital assets increased \$25,616 to \$80,019 or 47% from the prior year amount of \$54,403.
- Net position restricted for marketing at the end of fiscal year 2017 increased \$417,430 to \$3,307,657 or 14% from the prior year amount of \$2,890,227.
- Unrestricted net position at the end of fiscal year 2017 increased \$39,396 to \$7,729,098 or .5% from the prior year amount of \$7,689,702. This amount made up 70% of total net position.
- 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 investment 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.

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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(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); Schedule of Program Expenses (Restricted) and the Independent Auditor's Report on Compliance.

FINANCIAL ANALYSIS

Comparative data for the prior year ended October 31, 2016, has been presented in the accompanying financial statements (including MD&A) to facilitate financial analysis for the current year ended October 31, 2017. A comparative analysis of fiscal year 2016 with fiscal year 2015 is also presented in the MD&A.

STATEMENTS OF NET POSITION:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$13,155,432	\$13,052,257	\$8,486,636
Capital assets, net	80,019	54,403	61,546
Total assets	<u>13,235,451</u>	<u>13,106,660</u>	<u>8,548,182</u>
Current liabilities	2,047,856	2,425,146	2,359,255
Noncurrent liabilities	70,821	47,182	46,767
Total liabilities	<u>2,118,677</u>	<u>2,472,328</u>	<u>2,406,022</u>
Net position:			
Net investment in capital assets	80,019	54,403	61,546
Restricted for marketing	3,307,657	2,890,227	1,047,151
Unrestricted	7,729,098	7,689,702	5,033,463
Total net position	<u><u>\$11,116,774</u></u>	<u><u>\$10,634,332</u></u>	<u><u>\$6,142,160</u></u>

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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, receivables and fiduciary cash amounts held for the Avocado Inspection Program (AIP). Current assets at the end of fiscal year 2017 totaled \$13,155,432, increasing \$103,175 from the prior year amount of \$13,052,257. Total current assets cover current liabilities 6.4 times, indicating good liquidity.

At the end of fiscal year 2016, 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.

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 2017 totaled \$2,118,677 decreasing from a balance of \$2,472,328 in 2016. This decrease was due to lower marketing and non-marketing obligations owed to vendors. 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.

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 \$80,019 at the end of fiscal year 2017, increasing \$25,616 from the prior year amount of \$54,403. This increase is due to the acquisition of capital assets. Net investment in capital assets represents 0.7% of total net position.

At the end of fiscal year 2016, net investment in capital assets totaled \$54,403, 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.

Restricted net position for marketing activities is subject to imposed restrictions by federal statute governing their use. Restricted net position totaled \$3,307,657 at the end of 2017, increasing \$417,430 from the prior year amount of \$2,890,227, and increasing \$1,843,076 from 2015. Restricted net position represents 30% of total net position.

Unrestricted net position available for future activities at the end of fiscal year 2017 totaled \$7,729,098, increasing \$39,396 from the prior year amount of \$7,689,702. 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.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$12,161,600	\$17,348,241	\$12,628,419
Operating expenses	12,193,171	13,144,755	14,717,545
Operating income (loss)	<u>(31,571)</u>	<u>4,203,486</u>	<u>(2,089,126)</u>
Nonoperating revenues	514,013	288,686	164,915
Change in net position	<u>482,442</u>	<u>4,492,172</u>	<u>(1,924,211)</u>
Net position – beginning of year	10,634,332	6,142,160	8,066,371
Net position – end of year	<u>\$11,116,774</u>	<u>\$10,634,332</u>	<u>\$6,142,160</u>

Operating revenues totaled \$12,161,600 in 2017, decreasing \$5,186,641 or 30% from \$17,348,241 earned in 2016. This decrease is due to a decrease in assessment revenue received due to smaller total crop volume; 216 million pounds were reported in 2017 as compared to 401 million pounds in 2016. The majority of operating revenue consisted of assessment revenue, totaling \$12,100,603 (99.5%). The remaining portion of \$60,997 (0.5%) was from administrative fees generated from AIP.

