PRESENT AND FUTURE VALUE: CONFIDENCE IN THE

California BRAND

California Avocado Commission

2009–10 ANNUAL REPORT

HAND GROWN IN CALIFORNIA

MISSION STATEMENT

To maximize grower returns by maintaining premium brand positioning for California Avocados and improving grower sustainability.

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The California Avocado Commission (CAC) is focused on optimizing the value received for California Avocados to ensure the viability of our industry into the future. The 2009-10 crop delivered record overall value. While there is no shortage of challenges, we are confident in our industry's viability. The strength of the California Avocado brand and the clarity of purpose in CAC's Strategic Plan 2020 provide a clear road map for our future.

Don Reeder
Past Chairman

2009-10 was a year of solid performance for the organization and the California Avocado industry, with near-record crop volume at record overall crop value. Your Board focused on its primary responsibilities: strengthening our marketing effort, making further progress on internal control policies and procedures, and prudently managing the growers' investment through financial oversight.

Plenty of issues remain, with water still topping the list of grower concerns. The competition is apt to be tougher this year, as Chile and Mexico are expected to increase shipments to the U.S. The greatest challenge is to help growers become more productive through leading-edge cultural techniques. To that end the Board of Directors undertook a very thorough review of our research program last year, and focus in this area continues in 2010-11.

I thank the avocado industry members who volunteer their time so generously. We have come a long way in a few short years and I am confident the Vision 2020 plan, which we developed last year, will guide CAC's direction to benefit the California Avocado industry throughout the next 10 years and beyond.

Charley Wolk
Chairman

With more than 30 years experience in the industry and frequent opportunities in leadership I have seen and participated in meeting the challenges to our industry. There was a time, not too long ago, when California Avocados were the only game in town. Today, imported avocados are a major player in the U.S. avocado market.

To ensure the viability of our California Avocado industry, the Commission and its Commissioners need to do everything possible to optimize the value received for our product at retail and foodservice, including:

- We must keep the California Avocado brand strong
- The Commission must concentrate attention on CAC's research program, advancing the industry toward long-term objectives that align with CAC's overall Vision 2020 for the business. We must ensure the growers' investment of more than $1 million annually delivers results squarely focused on improving the industry's sustainability and profitability
- It is imperative to elevate our level of production by replanting, transitioning to high density groves
- We need to take advantage of opportunities to advance the growth of the overall avocado industry, by cooperating with international partners, and assisting to disseminate avocados' compelling nutrition story
- We must stay absolutely vigilant in industry advocacy and focus on the big issues – GAP, particularly because of the passage of the Food Safety Modernization Act; water quality regulations; water availability and price; and market performance

We all have a role to play in the future of the California Avocado industry. Growers who provide input to the CAC staff and the Commissioners help shape the direction of the industry. The responsible-farming practices we implement help protect consumers, our groves and the California industry. When we plant more trees and invest in the infrastructure of our operations, we express confidence in our future. I have confidence in the future of the California Avocado brand, the Commission and your new Commissioners. There is significant value to the industry now, and there will continue to be value in the future. I welcome the opportunity to meet the challenges facing our industry.

The California Avocado Commission (CAC) ended the 2009-10 year a stronger organization, more connected to the growers' business and with a clear vision of strategic intent for the next 10 years.

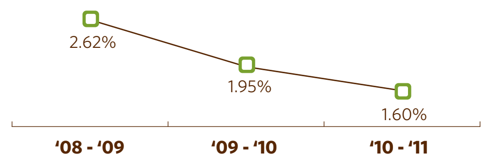
Tom Bellamore
President

The Board of Directors affirmed that, regardless of changes in the business environment, California Avocados will occupy a premium marketplace position. We also identified four strategic Commission priorities: 1) position California Avocados as premium/optimize value; 2) refocus the research system around industry strategy; 3) advocate for, and engage with, the industry; and 4) cultivate organizational excellence. Those four priorities set the cornerstones for our business plan in 2010-11 and will continue forming the framework throughout the upcoming decade.

We begin that decade in a position of strength. With one of the largest crops on record at 534.5 million pounds of California Avocados harvested last year, at an average price per pound of 75.4 cents, the California Avocado industry achieved the highest-gross crop value in California Avocado history, at $403 million. This resulted in higher revenues for the Commission, and coupled with prudent spending, increased reserves. We will therefore enter the 2010-11 season dedicating more than $14 million toward California Avocado marketing, research and additional projects to advance the industry. To ensure the highest-possible return on assessment dollars invested by growers, we must continually renew our focus on building the California brand and operating with high efficiency and low cost. To build the brand, CAC will continue its robust $9 million level of marketing support that we adopted last year. We also will invest in production research that supports industry strategy and remain steadfast in advocacy for California Avocado growers.

CAC's vision for 2020 encompasses both high-level strategic thinking and practical financial forecasts. Understanding that annual fluctuations in CAC's assessment rate can be burdensome to growers, we began modeling multi-year projections of revenue to gauge the effect of alternate bearing and varying spending and reserve levels on rate stability. Deeming it beneficial to provide growers with a degree of rate predictability, the Board of Directors approved CAC's proposed significant assessment-rate reduction, from 1.95 percent to 1.60 percent.

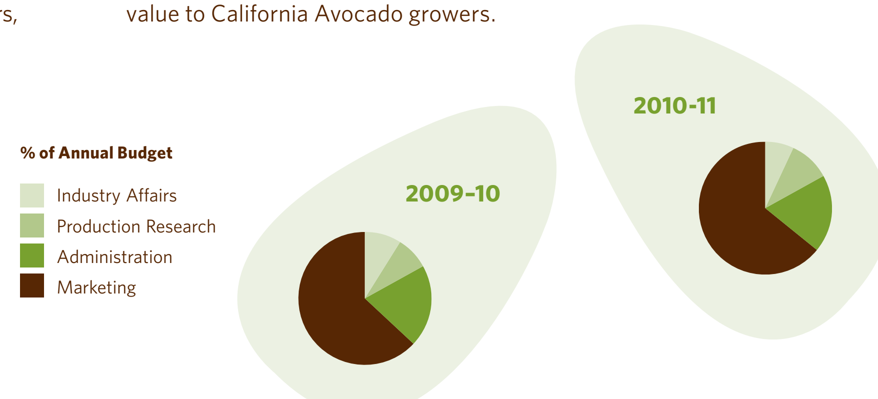
CAC Assessment Rate Reductions



This is an 18-percent reduction from 2009-10 and a near 40-percent reduction from 2008-09. It is CAC's intention to continue doing more with less and maintain a lean administration, while keeping the California Avocado brand strong.

Although 2009-10 was a very good year overall, we recognize that individual grower returns varied and some growers struggle to achieve sustainable levels of profitability. High-density planting and other technical advancements are needed to enable the industry to keep pace with the competition. CAC will expand the work initiated in 2009-10 and continue transforming the existing production research program into a valuable technical-investment program that will yield actionable results for California Avocado growers. CAC's marketing and technical investments will be responsibly implemented, with an eye toward near-term fiscal needs and our vision for long-term industry success. We have confidence in the strength of the California Avocado brand, and we are committed to providing present and future value to California Avocado growers.

CAC Continues Investment to Enhance California Avocado Branding in 2010-11



Energizing the California Brand: The value of the California Avocado brand continues to increase, fueled by decades of grower investment, and is one of the California Avocado industry's most powerful marketing assets.

With continued support, the brand has potential to provide significant value into the future. John Corsaro of Giumarra Companies described it stating, *"When it comes to California Avocados, they are different than any other produce item we deal with. Retail customers tend to want to stick with them from start to finish. It's amazing to see that loyalty."*

CAC's strategic marketing plan for 2009-10 was successful in strengthening brand value and loyalty, increasing brand attribute ratings, brand awareness and consumer preference for California Avocados. The percent of shoppers who look for country of origin and care that avocados are U.S. grown also has increased. The "importance of U.S. grown," has risen from 43 percent in 2006 to nearly 70 percent of avocado consumers in fall 2010.

CAC's messaging was strengthened to raise awareness of the California brand while continuing to appeal to consumer interest in the locally-grown movement and the American farmer. The California Avocado Grower Campaign will continue to feature the California brand messaging with graphics emphasizing the California Avocado industry's heritage and craftsmanship.

