

One World
One Strategy



HASS Avocado Board
2003/2004 Annual Report



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Chairman's Message



This year was a momentous time of accomplishment for the Hass Avocado Board (HAB), not only from a technical and marketing standpoint

but from the standpoint of industry unity as well. The vision of California, Chile, Mexico, Dominican Republic and New Zealand working together to achieve greater success for Hass avocados in the U.S. is being quickly and profoundly realized.

Working toward the goal of global cohesion, our industry has experienced a remarkable year. Our strategy has been geared to help facilitate the flow of nearly 800 million pounds of fruit, to sustain grower value and create a year-round supply nationwide. This steady supply is already creating vast marketing opportunities, which HAB is supporting.

Numerous milestones marked this year's journey. On the technical side, a significant achievement was the successful development of avoHQ.com, launched in November 2004. This massive online undertaking offers producers, handlers, importers access to comprehensive historical data and up-to-the-minute industry information. This intranet site is the first of its kind in the produce industry. It works in conjunction with another one of the year's major accomplishments: the Network Marketing Center (NMC).

On the marketing side, HAB facilitated a number of successful efforts. We have continued to generate awareness and demand for Hass avocados on a year-round basis through our Consumer, Foodservice and Retailer programs. We held a series of

in-country visits, which increased the level of participation from all producing countries involved in the U.S. market. After securing the acceptance of key stakeholders, we launched the "Team Hass" advertising campaign to instill market confidence and promote avocados 365 days a year.

In what marks the first true symbol of unity, key members from all five countries met during the Produce Marketing Association's Fresh Summit 2004 to share ideas and to fortify a cohesive strategy for success. This was a landmark gathering, and the first time all five countries were represented in one room.

The past year saw HAB build a strong foundation, strengthen the unity between countries and position our industry for unprecedented growth. We have the strategy, tools, cooperation and momentum. By engaging these more fully in the coming years, we will mutually realize even greater success.

Charley Wolk
Board Chairman

Board Members

BOARD OF DIRECTORS



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Chairman



Len Francis
Vice Chairman



Alva Snider
Secretary



Robert Bednar
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Scott McIntyre



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ALTERNATES



Mike Browne



Ralph DeLeon



Bob Flack



Paul Foley



Tom Markle



Robert Perry



Don Reeder



Luke Sears



Giovanni Cavaletto



Dan McGrath



Donna Singmaster

Strategic Perspective



One world. One strategy. A year ago, these defined a compelling vision attached to a long list of objectives. Today they are a reality,

backed by a long series of accomplishments.

In the U.S., Hass avocado volume is projected to grow to **1 billion pounds** in the next few years. Impressive numbers — if managed correctly. Preparing for that new volume is a strategic imperative for all Hass avocado growers selling their fruit in the U.S. market. This ongoing increase in Hass avocado supply was the catalyst for developing HAB's strategic marketing plan to build industry cohesion and market demand.

Markets in general are always stronger if the lights are on and the data is accessible. And for the first time, the lights are on for our industry. The historic development of avoHQ.com created a critical link for the global marketing partners to provide a steady flow of quality

Hass avocados into the U.S. market 365 days a year. It's unprecedented.

We now have the means to supply the market in an educated, organized manner. But it's also about demand. Through global cooperation between importers, handlers and distributors, we will continue to build demand for Hass avocados in the U.S. market. The only way individual brands survive is if the category survives.

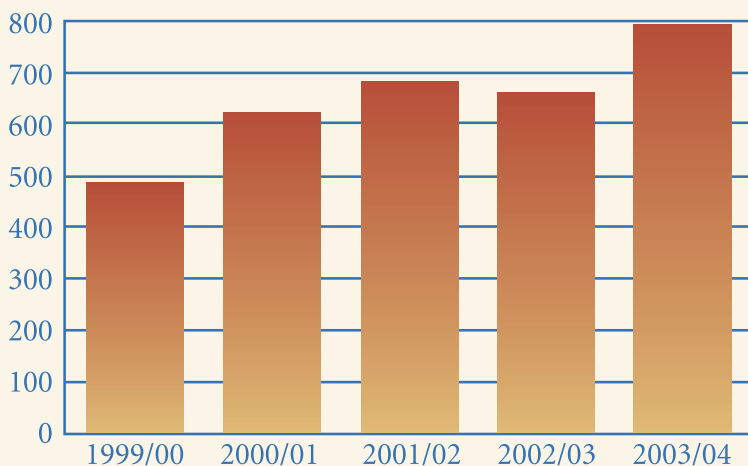
Over the course of only a year, we brought together global marketing strategies through new technology to position Hass avocados as a promotable, year-round category. Our marketing efforts supported this, and helped make significant inroads in demonstrating that Hass avocados are a viable — and desirable — year-round fruit.