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 expenses totaled \$12,193,171 in 2017, decreasing \$951,584 or 7% from \$13,144,755 in 2016. This decrease is primarily due to decreased activities in marketing programs in 2017. Operating expenses totaled \$13,144,755 in 2016, decreasing \$1,572,790 or 11% from \$14,717,545 in 2015. This decrease is primarily due to decreased activities in both marketing and non-marketing programs in 2016.

At the end of the fiscal year 2017, the Commission reported an ending net position of \$11,116,774, an increase of \$482,442 from the prior year amount of \$10,634,332. This is primarily due to a greater decrease in expenditures for marketing programs than the decrease in assessment revenue received.

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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The Commission's net investment in capital assets totaled \$80,019 as of October 31, 2017, increasing \$25,616 from the prior year amount of \$54,403, and \$18,473 from \$61,546 in 2015 (net of accumulated depreciation). This increase represents the acquisition of capital assets during the fiscal year.

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Compensated Absences - At the end of fiscal year 2017, the Commission accumulated an accrued compensated absences balance of \$180,775; an increase of \$17,301 from the prior year balance of \$163,474. This increase is due to unused vacation time by employees. 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.

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 8,527,091	\$ 8,380,161
Assessments receivable	1,574	81,584
Other receivables	158,767	65,591
Prepaid expenses	59,753	365,622
Fiduciary cash and cash equivalents, amounts held for AIP	816,486	914,493
Restricted:		
Cash and cash equivalents	3,544,216	2,986,481
Assessments receivable	47,545	258,325
Total current assets	<u>13,155,432</u>	<u>13,052,257</u>
Noncurrent assets:		
Capital assets being depreciated, net	80,019	54,403
Total assets	<u>13,235,451</u>	<u>13,106,660</u>
Current liabilities:		
Accounts payable and accrued liabilities	819,312	1,021,782
Accounts payable and accrued liabilities, payable from restricted assets	284,104	354,579
Fiduciary liabilities, amounts held for AIP	816,486	914,493
Deposits	18,000	18,000
Compensated absences, due within one year	109,954	116,292
Total current liabilities	<u>2,047,856</u>	<u>2,425,146</u>
Noncurrent liabilities:		
Compensated absences, due in more than one year	70,821	47,182
Total liabilities	<u>2,118,677</u>	<u>2,472,328</u>
Net position:		
Net investment in capital assets	80,019	54,403
Restricted for marketing	3,307,657	2,890,227
Unrestricted	7,729,098	7,689,702
Net position	<u>\$ 11,116,774</u>	<u>\$ 10,634,332</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, 2017 and 2016

	2017	2016
Operating revenues:		
Assessment revenue	\$ 7,951,777	\$ 9,493,670
HAB rebate assessment revenue (restricted)	4,148,826	7,768,571
Administrative and marketing fees	60,997	86,000
Total operating revenues	12,161,600	17,348,241
Operating expenses:		
Marketing	7,028,805	8,192,468
Nonmarketing programs	1,579,060	1,806,463
Administration	3,585,306	3,145,824
Total operating expenses	12,193,171	13,144,755
Operating income (loss)	(31,571)	4,203,486
Nonoperating revenues:		
Interest income	28,320	14,661
Grant Income	323,618	270,214
Other income	162,075	3,811
Total nonoperating revenues	514,013	288,686
Change in net position	482,442	4,492,172
Net position, beginning of year	10,634,332	6,142,160
Net position, end of year	\$ 11,116,774	\$ 10,634,332

See accompanying notes to the basic financial statements.