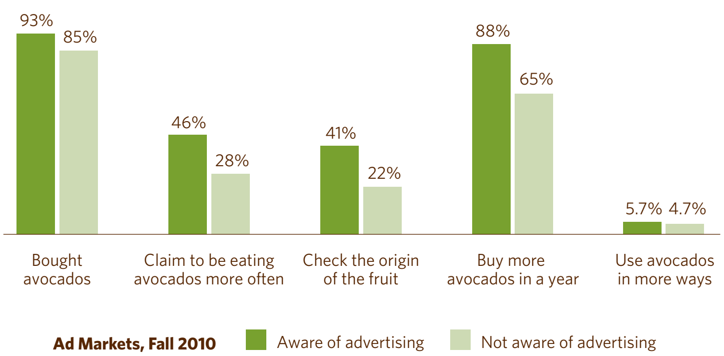
Consumer Advertising

The California Avocado Grower Campaign with *Hand Grown in California* thematic continues to be the platform for the Commission's marketing campaign. The majority of the marketing investment is strategically directed into consumer advertising to reach the target market that is most valuable for California Avocados. Determined through sales data and consumer research, the target audience for California Avocados is defined as well-educated, affluent adults who tend to live in the West and major metropolitan cities nationwide. These consumers take pride in food shopping, enjoy avocados and value high quality products enough to pay a premium for them. Among other behavioral and attitudinal traits they are socially conscious, health and wellness-oriented and care about supporting their fellow Americans.

To encourage these target consumers to "Insist on

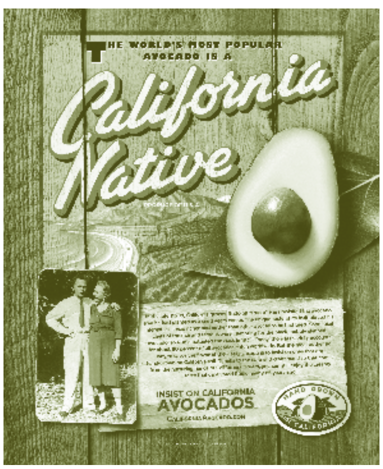
Impact of Advertising

In Ad Markets, those aware of avocado advertising are more likely than those not aware of advertising to...



California Avocados" and purchase them more often in season, CAC directs the majority of consumer advertising to core Western markets. This year the campaign used efficient and effective drive time radio, billboards, fitness center posters and grocery cart ads in these core markets. Regionally, California Avocado grower print ads ran in magazines such as Sunset, as well as in key retail publications. Outdoor advertising in high traffic areas, in fitness centers and at Bay Area Rapid Transit stations in San Francisco extended the reach of the program to out of home areas where the target audience commutes, works out and shops.

In addition, CAC reached the target consumers nationally in culinary and lifestyle magazines such as Cooking Light, Eating Well and Saveur. The Commission utilized online media to build demand by targeting consumers throughout the day with usage ideas, educational messages about nutrition and information about the care that comes from the hands of California's Avocado farmers. The combination of media vehicles reached the target audience multiple times throughout their busy days, providing consistent reminders to "Insist on California Avocados." In total, CAC's 2009-10 consumer advertising delivered 1.1 billion consumer advertising impressions, which was a 49 percent increase over the 2008-09 season.



The Fall Avocado Consumer Tracking study reported that CAC's marketing message and advertising continue to make significant strides. Advertising recall increased, with 34 percent of consumers remembering the California Avocado Grower Campaign. More than 70 percent of these respondents correctly identified the California Avocado brand, up from 62 percent in 2008. According to the study, advertising impacts consumer behavior: those aware of avocado advertising are more likely to have bought avocados, and claim to buy and eat more avocados than those unaware of avocado advertising. These advertising-aware shoppers (41 percent) also say they check the origin of the fruit nearly twice as much as those who are unaware.

Online Marketing

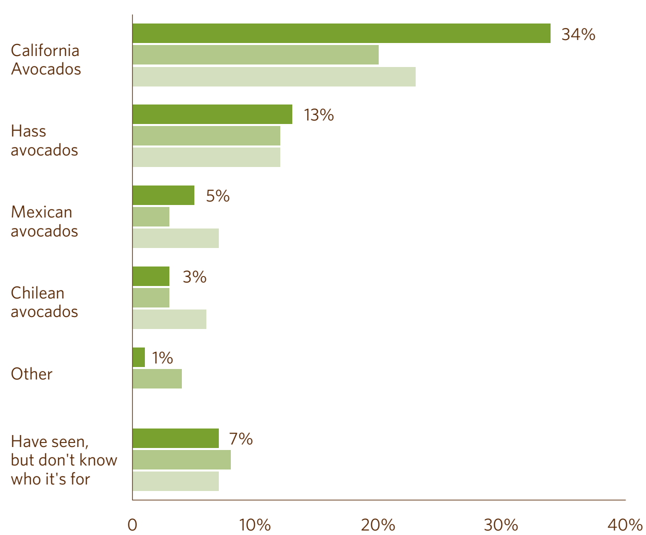
In addition to traditional advertising, strategic online marketing played a significant role in the Commission's consumer outreach. A fresh design of CAC's consumer website, CaliforniaAvocado.com, highlighted the campaign, encouraging expanded avocado usage through featured recipes and nutrition information. As a result, average time on the site is up more than 11 percent over 2009, indicating that visitors are spending more time browsing content and learning about California Avocados. CAC maintained a high level of engagement with California Avocado fans online via monthly e-mail recipe newsletters, daily site updates and themed promotions. CAC's "Best Guacamole Recipe Contest," judged in an avocado grove by California Avocado growers, CAC staff and food bloggers, was very popular with consumers, and garnered broader reach through publicity about the judges, targeted online advertising and the venue.

Directed Ad Recall The California branding has improved with a significant increase in directed recall.

"There is an advertising campaign for avocados that has run recently that features personal profiles of the actual farmers who grow the avocados and the methods they use to care for their fruit. Is this advertising campaign for...?"

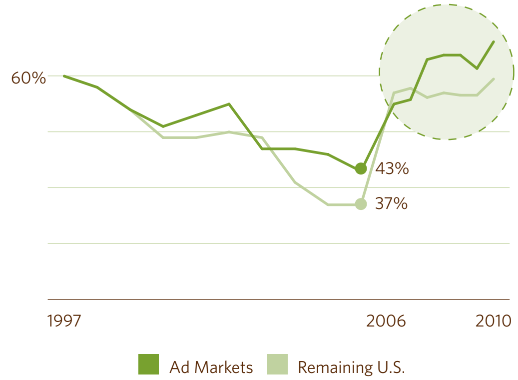
Ad Markets Fall 2010

2010
2009
2008



Importance of U.S. Grown

The importance of avocados being grown in the U.S. has increased steadily since 2006, with 63% of consumers saying that it is somewhat or very important to them. In California Avocado ad markets that figure is even higher: nearly 7 of 10 consumers say it is important that the avocados they buy are grown in the U.S.



Social Media

In 2010 CAC took the California Avocado Grower Campaign to a new level by sharing grower stories with California Avocado fans on social media, engaging consumers with usage ideas, nutrition facts and avocado tips through posts and videos on Facebook, Twitter, YouTube and Flickr. These posts have created interactions that measure more than one-half million impressions per month. CAC values fan relationships on social media and is very involved in one-on-one engagement – taking pride in answering every question, and responding to suggestions in a positive and conversational voice. CAC's Facebook page launched in March 2010, and California Avocados gained more than 51,000 fans by the end of October.

CAC also expanded its YouTube channel throughout the year with avocado grower videos and "how to" recipe videos. This year, videos featuring celebrity chefs Mary Sue Milliken and Susan Feniger were among the most popular on CAC's channel. CAC will continue to engage consumers online and via social media channels daily.

Retail

Personal contact with retailers by the CAC Merchandising team is the core strength of CAC's retail program. Each year CAC's Marketing Advisory Committee provides input to the CAC staff regarding key accounts.

CAC personally calls on these targeted retailers, informing them about the California Avocado season and the reasons why it is to their benefit to merchandise the fruit in season. Through merchandising outreach in 2010 CAC expanded on relationships with key decision-making retailers across the country, achieving distribution and regional marketing support at large national accounts such as Albertsons, Costco, Kroger and Safeway. Targeted regional accounts that supported California Avocados included Bashas', Bristol Farms, Dierbergs, Gelson's, H-E-B, Mollie Stone's, Save Mart, Shaw's, Stater Bros., Smart & Final, Sprouts and more.

The Commission encouraged retail and consumer demand for avocados through point-of purchase materials, themed

"We have had tremendous growth in the avocado category in the last few years. We attribute that growth to the programs and services provided by the California Avocado Commission."