We have many exciting ventures in the year to come with the official launch of avoHQ.com and a Marketing Summit with all Hass avocado importers and marketers. We also have a year of powerful trade and public relations programs planned that will draw the fruit out of the market quickly.

We've made significant progress, and are now ideally positioned to move forward with our strategy. The foundation is strong, and so is the synergy between countries. One world. One strategy. One outcome — success.

Mark Affleck
HAB Administrator

TOTAL U.S. CATEGORY ALL VARIETIES
(Millions of Pounds)



Key Industry Milestones

2003/2004

January 2004

The Hass Avocado Board joins industry associations including the Produce Marketing Association and United Fresh Fruit & Vegetable Association.

February 1, 2004

Super Bowl XXXVIII in Houston, TX marks the first Public Relations and Retail marketing efforts. The Hass Avocado Board leverages retail promotion with Randall's Texas and features recipe ideas for consumers.

February 1, 2004

The Hass Avocado Board sponsors the Menus 2004 Conference in Charleston, SC to encourage inclusion of Hass avocados on restaurant menus.

February 4, 2004

The Hass Avocado Board sponsors its first trade event: Fresh Produce Floral Council, Southern California.

March 2004

The Hass Avocado Board unveils the Network Marketing Center at HAB Headquarters in Irvine, CA.

August 18, 2004

The Hass Avocado Board votes to maintain the assessment rate at 2.5 cents per pound.

September 13, 2004

HAB launches www.avocadocentral.com featuring Hass avocado recipes, handling tips and nutrition information for consumers.

October 2004

Ongoing open houses of the Network Marketing Center culminate when the Produce Marketing Association's "Workshop on Wheels" visits HAB headquarters.

October 16, 2004

Hass Avocado Board breakfast meeting during Produce Marketing Association Conference brings together importer leaders to discuss future of U.S. Hass avocado industry. This marked the first time key members from all five countries met together in the same room.

October 2004

AvoHQ.com, the world's first produce global intranet, for launch in November 2004. AvoHQ.com will connect 100 packers and over 20,000 domestic and foreign producers from California, Chile, Mexico, Dominican Republic and New Zealand — to exchange crop and marketing information.

Program Highlights

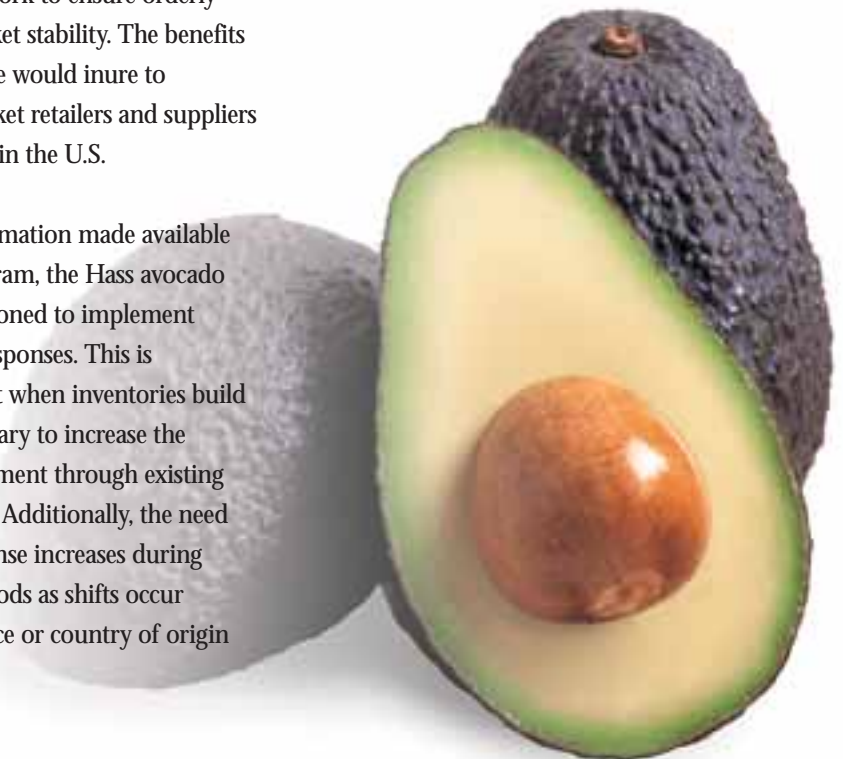
The Information Channel: Programs to deliver accurate industry information quickly

Until now, avocado marketers operated largely in the dark — a fact that plagued industry marketing efforts. The InfoTech program is now bringing light into this realm, and enabling growers to market in ways that were not possible before — in an efficient, cost-effective manner.