CALIFORNIA AVOCADO COMMISSION
 Statements of Cash Flows
 For the Years Ended October 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 12,261,206	\$ 17,064,551
Cash payments to suppliers for goods and services	(9,333,067)	(10,841,430)
Cash payments to employees for services	(2,799,818)	(2,451,288)
Net cash provided by operating activities	128,321	3,771,833
Cash flows from non-capital financing activities:		
Proceeds from grants	323,618	270,214
Other Income	161,835	3,811
Net cash provided by non-capital financing activities	485,453	274,025
Cash flows from capital and related financing activities:		
Purchases of capital assets	(35,676)	(886)
Proceeds from sale of assets	240	-
Net cash used by capital and related financing activities	(35,436)	(886)
Cash flows from investing activities:		
Interest on investments	28,320	14,661
Net increase in cash and cash equivalents	606,658	4,059,633
Cash and cash equivalents, beginning of year	12,281,135	8,221,502
Cash and cash equivalents, end of year	\$ 12,887,793	\$ 12,281,135
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (31,571)	\$ 4,203,486
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	10,060	8,029
Changes in assets and liabilities:		
(Increase) decrease in assessments receivable	290,790	(205,290)
(Increase) decrease in other receivables	(93,176)	10,883
(Increase) decrease in prepaid expenses	305,869	(311,581)
Increase (decrease) in accounts payable and accrued liabilities	(272,945)	142,087
Increase (decrease) in fiduciary liabilities	(98,007)	(89,283)
Increase (decrease) in compensated absences	17,301	13,502
Net cash provided by operating activities	\$ 128,321	\$ 3,771,833

CALIFORNIA AVOCADO COMMISSION

Notes to Basic Financial Statements

October 31, 2017 and 2016

(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, 2017 and 2016, 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, 2017 and 2016

(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, 2017 and 2016. 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, 2017 and 2016

(d) Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications resulted in no impact to the prior year net position or the change in net position.

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, 2017 and 2016, the Commission had net investment in capital assets in the amounts of \$80,019 and \$54,403, respectively. There was no outstanding debt related to capital assets at October 31, 2017 and 2016.

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, 2017 and 2016, the Commission had restricted net position in the amounts of \$3,307,657 and \$2,890,227, respectively, for marketing-related activities.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2017 and 2016

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.

(2) DETAILED NOTES ON ASSETS AND LIABILITIES

(a) Cash and Cash Equivalents

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

	2017	2016
Petty cash	\$ 200	\$ 200
Demand deposits	12,877,854	12,271,270
Local Agency Investment Fund	9,739	9,665
Total cash and cash equivalents	\$ 12,887,793	\$ 12,281,135

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, 2017, was \$20.4 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at October 31, 2017, had a balance of \$72.0 billion. Of that amount, 3.64% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 184 days as of October 31, 2017.

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.

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, 2017 and 2016

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, 2017 and 2016

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:

Investment Type	Remaining Maturity 12 Months or Less	
	2017	2016
Local Agency Investment Fund	\$ 9,739	\$ 9,665

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, 2017 and 2016.

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.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2017 and 2016

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

	November 1, 2016	Additions	Deletions	October 31, 2017
Capital assets, being depreciated:				
Furniture	\$ 26,160	\$ -	\$ -	\$ 26,160
Office equipment	61,002	-	-	61,002
Land Improvements	72,884	35,676	-	108,560
	<u>160,046</u>	<u>35,676</u>	<u>-</u>	<u>195,722</u>
Less accumulated depreciation for:				
Furniture	26,160	-	-	26,160
Office equipment	61,002	-	-	61,002
Land Improvements	18,481	10,060	-	28,541
	<u>105,643</u>	<u>10,060</u>	<u>-</u>	<u>115,703</u>
Capital assets, net of depreciation	<u>\$ 54,403</u>	<u>\$ 25,616</u>	<u>\$ -</u>	<u>\$ 80,019</u>
	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
	<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
	<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>

Depreciation expense was \$10,060 and \$8,029 for the years ended October 31, 2017 and 2016, respectively.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2017 and 2016

(c) **Long-term Liabilities**

	<u>November 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>October 31, 2017</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 163,474	\$ 127,256	\$ (109,955)	\$ 180,775	\$ 109,954

	<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

(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, 2017 and 2016, \$816,486 and \$914,493, 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, 2018, under the same terms as the original agreement. At October 31, 2017 and 2016, 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 National Surety Corporation – General aggregate coverage of \$2,000,000 and \$1,000,000 for each occurrence.

Automobile Liability - insured by National Surety Corporation – 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, 2017 and 2016

Umbrella Liability - insured by Fireman's Fund 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 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 Federal Insurance Company – 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 Lloyds of London – 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 Lloyds of London – 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 – 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 2017.

(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, 2017, was \$2,100,815. Total payroll for the thirteen employees eligible to participate in the PSP for the plan year ended October 31, 2016, was \$1,805,645. Total contributions for the years ended October 31, 2017 and 2016 were \$222,581 and \$229,423, respectively.