- Mike O'Brien, Vice President Produce and Floral. Schnuck Markets Inc. St Louis, Mo; Chairman, Produce Marketing Association

promotions, California Avocado grower appearances, industry events and other support. Grocery store point-of-purchase advertising in core markets included in-store radio and grocery cart ads with a strong call to action to purchase California Avocados. National distribution of California Avocado point-of-purchase materials hit an all time high with more than 12,000 pieces in the marketplace, including display bins, shelf talkers and recipe cards. CAC's integrated marketing campaign included Cinco de Mayo themed promotions to kick off the start of the California Avocado season. The 20th anniversary celebration of Sutter Home Wines Build a Better Burger® promotion also provided a perfect opportunity to promote California Avocados and grilling in late summer. From Cinco de Mayo through Labor Day retailers throughout the country featured California Avocados in their ads, with prominent in-store displays and signage featuring the California Avocado Grower Campaign.

Grower appearances at CAC-facilitated events utilized effective one-on-one marketing, with growers meeting and speaking to key influencers and consumers on location and in grove tours with food bloggers and media personalities. California Avocado growers also participated in retail sponsored events such as "mini farmers' markets" to interact with shoppers, answering questions and promoting the availability of California Avocados.

The California Avocado industry was well-represented at industry events across the nation. At the 2010 Product Marketing Association (PMA) Fresh Summit, held in Orlando, Fla., Board members and CAC staff expanded on relationships with key retail decision makers from all over the country. This season's theme was "Driving Value at Retail." Signage in the booth informed visitors that retailers earned $108 million more from April through September 2009 when California Avocados were in peak season. The theme of "Driving Value at Retail" provides a solid foundation for future retail communications. Regional shows attended throughout the year also provided an opportunity to interact with retail decision makers in their local areas.

Public Relations

CAC encouraged consumer demand for California Avocados with extensive public relations outreach. There were three pillars of the public relations program: California Avocado grower stories focused on local farming and community; artisan chef features appealing to consumer interest in hand-crafted foods and promoting the versatility and premium quality of California Avocados; and nutrition communications.

The Commission connected with chefs in key markets to serve as media spokespeople. The season kicked off with a culinary-focused blogger event featuring the Too Hot Tamales and approximately 20 bloggers. Some of the chefs hosted impressive dinners with influential media guests, including the San Jose Mercury News, Sunset magazine and local food bloggers. Other artisan chefs participated on radio and television spots and in articles, featuring California Avocados in delicious dishes. The influential media attending these chef events organized by CAC reach a widespread consumer readership from across the country.

The Commission designated the week of June 7-14 as an "unofficial California Avocado Week." Artisan chefs created menu specials featuring California Avocados; they promoted them via their restaurant menus, e-newsletters and posts on Facebook and Twitter. Participating chefs included Kent Rathbun and Mark Dommen along with Mike & Molly Fagnoni of Hawks (Sacramento), Eric Tanaka of Tom Douglas Restaurants (Seattle) and Carol Wallack of Sola Restaurant (Chicago). Chef Trey Foshee of George's at the Cove (San Diego) also advocated California Avocados in season on a weekend morning news show and via a feature in the San Diego Union-Tribune. These artisan chefs provide an authentic voice and serve as positive media influencers to help spread the California Avocado story.

Nutrition outreach is one of the most powerful ways CAC can influence consumer demand. Key messages in 2009-10 included information about the concentration of beneficial carotenoids in California Avocados, the use of avocados as a fat replacement in baking and suggesting avocados as a first food for babies and toddlers.

CAC-sponsored research conducted at UCLA reported that California-grown avocados contain 11 carotenoids.[1] CAC's public relations outreach explained that, according to USDA's Agricultural Research Service, avocados contain a complex package of phytonutrients, including carotenoids that may provide numerous health benefits. Carotenoids appear to protect humans against certain cancers, heart disease and age-related macular degeneration.[2] The UCLA research showed that in California Avocados, the greatest concentration of beneficial carotenoids is in the dark green fruit of the avocado closest to the peel.[1] Via a nationwide public relations campaign, CAC encouraged consumers to 'nick and peel' their California Avocados and to eat that dark green area of the fruit. This campaign resulted in 33 million consumer impressions.

In total, CAC's 2009-10 public relations campaign attained more than 1.5 billion consumer impressions, which is an increase of 17 percent over the prior year. Looking forward to 2011, the Commission will continue to disseminate the good news about avocado nutrition, including messaging about babies, toddlers and all-family usage of avocados; outreach with well-known dietitians and integration of nutrition messages throughout CAC's marketing programs.

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1 Lu Q., California Hass Avocado: Profiling of Carotenoids, Tocopherol, Fatty Acid, and Fat Content During Maturation and From Different Growing Areas. J Agric Food Chem.2009; 57:10408–10413.

2 USDA Agricultural Research Service, Phytonutrient FAQ's, http://www.ars.usda.gov/aboutus/docs.htm?docid=4142

Foodservice

The Commission's 2009-10 foodservice outreach was directed to three areas of strategic focus: broadening awareness of Fresh California Avocados in season, demonstrating versatility, quality and value of California Avocados for foodservice use, and increasing demand and penetration among targeted foodservice operators. For foodservice accounts that already use fresh California Avocados, CAC created programs and menu concepts to encourage greater usage during the season. The Commission also used menu planning to develop foodservice accounts that added California Avocados to their operations for the first time, thus expanding distribution.

The California Avocado Grower Campaign with energized California branding was far-reaching in this past year's foodservice outreach, achieving 5.5 million targeted impressions and 86 unique editorial placements. Leading up to and during the season, the Commission promoted California Avocados to foodservice operators, editors and influencers. Foodservice ads targeted to restaurant chains, independents and onsite/foodservice management featured the *Hand Grown in California* thematic. Editorial placements and product releases communicated usage ideas and featured California Avocados. In addition to conducting editor desk-side briefings with key foodservice publications, CAC showcased usage ideas at the International Foodservice Editorial Council Conference, and brought editors from key foodservice publications and publicists into California Avocado groves for a hands-on tour. A separate "Avo Tour" attracted representatives from a wide variety of quick service restaurants, university feeding and family dining establishments. These tours were part of the groundwork that led to an unprecedented number of foodservice promotions with California Avocado branding in 2009-10.

"Los Angeles area SUBWAY® restaurants have worked with the California Avocado Commission for several years now, and have found their partnership to be most helpful in promoting our "fresh" attribute. Customers know SUBWAY® restaurants for the slogan "eat fresh." And to promote fresh sliced California Avocados in the Los Angeles area has been a key tie-in to offer customers fresh, healthier foods for today's active lifestyles."

- Dave Kenny, SUBWAY® LA

Several of the nation's largest contract feeders and 19 operators with more than 9,700 locations featured dynamic California Avocado promotions. Popular participating operators included Baja Fresh, BJ's, Chevys, Compass, El Torito, Farmer Boys, Maggiano's, Marie Callender's, On The Border, Retail Brands, Rubio's, Shari's, Sodexo, UC Berkeley and Villa Enterprises. Avocado usage for foodservice operators is proprietary, but as an example, one of these restaurant chains reports that they used nearly 135,000 pounds of avocados during a one-month Fresh California Avocado promotion. In addition, several sandwich chains featured signature sandwiches with California Avocados, including Farmer Boy's, Submarina, Subway LA, Togo's and Which Wich. Through new synergies with social media channels, CAC helped increase program awareness via cross-promotions on Facebook and Twitter. Fans responded, expressing their love of California Avocados and praise for the restaurants that featured them.

Targeting foodservice and retail accounts that align with the California Avocado premium brand will remain a strategic focus. Consumers who have a preference for avocado country of origin significantly prefer California-grown avocados to those from other origins. This preference generally corresponds to premium pricing at retail during the season when California Avocados are available versus the season when they are not. CAC will continue to build upon the valuable premium position of California Avocados, using the brand platform to encourage demand among consumers, retailers and foodservice into the future.