CALIFORNIA AVOCADO COMMISSION
Notes to Basic Financial Statements (Continued)
October 31, 2017 and 2016

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 \$54,000, for each of the plan years ended October 31, 2017 and 2016. 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, 2017 and 2016, the Commission paid \$70,630 and \$68,527, 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 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, 2017 and 2016, the Commission paid \$1,544 and \$1,343, 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. 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 year ended October 31, 2017 and 2016, the Commission paid \$6,354 and \$6,000, 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 September 30, 2019, with monthly payments of \$499 beginning October 1, 2016. During the year ended October 31, 2017, the Commission paid \$6,988 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, which was extended to April 30, 2018. During the year ended October 31, 2017 and 2016, the Commission paid \$6,230 and \$12,278, respectively, for office rent, exclusive of operating expenses. Beginning May 2017, office rent payments were taken over by AIP.

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, 2017 and 2016, the Commission paid \$20,720 and \$20,056 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, 2017 and 2016

The annual requirements to amortize the operating lease obligations as of October 31, 2017, are as follows:

Year Ending October 31,	Office Spaces	Printers	Postage Machine	Pine Tree Ranch	Total
2018	72,733	12,888	1,101	21,400	108,122
2019	74,836	12,389	1,101	22,104	110,430
2020	6,251	5,750	183	22,836	35,020
2021	-	-	-	23,600	23,600
2022	-	-	-	24,384	24,384
2023	-	-	-	16,608	16,608
Total	<u>\$ 153,820</u>	<u>\$ 31,027</u>	<u>\$ 2,385</u>	<u>\$ 130,932</u>	<u>\$ 318,164</u>

SUPPLEMENTARY INFORMATION

CALIFORNIA AVOCADO COMMISSION
 Budgetary Comparison Schedule
 For the Year Ended October 31, 2017
 (with comparative actual totals for the year ended October 31, 2016)

	2017				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	2016 Actual
Revenues:					
Assessment revenue	\$ 5,060,000	\$ 5,060,000	\$ 7,951,777	\$ 2,891,777	\$ 9,493,670
HAB rebate assessment revenue (restricted)	3,952,500	3,952,500	4,148,826	196,326	7,768,571
Administrative and marketing fees	61,000	61,000	60,997	(3)	86,000
Interest income	14,400	14,400	28,320	13,920	14,661
Grant revenue	236,438	396,016	323,618	(72,398)	270,214
Other income	65,000	65,000	162,075	97,075	3,811
Total revenues	9,389,338	9,548,916	12,675,613	3,126,697	17,636,927
Expenses:					
Marketing:					
Consumer marketing	4,636,980	4,636,980	4,134,305	502,675	4,745,291
Merchandising promotions	1,516,270	1,516,270	1,360,270	156,000	1,640,864
Foodservice	684,000	684,000	665,418	18,582	854,319
Consumer public relations	524,500	524,500	573,445	(48,945)	869,556
Consumer registered dietitian nutritionist program	88,750	88,750	93,127	(4,377)	-
Marketing activities support	259,500	259,500	202,240	57,260	82,438
Total marketing	7,710,000	7,710,000	7,028,805	681,195	8,192,468
Non-marketing programs:					
Industry affairs	760,650	760,650	652,601	108,049	648,587
Production research	646,864	646,864	602,839	44,025	887,662
Grant expenses	236,438	396,016	323,619	72,397	270,214
Total non-marketing programs	1,643,952	1,803,530	1,579,059	224,471	1,806,463
Administration:					
Administration	3,246,821	3,246,821	3,466,341	(219,520)	3,064,663
Information systems	118,930	118,930	108,906	10,024	73,132
Depreciation	8,400	8,400	10,060	(1,660)	8,029
Total administration	3,374,151	3,374,151	3,585,307	(211,156)	3,145,824
Total expenses	12,728,103	12,887,681	12,193,171	694,510	13,144,755
Change in net position	(3,338,765)	(3,338,765)	482,442	3,821,207	4,492,172
Net position, beginning of year	10,634,332	10,634,332	10,634,332	-	6,142,160
Net position, ending of year	\$ 7,295,567	\$ 7,295,567	\$ 11,116,774	\$ 3,821,207	\$ 10,634,332

See accompanying note to supplementary information.