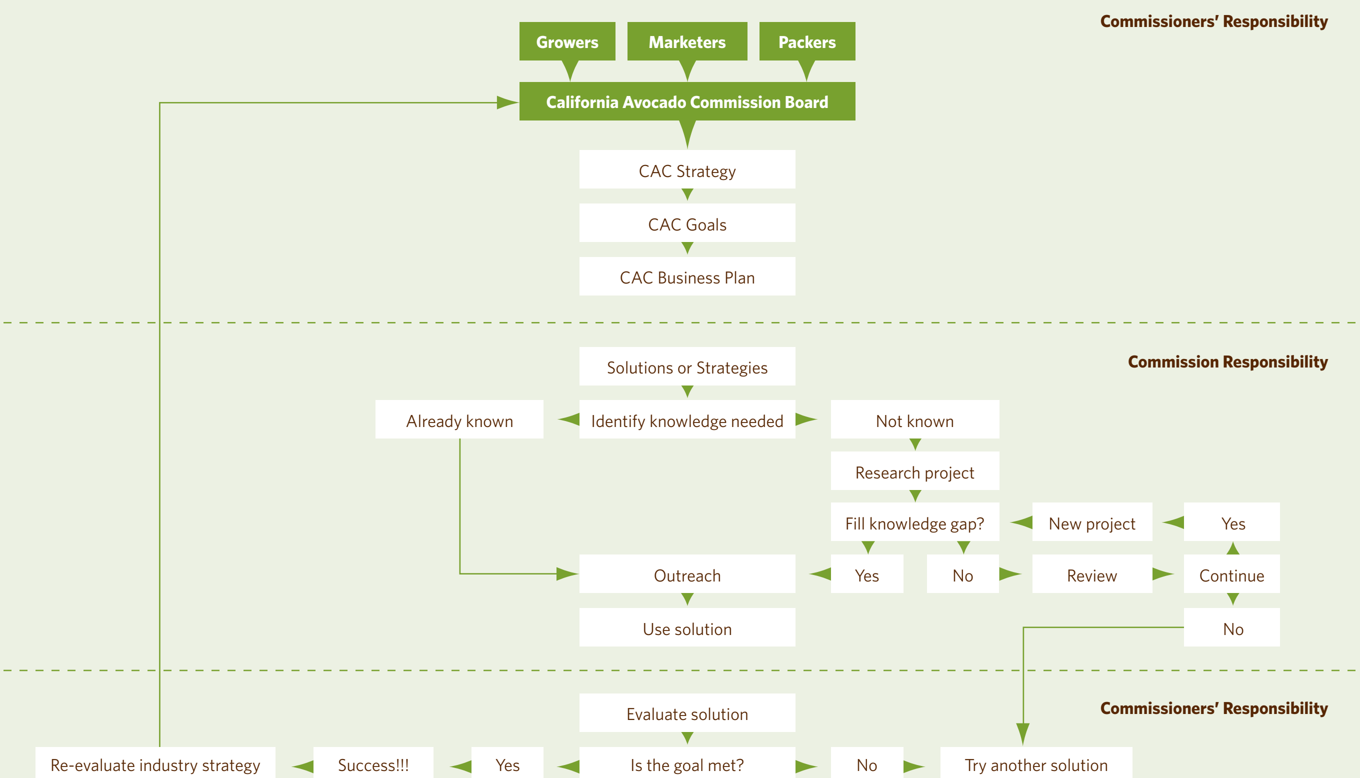
CAC is continuing its transformative process, with staunch evaluation of all Commission activities. In previous years, CAC made significant improvements in marketing, administration and industry affairs. In 2009-10, the Commission switched its focus to the production research program, thoroughly scrutinizing active processes and the program's responsiveness to the growers' most urgent needs.

The Board of Directors affirmed that research and development must remain a Commission cornerstone, that room for improvement exists and that CAC and stakeholders must regard production research and communication as vital technical investments contributing to the future value of the California Avocado industry.

Dr. Jonathan Dixon, former research scientist at the New Zealand Avocado Growers' Association and Industry Council Ltd. and internationally recognized avocado expert who has made notable scientific contributions to the global avocado industry, joined CAC as research program director in 2010. Dixon, who offers 30-years experience in avocados, horticulture, plant science, plant health and molecular bioscience, examined the science management of the Commission and identified a significant gap between research results and growers' application to their groves. CAC is working to bridge that gap, through improved grower outreach, including a significantly strengthened communications program and a closer connection with growers in the field.

After gathering grower input, CAC's Board of Directors identified the need for CAC's research program to be aligned with CAC's future vision and strategic needs. The Board will be considering a new production research and science management

Production Research Technical Investment Framework



review process, which integrates science with grower and marketing needs. Planning and goal setting will be geared toward an increasingly accountable and responsive technical-investment system. In addition, the Commission is taking steps to improve spending accountability on research projects. These measures will support CAC's strategic priorities and, ultimately, serve to strengthen California Avocado growers' competitiveness, sustainability and profitability.

Industry Affairs

Through proactive action in response to critical issues, CAC achieved some notable successes in 2010, securing economic value, alleviating regulatory burdens and improving industry competitiveness for avocado growers throughout the state. Topping the list of issues were water, invasive pests and food safety; concerns that will likely remain in 2011 and beyond, requiring continual Commission involvement on behalf of growers.

CAC Encourages San Diego County Water Authority to Extend Special Agricultural Water Rate (SAWR) for Avocado Growers

In spring 2010, the San Diego County Water Authority was poised to eliminate the $48/acre foot (af) supply portion discount of its Special Agricultural Water Rate (SAWR), further exacerbating a dire water environment for avocado growers in San Diego County.

CAC Water Committee Chairman Charley Wolk and CAC President Tom Bellamore, in conjunction with the San Diego County Farm Bureau, took immediate action to preserve and enhance the SAWR program. Numerous workgroup meetings took place, and CAC strongly advocated the County Water Authority (CWA) to broadly evaluate the regional benefits generated by a viable agricultural sector. Consequently, at the March 25, 2010 CWA board meeting, attended by Wolk, Bellamore and a rallied coalition of avocado-industry members, the Water Authority Board unanimously voted to extend, and likely increase, the SAWR through December 31, 2012. This hard-fought extension is valued at nearly $5 million, annually, to avocado growers in the Water Authority's service area.

The Water Authority also consented to review the SAWR with agricultural representatives within 12 months (and annually thereafter) to identify further water-management and conservation programs; as well as a comprehensive program evaluation by 2016. Growers can be sure CAC will build on its notable gains from 2010 and will continue working closely with the Water Authority during the review; to ultimately represent California Avocado growers' water-related needs.

Progress in Central Coast Water-Discharge Regulations

The Central Coast Water Board's 2004 Conditional Waiver of Waste Discharge Requirements for Discharges from Irrigated Lands, regulating runoff from irrigated ag land and maintaining water quality, expired in 2009. Since then, the Conditional Waiver has undergone a lengthy and contentious renewal process – striving to balance Water Board and agricultural interests – in which CAC has proactively represented grower interest.

When the Central Coast Regional Water Quality Control Board (CCRWQCB) staff released its initial Draft Ag Waiver in February 2010, the document failed to recognize agricultural diversity, unjustly applying blanket regulations to all commodities and proving unnecessarily burdensome, invasive and costly to Central Coast avocado growers. Therefore, throughout 2010, CAC strongly advised the Water Board to consider the differences in discharge risk associated with various crops, specifically emphasizing avocados' inherent and technically low risk. The Commission submitted multiple letters, attended workshops and meetings with the Water Board and its staff and provided testimony to the CCRWQCB, on avocado growers' behalf. Throughout the renewal process, CAC also collaborated with an Agricultural Coalition (comprised of numerous Central Coast agricultural organizations) to provide a voice for Central Coast avocado growers, keep them abreast of waiver updates and, ultimately, develop an Ag Alternative Proposal designed to improve water quality, while yielding scientific prudence and workability for growers.

A victory for CAC's efforts, the CCRWQCB staff's revised Draft Ag Waiver, released in November 2010, bore significant changes from its initial February 2010 draft and seemingly acknowledged CAC's request to consider the minimal-discharge risk generated by avocado growers. The new draft separates growers into three regulatory tiers, according to risk, in which the majority of Central Coast avocado growers will likely fall into the least-stringent tier.

The CCRWQCB is not slated to adopt the final Conditional Waiver until March 2011, so the outcome remains unknown. However, the CCRWQCB's response to CAC's concerns – and respect to efficient irrigation and production practices among avocado growers – represents a productive milestone.

CAC Proposal Achieves Removal of Hass Avocados from Medfly Host List

In recent years, Mediterranean fruit fly (Medfly) bait treatments had emerged as an unnecessary cost and labor burden to Medfly quarantined avocado growers. Now, due to unwavering action by the Commission in spring 2010, bait treatments are one concern growers can remove from their lists.

The Commission submitted a persuasive proposal to the U.S. Department of Agriculture (USDA), requesting Hass Avocados be removed from the Medfly host list and consideration be given to revising the current field procedures used in managing Medfly quarantines. In its proposal, CAC provided evidence from recent South African and Argentinean studies, identifying Hass Avocados as poor hosts.