CALIFORNIA AVOCADO COMMISSION

Note to Supplementary Information

October 31, 2017 and 2016

(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, 2017

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Operating revenues:			
Assessment revenue	\$ -	\$ 7,951,777	\$ 7,951,777
HAB rebate assessment revenue (restricted)	4,148,826	-	4,148,826
Administrative and marketing fees	-	60,997	60,997
Total operating revenues	<u>4,148,826</u>	<u>8,012,774</u>	<u>12,161,600</u>
Operating expenses:			
Marketing	3,739,167	3,289,638	7,028,805
Nonmarketing programs	-	1,579,060	1,579,060
Administration	-	3,585,306	3,585,306
Total operating expenses	<u>3,739,167</u>	<u>8,454,004</u>	<u>12,193,171</u>
Operating income	<u>409,659</u>	<u>(441,230)</u>	<u>(31,571)</u>
Nonoperating revenues:			
Interest income (loss)	7,771	20,549	28,320
Grant revenue	-	323,618	323,618
Other income	-	162,075	162,075
Total nonoperating revenues	<u>7,771</u>	<u>506,242</u>	<u>514,013</u>
Change in net position	417,430	65,012	482,442
Net position, beginning of year	<u>2,890,227</u>	<u>7,744,105</u>	<u>10,634,332</u>
Net position, ending of year	<u>\$ 3,307,657</u>	<u>\$ 7,809,117</u>	<u>\$ 11,116,774</u>

CALIFORNIA AVOCADO COMMISSION

Schedule of Program Expenses

For the Year Ended October 31, 2017

	<u>Restricted</u>	<u>Budget</u>
Marketing Programs:		
Media-85% Rebate-Mullen	\$ 1,219,794	\$ 1,541,000
Program Administration Fees-85% Rebate-Mullen	1,107,510	930,000
Subtotal Consumer Advertising	<u>2,327,304</u>	<u>2,471,000</u>
Artisan Chef Program-85% Rebate-Golin	41,613	51,500
American Summer Holidays-85% Rebate-Golin	35,603	34,000
California Avocado Month-85% Rebate-Golin	88,763	96,000
News Bureau-85% Rebate-Golin	154,116	108,000
Media Tracking & Reporting-85% Rebate-Golin	69,629	70,000
Crisis Readiness-85% Rebate-Golin	17,105	10,000
Blog & Social Media Support-85% Rebate-Golin	40,728	40,000
Blogger Advocates-85% Rebate-Golin	37,219	35,000
Program Administration Fees-85% Rebate-Golin	69,410	73,000
Program Administration Expenses-85% Rebate-Golin	19,259	7,000
Subtotal Consumer Public Relations	<u>573,445</u>	<u>524,500</u>
Trade Advertising-Media-85% Rebate-Fusion	172,999	173,000
Subtotal Merchandising Promotions	<u>172,999</u>	<u>173,000</u>
Media-85% Rebate-MMM	22,662	17,000
Production-85% Rebate-MMM	22,334	2,000
Public Relations & Collateral Mat-85% Rebate-MMM	80,179	54,000
Public Relations & Collateral Mat-85% Rebate-KC	21	-
Foodservice Events-85% Rebate-MMM	240,793	215,000
Foodservice Events-85% Rebate-CDCA	16,461	30,000
Chain Promotions-85% Rebate-MMM	199,235	285,000
Chain Promotions-85% Rebate-CDCA	19,316	25,000
Culinary Education Program-85% Rebate-MMM	2,200	2,000
Program Administration Fees-85% Rebate-MMM	60,250	49,000
Program Administration Expenses-85% Rebate-MMM	1,967	5,000
Subtotal Foodservice	<u>665,418</u>	<u>684,000</u>
Total Marketing	<u>3,739,167</u>	<u>3,852,500</u>
Total Program Expenses	<u>\$ 3,739,167</u>	<u>\$ 3,852,500</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, 2017, 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 29, 2018.

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.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Newport Beach, California
January 29, 2018