As a result of CAC's efforts, the USDA removed Hass Avocados from the Medfly host list in April 2010. The USDA response stated,

> *"We have carefully considered your proposal and supporting scientific evidence on the host status of pre-harvest avocados for Medfly. We agree that an approach similar to that used for Mexican fruit fly outbreaks can be applied to Medfly outbreaks."*
>
> — Alan Green, Executive Director
> USDA-APHIS-PPQ Plant Health Programs

Adult Mediterranean Fruit Fly. Photo courtesy of the California Department of Food and Agriculture.

Consequently, growers under Medfly quarantine are no longer required to apply pre-harvest bait treatments to Hass avocados, before movement. Additionally, Medfly quarantines in Fallbrook and Escondido were effectively eradicated in August 2010.

CAC Action to Help Growers Meet Emerging Food-Safety Compliance Demands: Development of Avocado-Specific Good Agricultural Practices (GAP) Manual

A series of highly publicized food-borne illness outbreaks have placed the safety of fresh produce at the forefront with consumers, the trade and federal government. As a result, the produce industry – including the avocado industry – is under pressure to minimize food-safety risks and document safety processes throughout the supply chain. Addressing these mounting concerns, the CAC Board of Directors identified GAP as an important issue for 2009-10 and, at its March 2010 board meeting, took significant strides to set the stage to build upon CAC's 2006 Good Agricultural Practices Handbook and develop a more encompassing California Avocado Good Agricultural Practices (GAP) Manual and Standard.

Upon directive from the Board, CAC and the GAP Committee, in conjunction with growers, handlers, the citrus industry and auditing bodies, have worked continually towards producing the official California Avocado Industry GAP Standard. Significant progress has been made and, in 2011, CAC plans to introduce the manual and standard to avocado growers and industry stakeholders.

The key objective of the GAP Manual is to document grower measures that minimize or eradicate the low food-safety risks present in avocado production, equipping avocado growers with the tools and compliance information needed to pass third-party GAP audits with ease. Upon completion, the GAP Manual and Standard, tailored to the low risk California Avocado industry, are expected to prove valuable to growers, regulatory/auditing bodies, customers and – most importantly – will reaffirm consumer confidence in California Avocados.

Elevating Outreach to California Avocado Growers

Throughout the years, the Commission has supported a significant amount of production research and industry advocacy. However, the Board identified the need to improve communication of new and existing knowledge to California Avocado growers. In 2009-10, CAC began overhauling various grower communication vehicles, including:

- A new grower website, separate from CAC's consumer website, which features information about industry issues and news, research, cultural management, the GAP program and the Commission: CaliforniaAvocadoGrowers.com
- Greensheet redesign, to include timely, pertinent news, with an emphasis on grower-focused and production-research information: CaliforniaAvocadoGrowers.com/the-greensheet/
- Cultural-management assistance, through Grower Fact Sheets, videos and educational handouts: CaliforniaAvocadoGrowers.com/cultural-management/
- Field days and Grower Seminar Series (new and beneficial collaboration among the Commission, California Avocado Society, county-farm advisors and researchers)
- E-mail blasts to maintain industry awareness of timely, newsworthy events

In addition, CAC facilitated a steady stream of one-on-one and small group grower meetings. These interactive forums provide the opportunity for growers to communicate issues to CAC staff, and for CAC staff to provide information and personally address growers' concerns. CAC will continue to improve communications to the growers into 2011 and beyond, efficiently delivering information that strengthens grower production and profitability.

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The Board of Directors of the California Avocado Commission

Independent Auditor's Report

We have audited the accompanying basic financial statements of the California Avocado Commission (Commission) as of and for the years ended October 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2011, 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 for the year ended October 31, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Commission's basic financial statements. The budgetary comparison schedule and the combining statement of revenues, expenses and changes in net assets for the year ended October 31, 2010, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedule and the combining statement of revenues, expenses and changes in net assets have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California
January 6, 2011

3000 S Street Suite 300 Sacramento CA 95816	2121 N. California Blvd. Suite 750 Walnut Creek CA 95496	505 14th Street 5th Floor Oakland CA 94612	515 S. Figueroa Street Suite 325 Los Angeles CA 90071	2029 Century Park East Suite 500 Los Angeles CA 90067	1201 Dove Street Suite 680 Newport Beach CA 92660	225 Broadway Suite 1750 San Diego CA 92101

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, 2010 and 2009. 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 2010 assets exceeded its liabilities as of October 31, 2010, by $9,661,722 (total net assets). This amount increased by $6,790,452 or 236% from the prior year amount of $2,871,270.
- Of total net assets at the end of fiscal year 2010, net assets invested in capital assets, net of related debt, decreased $10,121 to $42,085 or 19% from the prior year amount of $52,206.
- Net assets restricted for marketing at the end of fiscal year 2010 increased $1,986,370 to $2,224,362 or 835% from the prior year amount of $237,992.
- Unrestricted net assets at the end of fiscal year 2010 increased $4,814,203 to $7,395,275 or 187% from the prior year amount of $2,581,072. This amount made up 77% of total net assets.
- The Commission's 2009 assets exceeded its liabilities as of October 31, 2009 by $2,871,270 (total net assets). This amount decreased by $736,725 or 20% from the prior year amount of $3,607,995.
- Of total net assets at the end of fiscal year 2009, net assets invested in capital assets, net of related debt, decreased $7,512 to $52,206 or 13% from the prior year amount of $59,718.
- Net assets restricted for marketing at the end of fiscal year 2009 decreased $156,273 to $237,992 or 40% from the prior year amount of $394,265.
- Unrestricted net assets at the end of fiscal year 2009 decreased $572,940 to $2,581,072 or 18% from the prior year amount of $3,154,012. This amount made up 90% of total net assets.

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 Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows. The Commission's basic financial statements 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 Assets* present information on all assets and liabilities of the Commission, using the accrual basis of accounting, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the current financial condition of the Commission.

The *Statements of Revenues, Expenses and Changes in Net Assets* present information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets 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 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 required MD&A, the financial statements also present the following supplementary information: Budgetary Comparison Schedule and Combining Statement of Revenues, Expenses and Changes in Net Assets (broken down by Restricted and Unrestricted).

Financial Analysis

Comparative data for the year ended October 31, 2009, has been presented in the accompanying financial statements (including MD&A) to facilitate financial analysis for the current year ended October 31, 2010. A comparative analysis of fiscal year 2009 with fiscal year 2008 is also presented in the MD&A.

Statements of Net Assets

Table 1
Net Assets

	2010	2009
Current assets	$ 11,479,609	$ 3,890,551
Capital assets (net)	54,796	77,148
Total assets	11,534,405	3,967,699
Current liabilities	1,740,511	951,843
Non-current liabilities	132,172	144,586
Total liabilities	1,872,683	1,096,429
Net assets:		
Invested in capital assets, net of debt	42,085	52,206
Restricted for marketing	2,224,362	237,992
Unrestricted	7,395,275	2,581,072
Total net assets	$ 9,661,722	$ 2,871,270

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. The largest portion (99%) of the Commission's assets in 2010 was current assets, consisting primarily of cash, investments, accounts receivable and fiduciary cash and investments, amount held for Avocado Inspection Program (AIP), totaling $11,479,609; up $7,589,058 from the prior year amount of $3,890,551. This increase was mainly due to an increase in cash and cash equivalents due to higher assessment revenue generated from higher production this year compared to the prior year. The increase was also due to higher assessments receivable due to longer season compared to prior year. Total current assets cover current liabilities 6.6 times, and indicate good liquidity.

In 2009, the largest portion (98%) of the Commission's assets were also current assets, consisting primarily of cash, investments, and accounts receivable, totaling $3,890,551; down $935,090 from the prior year amount of $4,825,641. This decrease was mainly due to a decrease in cash and cash equivalents due to lower assessment revenue generated from lower production this year compared to the prior year. The decrease was also due to lower assessments receivable due to shorter season compared to prior year. Total current assets cover liabilities 3.5 times, and indicate good liquidity.

Liabilities as of October 31, 2010 totaled $1,872,683, which increased $776,254 from the October 31, 2009, balance of $1,096,429. The increase was mainly due to more obligations owed to vendors and higher balance of fiduciary liability, amount held for AIP. Liabilities were primarily accounts payable, accrued liabilities, fiduciary liabilities, amounts held for AIP and deposits due which are considered current liabilities.

Liabilities as of October 31, 2009, totaled $1,096,429, which decreased $192,229 from the October 31, 2008, balance of $1,288,658. The decrease was mainly due to fewer obligations owed to vendors. Liabilities were primarily accounts payable, accrued liabilities and deposits due which were considered current liabilities.

Net assets invested in capital assets, net of related debt, represent 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 assets invested in capital assets (net of accumulated depreciation) totaled $42,085 at the end of fiscal year 2010; a decrease of $10,121 from the prior year amount of $52,206 primarily due to the depreciation and deletions of capital assets. Net assets invested in capital assets made up 0.4% of total net assets.

At the end of fiscal year 2009, net assets invested in capital assets (net of accumulated depreciation) totaled $52,206 at the end of fiscal year 2009; a decrease of $7,512 from the prior year amount of $59,718 primarily due to the depreciation of capital assets. 2009 net assets invested in capital assets made up 2% of total net assets.

Restricted net assets for marketing activities are subject to imposed restrictions by federal statute governing their use. Restricted net assets totaled $2,224,362 at the end of 2010, an increase of $1,986,370 from the prior year amount of $237,992, primarily due to higher production and therefore higher revenue from the 85% assessment rebate funds received from the Hass Avocado Board (HAB). Restricted net assets are 23% of total net assets and are subject to external restrictions on how they can be used. Restricted net assets at the end of 2009 totaled $237,992, a decrease of $156,273 from the prior year amount of $394,265, primarily due to lower production and therefore less revenue from the 85% assessment rebate funds received from the HAB.

Unrestricted net assets available for future activities at the end of fiscal year 2010 totaled $7,395,275, an increase of $4,814,203 from the prior year amount of $2,581,072. Unrestricted net assets available for future activities totaled $2,581,072 at the end of fiscal year 2009, a decrease of $572,940 from the prior year amount of $3,154,012.

Statements of Revenues, Expenses and Changes in Net Assets

Table 2
Changes in Net Assets

	2010	2009
Operating revenues	$ 19,381,436	$ 9,611,649
Operating expenses	12,780,452	10,407,697
Operating income (loss)	6,600,984	(796,048)
Non-operating revenues (expenses)	189,468	59,323
Changes in net assets	6,790,452	(736,725)
Total net assets - beginning	2,871,270	3,607,995
Total net assets - ending	$ 9,661,722	$ 2,871,270

Operating revenues of $19,381,436 in 2010 were $9,769,787 or 102% higher than the $9,611,649 earned in 2009. The increase was due to higher production compared to 2009. Total crop (all varieties) reported to the Commission for fiscal year 2010 was 534.5 million pounds, a 206% increase from 174.5 million pounds reported in 2009. Of the operating revenue, the largest portion, $18,629,641 (96%), reflected assessment revenue. The remaining portion of $751,795 (4%) came from administrative and marketing fees generated from HAB and AIP.

Operating revenues of $9,611,649 in 2009 were $6,426,036 or 40% lower than the $16,037,685 received in 2008. The decrease was due to lower production compared to 2008. Total crop (all varieties) reported to the Commission for fiscal year 2009 was 174.5 million pounds, a 47% decrease from 328.8 million pounds reported in 2008. Of the operating revenue, the largest portion, $8,671,149 (90%), reflected assessment revenue. The remaining portion of $940,500 (10%) came from administrative and marketing fees generated from the HAB and AIP.

Operating expenses totaled $12,780,452 in 2010, which was an increase of $2,372,755 or 23% from the prior year amount of $10,407,697. This was primarily due to an increase in marketing activities to respond to a higher production in 2010.

Operating expenses totaled $10,407,697 in 2009, which was a decrease of $4,975,914 or 32% from the prior year amount of $15,383,611. This was primarily due to a reduction in marketing and administration activities.

At the end of the fiscal year 2010, the Commission reported ending net assets of $9,661,722, which was $6,790,452 higher than the $2,871,270 reported in 2009. This was mainly due to an increase in assessment revenue received, resulting from higher production.

At the end of the fiscal year 2009, the Commission reported ending net assets of $2,871,270, which was $736,725 less than the 2008 year of $3,607,995. This was mainly due to a decrease in assessment revenue received, resulting from lower production.

Capital Asset and Debt Administration

The Commission's investment in capital assets, as of October 31, 2010, totaled $54,796, which was a decrease of $22,352 from the prior year amount of $77,148 (net of accumulated depreciation). The decrease represented a net resultant of an increase due to capital asset acquisitions during fiscal year 2010 and a decrease caused by the depreciation on capital assets used for program activities of the Commission and capital asset write-off during the fiscal year.

The Commission's investment in capital assets, as of October 31, 2009, totaled $77,148, which was an increase of $6,136 from the prior year amount of $71,012 (net of accumulated depreciation). The increase represents capital asset acquisitions during fiscal year 2009 partially offset by the depreciation on capital assets used for program activities of the Commission.

As of October 31, 2010, the Commission had an accrued compensated absences balance of $119,461, which decreased by $183 from the prior year balance of $119,644. The prior year balance was a $49,861 decrease from the October 31, 2008, balance of $169,505. The decrease from 2008 to 2009 was mainly due to a reduction of the Commission's workforce in July 2009.

At the end of fiscal year 2010, the Commission had non-current liabilities for a copier and a mailing machine identified as capital leases with a combined balance outstanding of $12,711, which was a decrease of $12,231 of the prior year balance of $29,942 due to principal payments. Prior year balance was an increase of $13,648 from 2008 year-end balance of $11,294 due to a new capital lease for a copier offset by principal payments. Additional information can be found in Notes to the Financial Statements of this report.

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
949-341-1955.

Statements of Net Assets

October 31, 2010 and 2009

	2010	2009
Current assets:		
Cash and cash equivalents	$ 6,835,579	$ 3,259,572
Assessments receivable	824,876	15,261
Other receivables	28,075	31,281
Prepaid expenses	86,726	49,048
Fiduciary cash and investments, amounts held for AIP	1,043,726	257,204
Restricted:		
Cash and cash equivalents	406,016	52,808
Assessments receivable	2,254,611	225,377
Total current assets	11,479,609	3,890,551
Non-current assets:		
Capital assets:		
Being depreciated, net	54,796	77,148
Total assets	11,534,405	3,967,699
Current liabilities:		
Accounts payable and accrued liabilities	227,081	544,164
Accounts payable and accrued liabilities payable from restricted assets	436,264	40,192
Fiduciary liabilities, amounts held for AIP	1,043,726	257,204
Deposits	33,440	18,000
Unearned revenue	—	92,283
Non-current liabilities:		
Due within one year	76,232	59,351
Due in more than one year	55,940	85,235
Total liabilities	1,872,683	1,096,429
Net assets:		
Invested in capital assets, net of related debt	42,085	52,206
Restricted for marketing	2,224,362	237,992
Unrestricted	7,395,275	2,581,072
Total net assets	$ 9,661,722	$ 2,871,270

See Accompanying Notes to Financial Statements.

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended October 31, 2010 and 2009

	2010	2009
Operating revenues:		
Assessment revenue	$ 7,858,927	$ 5,263,530
HAB rebate assessment revenue (restricted)	10,770,714	3,407,619
Administrative and marketing fees	751,795	940,500
Total operating revenues	19,381,436	9,611,649
Operating expenses:		
Marketing	8,779,703	5,732,181
Non-marketing programs	1,553,498	1,741,803
Administration	2,447,251	2,933,713
Total operating expenses	12,780,452	10,407,697
Operating income (loss)	6,600,984	(796,048)
Non-operating revenues (expenses):		
Interest income	24,638	41,242
Interest (expense)	(1,309)	(9,760)
Other income	166,139	27,841
Total non-operating revenues (expenses)	189,468	59,323
Change in net assets	6,790,452	(736,725)
Total net assets – beginning	2,871,270	3,607,995
Total net assets – ending	$ 9,661,722	$ 2,871,270

See Accompanying Notes to Financial Statements.

Statements of Cash Flows

For the Years Ended October 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 17,272,950	$ 9,951,653
Cash payments to suppliers for goods and services	(11,197,185)	(8,527,803)
Cash payments to employees for services	(1,485,899)	(2,126,039)
Net cash provided by (used in) operating activities	4,589,866	(702,189)
Cash flows from non-capital financing activities:		
Grant revenue	—	2,871
Cash receipts from sublessee	133,209	—
Net cash provided by non-capital financing activities	133,209	2,871
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(33,888)	(24,226)
Proceeds from sale of capital assets	2,686	5,478
Interest paid	(1,309)	(9,760)
Capital lease payments	(12,231)	(11,441)
Other	12,766	19,492
Net cash provided by (used in) capital and related financing activities	(31,976)	(20,457)
Cash flows from investing activities:		
Interest on investments	24,638	41,242
Net increase (decrease) in cash and cash equivalents	4,715,737	(678,533)
Cash and cash equivalents – beginning	3,569,584	4,248,117
Cash and cash equivalents – ending	$ 8,285,321	$ 3,569,584
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 6,600,984	$ (796,048)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	39,951	43,179
Expense of capital assets below threshold	16,289	—
Change in assets and liabilities:		
(Increase) decrease in assessments receivable	(2,838,849)	253,619
Decrease in other receivables	20,684	12,489
(Increase) in prepaid expenses	(37,678)	(9,550)
Increase (decrease) in accounts payable and accrued liabilities	78,989	(229,913)
Increase (decrease) in fiduciary liabilities and deposits	801,962	(18,387)
Increase (decrease) in unearned revenue	(92,283)	92,283
(Decrease) in compensated absences	(183)	(49,861)
Net cash provided by (used in) operating activities	$ 4,589,866	$ (702,189)
Non-cash capital and related financing activity:		
Acquired new capital lease	$ —	$ 25,089

See Accompanying Notes to Financial Statements.

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 carry on programs of advertising, promotion, marketing research, and production research relating to the sale of California Avocados. The Commission is authorized to levy an assessment against producers of avocados for purposes of carrying out its programs. The assessment for the year ended October 31, 2010 and 2009 was 1.95% and 2.62%, respectively, of the gross revenues paid to 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 in the United States, which are 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 non-operating 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 non-operating 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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the basic financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.

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.

C. Assets, Liabilities, and Net Assets

1. *Cash Equivalents*
   For purposes of the statement of cash flows, the Commission considers cash and funds invested in the Local Agency Investment Fund 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*
   In accordance with Governmental Accounting Standards Board Statement No. 31, all investments are recorded at fair value, which is the value at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. 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 provided. 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. There were no charges made to bad debt expense for the years ended October 31, 2010 and 2009.

4. *Capital Assets*
   Capital assets consist of furniture, office equipment and leasehold improvements. The Commission capitalizes assets with values of at least $10,000 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 valued at fair 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 using the straight-line method using the following lives:

	Years
Furniture	5
Office equipment	3
Leasehold improvements	Lesser of 5 years or term of lease
Software	3

5. *Unearned Revenues*
   Unearned revenues represent grants and program fees received in advance.

6. *Compensated Absences Payable*
   The 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 not to exceed 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 in time off or in cash (upon leaving the employment of the Commission). All compensated absences are accrued when incurred.

7. *Estimates*
   The preparation of these financial statements requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results may differ from such estimates.

8. *Restricted Assets*
   These restricted assets are restricted to be used for marketing related activity and also include assets held on behalf of the Avocado Inspection Program.

9. *Net Assets*
   Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are 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. All remaining net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted are reported as unrestricted net assets.

2. Detailed Notes on Enterprise Fund

A. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	2010	2009
Petty cash	$ 200	$ 200
Demand deposits	610,358	152,640
Investments	7,674,763	3,416,744
Total cash and investments	$ 8,258,321	$ 3,569,584

Investments Authorized by the California Government Code and the Commission's Investment Policy
The Commission adopted California Government Code (CGC) 16430 and the U.S. Department of Agriculture (USDA) Directive 2210.2 as its investment policy. The table below identifies the investment types that are authorized under CGC 16430. The table also identifies certain provisions of the CGC 16430 and USDA Directive 2210.2 that address interest rate risk and concentration of credit risk.

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

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

	Remaining Maturity 12 Months or less	
Investment Type	**2010**	**2009**
Local Agency Investment Fund	$ 7,674,763	$ 3,416,744

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 California Government Code 16430. The Commission had no investments in any one issuer (other than external investment pools) that represent 5% or more of total Commission investments at October 31, 2010 and 2009.

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

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

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

The total amount invested by all public agencies in LAIF as of October 31, 2010 was $21.4 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at October 31, 2010 had a balance of $68.6 billion. Of that amount, 4.71% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 191 days as of October 31, 2010.

The total amount invested by all public agencies in LAIF as of October 31, 2009 was $22.2 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at October 31, 2009 had a balance of $63.3 billion. Of that amount, 10.10% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 253 days as of October 31, 2009.

B. Capital Assets

Changes in capital assets were as follows:

	November 1, 2009	Additions	Deletions	October 31, 2010
Capital assets, being depreciated:				
Furniture	$ 90,480	$ 26,159	$ (9,074)	$ 107,565
Office equipment	156,320	—	(68,118)	88,202
Leasehold improvements	22,042	7,729	(15,271)	14,500
Software	8,876	—	(8,876)	—
Total capital assets, being depreciated	277,718	33,888	(101,339)	210,267
Less accumulated depreciation for:				
Furniture	64,700	16,718	(9,074)	72,344
Office equipment	115,969	19,361	(66,703)	68,627
Leasehold improvements	19,655	1,406	(6,561)	14,500
Software	246	2,466	(2,712)	—
Total accumulated depreciation	200,570	39,951	(85,050)	155,471
Net capital assets	$ 77,148	$ (6,063)	$ (16,289)	$ 54,796

	November 1, 2008	Additions	Deletions	October 31, 2009
Capital assets, being depreciated:				
Furniture	$ 90,480	$ —	$ —	$ 90,480
Office equipment	140,736	40,439	(24,855)	156,320
Leasehold improvements	22,042	—	—	22,042
Software	—	8,876	—	8,876
Total capital assets, being depreciated	253,258	49,315	(24,855)	277,718
Less accumulated depreciation for:				
Furniture	48,419	16,281	—	64,700
Office equipment	115,681	25,143	(24,855)	115,969
Leasehold improvements	18,146	1,509	—	19,655
Software	—	246	—	246
Total accumulated depreciation	182,246	43,179	(24,855)	200,570
Net capital assets	$ 71,012	$ 6,136	$ —	$ 77,148

Depreciation expense was $39,951 and $43,179 for the years ended October 31, 2010 and 2009, respectively.

C. Long-term Liabilities

	November 1, 2009	Additions	Deletions	October 31, 2010	Amount Due within One Year
Capital leases	$ 24,942	$ —	$ (12,231)	$ 12,711	$ 12,711
Compensated absences	119,644	71,348	(71,531)	119,461	63,521
Total	$ 144,586	$ 71,348	$ (83,762)	$ 132,172	$ 76,232

	November 1, 2008	Additions	Deletions	October 31, 2009	Amount Due within One Year
Capital leases	$ 11,294	$ 25,089	$ (11,441)	$ 24,942	$ 12,231
Compensated absences	169,505	94,639	(144,500)	119,644	47,120
Total	$ 180,799	$ 119,728	$ (155,941)	$ 144,586	$ 59,351

Capital Leases:

During the year ended October 31, 2008, the Commission entered into a capital lease agreement for a mailing system in the amount of $11,576, bearing interest 8.79%. Monthly principal payments are due on the 30th of every month, ranging from $284 to $364 through September 30, 2011.

During the year ended October 31, 2009, the Commission entered into a capital lease agreement for a copier in the amount of $25,089, bearing interest 5.74%. Monthly principal payments are due on the 1st of every month, ranging from $640 to $757 through October 1, 2011.

The annual requirements to amortize the capital lease obligations as of October 31, 2010 are as follows:

Year Ending October 31,	Principal	Interest
2011	$ 12,711	$ 461

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. Since the Commission is in substance an agent for the State, the fiduciary cash and investment, amounts held for AIP held by the Commission are off-set by fiduciary liabilities, amounts held for AIP. As of October 31, 2010 and 2009, $1,043,726 and $257,204, respectively, was held by the Commission for the Avocado Inspection Program.

B. Line of Credit

On September 28, 2010, the Commission obtained a revolving line of credit from Wells Fargo Bank, in the amount of $3,000,000 with a variable interest rate at prime rate plus 1% with a floor of 4.75%. The maturity date for the line of credit is October 1, 2011. The Commission did not utilize this line of credit during the year ended October 31, 2010.

On September 22, 2009, the Commission obtained a revolving line of credit from Wells Fargo Bank, in the amount of $3,000,000 with a variable interest rate at prime rate plus 0.500% with a floor of 4.5%. The maturity date for the line of credit is October 1, 2010. The Commission did not utilize this line of credit during the year ended October 31, 2010.

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. Their coverages are as follows:

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

Automobile Liability insured by Associated Indemnity 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.

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 Assurance Company — Coverage is $5,000,000 aggregate limit with a $15,000 retention.

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

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

Advertiser Liability insured by Axis Insurance/Media Professional — Coverage is $1,000,000 each loss and any one policy period, with a $10,000 self insurance retention for each loss.

Workers' Compensation Coverage
The Commission is a member of the State Compensation Insurance Fund (SCIF), a self-supporting, non-profit enterprise that provides workers' compensation insurance to California employers. The coverage is $1 million 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. The Commission cancelled Foreign Insurance coverage as of June 23, 2010, because commissioners and employees no longer travel internationally.

D. Employee Retirement Plan

The Board of Directors of the California Avocado Commission implemented a Profit Sharing Plan (PSP) for eligible Commission employees, effective November 1, 2000. The Commission's payroll for the nine employees eligible to participate in the PSP for the plan year ended October 31, 2010, was $993,896. The total payroll for the fifteen employees eligible to participate in the PSP for the plan year ended October 31, 2009 was $1,607,820. The total contributions for the years ended October 31, 2010 and 2009, were $99,390 and $166,101, respectively.

The Commission determines, in its discretion, the contribution which will be made to the PSP. With a few exceptions, each eligible employee received an allocation of 10% of compensation up to a maximum of $49,000 for the Plan Year ended October 31, 2010. 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 a new office space under a five-year lease ending November 30, 2014. On November 20, 2009, the Commission subleased its previous office space, with a lease ending July 31, 2011, to Location Based Technologies, Inc. During the years ended October 31, 2010 and 2009, the Commission paid $96,302 and $291,780, respectively, for the office rent, inclusive of operating expenses. The Commission received $150,687 in the year ended October 31, 2010. There was no sublease income in the year ended October 31, 2009.

On September 7, 2009, the Commission entered into an agreement to lease two printers. During the years ended October 31, 2010 and 2009, the Commission paid $6,039 and $567, respectively, including tax for the printers' lease.

The annual requirements to amortize the operating lease obligations as of October 31, 2010 are as follows:

Year Ending October 31,	Office Space	Printers
2011	$ 207,912	$ 5,424
2012	56,960	4,972
2013	62,802	—
2014	66,307	—
2015	5,550	—
Total	399,531	$ 10,396
Less Sublease Income		
2011	(138,956)	
Total	(138,956)	
Net Payment		
2011	68,956	
2012	56,960	
2013	62,802	
2014	66,307	
2015	5,550	
Total	$ 260,575	

Budgetary Comparison Schedule

For the Year Ended October 31, 2010 (with comparative actual total for the year ended October 31, 2009)

	2010				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	2009 Actual
Revenues:					
Assessment revenue	$ 6,142,500	$ 6,142,500	$ 7,858,927	$ 1,716,427	$ 5,263,530
HAB rebate assessment revenue (restricted)	8,893,125	8,893,125	10,770,714	1,877,589	3,407,619
Administrative and marketing fees	647,200	660,485	751,795	91,310	940,500
Investment and interest income	2,200	2,200	24,638	22,438	41,242
Other income:					
Grant revenue	—	—	9,825	9,825	2,871
Other income	—	146,410	156,314	9,904	24,970
Total other income	—	146,410	166,139	19,729	27,841
Total revenues	15,685,025	15,844,720	19,572,213	3,727,493	9,680,732
Expenses:					
Marketing:					
Consumer advertising	5,300,000	5,300,000	5,254,597	45,403	3,236,590
Merchandising/trade	1,328,200	1,328,200	1,301,879	26,321	805,547
Foodservice	860,000	860,000	813,186	46,814	623,541
Public relations and nutrition	900,000	869,200	840,332	28,868	699,873
Internet marketing	550,000	580,800	569,709	11,091	366,630
Total marketing	8,938,200	8,938,200	8,779,703	158,497	5,732,181
Non-marketing programs:					
Industry affairs	1,066,250	1,067,250	394,197	673,053	722,784
Production research	1,175,900	1,175,900	1,149,476	26,424	1,016,148
Grant expenses	—	—	9,825	(9,825)	2,871
Total non-marketing programs	2,242,150	2,243,150	1,553,498	689,652	1,741,803
Administration:					
Administration	2,196,450	2,339,450	2,364,159	(24,709)	2,812,547
Information systems	68,500	68,500	43,141	25,359	77,987
Depreciation	22,200	22,200	39,951	(17,751)	43,179
Interest expense	32,500	32,500	1,309	31,191	9,760
Total administration	2,319,650	2,462,650	2,448,560	14,090	2,943,473
Total expenses	13,500,000	13,644,000	12,781,761	862,239	10,417,457
Change in net assets	2,185,025	2,200,720	6,790,452	4,589,732	(736,725)
Total net assets – beginning	2,871,270	2,871,270	2,871,270	—	3,607,995
Total net assets – ending	$ 5,056,295	$ 5,071,990	$ 9,661,722	$ 4,589,732	$ 2,871,270

See Accompanying Note to Supplementary Information.

1. Budgetary Information

A. Budgets and Budgetary Accounting

Each year the Commission adopts a budget, which 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 Finance and Accounting Manager to review each line item. The overall combined budget is prepared by the President and Finance and Accounting Manager and presented to the Board. Line item transfers do not need Board approval, but require notification to the Finance Committee. Any increases or decreases in a department's budget must be approved by the Board.

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended October 31, 2010

	Restricted	Unrestricted	Total
Operating revenues:			
Assessment revenue	$ 10,770,714	$ 7,858,927	$ 18,629,641
Administrative and marketing fees	—	751,795	751,795
Total operating revenues	10,770,714	8,610,722	19,381,436
Operating expenses:			
Marketing	8,779,703	—	8,779,703
Non-marketing programs	—	1,553,498	1,553,498
Administration	4,641	2,442,610	2,447,251
Total operating expenses	8,784,344	3,996,108	12,780,452
Operating income	1,986,370	4,614,614	6,600,984
Non-operating revenues (expenses):			
Interest income	—	24,638	24,638
Interest (expense)	—	(1,309)	(1,309)
Other income	—	166,139	166,139
Total non-operating revenues (expenses)	—	189,468	189,468
Changes in net assets	1,986,370	4,804,082	6,790,452
Total net assets – beginning	237,992	2,633,278	2,871,270
Total net assets – ending	$ 2,224,362	$ 7,437,360	$ 9,661,722

Industry Statistical Data **2000/2001 - 2009/2010**

Year	Producing Acres	Volume (MM / Lbs.)	Crop Value ($)	Average: Price Per Pound (¢)	Average: Dollars Per Bearing Acre ($)	Average: Pounds Per Bearing Acre
00/01	58,601	422.3	314,919,286	74.57	5,374	7,206
01/02	58,227	399.7	357,785,350	89.51	6,145	6,865
02/03	59,326	335.2	363,104,986	108.32	6,121	5,650
03/04	60,566	431.8	379,846,520	87.97	6,272	7,129
04/05	61,712	300.4	275,034,420	91.55	4,457	4,868
05/06	62,093	600.9	341,175,673	56.78	5,495	9,677
06/07	64,999	259.3	244,911,167	94.45	3,768	3,989
07/08	65,497	328.8	327,141,689	99.50	4,995	5,020
08/09	64,555	174.5	199,625,988	114.40	3,092	2,703
09/10	58,268	534.5	402,770,893	75.35	6,912	9,173

Important:

- Acreage from 1994/95 to 2009/10 based on CAC's 1994, 1995, 1998, 2001 & 2005 aerial survey, attrition factors, and other sources such as county agricultural commissioner data
- Industry statistic data from 1971/72 through 2009/10 are available on: *www.californiaavocadogrowers.com/industry-statistical-data/*

Pounds & Dollars by Variety **November 2009 through October 2010**

Quarter	Hass Pounds	Lamb Pounds	Others Pounds	Total Pounds	Hass Dollars	Lamb Dollars	Others Dollars	Total Dollars	Avg $/Lb
1st	9,352,819	0	1,047,306	10,400,125	5,792,626	0	259,032	6,051,658	0.582
2nd	98,736,480	530	1,760,032	100,497,042	68,204,671	212	360,776	68,565,659	0.682
3rd	224,793,514	7,113,941	1,200,239	233,107,694	157,997,270	5,668,315	330,216	163,995,801	0.704
4th	182,074,113	7,438,123	940,579	190,452,815	157,474,647	6,210,529	472,599	164,157,775	0.862
Total	514,956,926	14,552,594	4,948,156	534,457,676	389,469,214	11,879,056	1,422,623	402,770,893	0.754
%	96.35%	2.72%	.93%	100.00%	96.70%	2.95%	.35%	100.00%	
Avg $/Lb					0.756	0.816	0.288	0.754	

California Avocado Commission

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