The primary goal behind the **INFOTECH** plank of HAB's 2003-04 Strategy was to develop "Strategic Intelligence." This intelligence would enable avocado marketers to share information essential to orderly marketing throughout the full 12-month season and ameliorate seasonal transition points and concomitant market instability between sources. This initiative was designed to help all sellers in the U.S. market develop a much-needed framework to ensure orderly flow of fruit and market stability. The benefits from such an end state would inure to consumers, supermarket retailers and suppliers selling Hass avocados in the U.S.

By acting on the information made available via the InfoTech program, the Hass avocado industry is now positioned to implement effective marketing responses. This is particularly important when inventories build and it becomes necessary to increase the velocity of fruit movement through existing distribution channels. Additionally, the need for a marketing response increases during critical transition periods as shifts occur from one supply source or country of origin to another.

The response described in the **Marketing Communications** portion of this plan was the most cost-effective means of addressing these challenges, short of large-scale consumer advertising, which was beyond the reach of the HAB, given available financial resources for fiscal year 2003-04. The Marketing Communications Program aimed to establish a consistent, repeatable generic marketing communications program in selected key markets with a national overlay.



Information Technology Programs

Network Marketing Center

PROGRAM HIGHLIGHTS

■ The InfoTech program served as the architect to build the Network Marketing Center (NMC) — the “collective mind” of the U.S. Hass avocado industry. At the NMC, producers, importers, packers and retailers can connect through Hass Avocado Board

program technology to access marketing information. Facts and data from multiple sources are processed and provided in an understandable format usable by industry stakeholders 24 hours a day/seven days a week/365 days a year. Virtually everything available through the NMC is available through avoHQ.com — the first-ever produce global intranet.

■ In conjunction with the Industry Communications program, the InfoTech program conducted Technology Audits to assess the connectivity needs of international Hass avocado marketers and provided a virtual tour of the HAB's Network Marketing Center via a DVD.



- The InfoTech program also achieved the following:
- ▶ established collection and verification methodologies to ensure information collected from the various sources is accurate
 - ▶ developed systems, tools and analytical services to create accurate, up-to-date views of the market and marketing programs
 - ▶ identified and prioritized market information sources needed to give accurate overviews of market conditions
 - ▶ developed a strategy for collecting complementary data including ship tracking, web cams, production information, weather, etc.

Room with a world view: the SmartAvo Operating System. In this high-tech space, 40 components gather and present information to create the big — and little — picture of the industry. Here, satellite and cable feeds, VHS, DVD, videoconferencing tools and remote web cams collect up-to-the-minute data and offer a real-time look at “all things avo.”



Information Technology Programs

avoHQ.com

PROGRAM HIGHLIGHTS

■ The InfoTech program developed and built avoHQ.com, the world's first global produce intranet. The goal was to develop collaborative strategies to achieve an orderly flow of the 800 million pounds of fruit sent annually into the U.S. marketplace. The web-based intranet will collect, track, analyze and disseminate all information relevant to selling Hass avocados in the U.S. market. AvoHQ.com will provide all

user-customized, personalized home pages with the ability to save favorite graphs and pages; pre-programmed, recommended



bookmarks for each audience; a severe weather alert paging system; user feedback mechanisms to collect comments on site utility and future development; interactive graph functionality to allow users greater data display customization; and shipment tracking functionality to track fruit departing producing countries headed for the U.S. market.



the players in the U.S. Hass avocado deal with 24-hour access to critical market data that will drive growing, shipping, distribution and marketing decisions.

■ Pre-registration activities included registration forms for users to apply for avoHQ.com access and "Stay Informed" registration for users to receive updates on avoHQ.com development.

■ Additionally, the InfoTech program led site development with the recent addition of



From tidbits to huge bites: get the facts on avoHQ.com. The pages cover market profiles, promotions, volume, pricing, global weather conditions, crop information and more.

Getting the word out to build demand

Using a variety of methods to communicate, the HAB consumer programs heightened awareness of Hass avocados and the year-round supply in a targeted, cost-effective manner. The program goal was to prompt consumers to increase their purchase frequency of Hass avocados.

to promote avocados as the perfect ingredient for at home spa treatments. Media outreach extended to long-lead Latina magazines, Hispanic newspapers and TV.



PROGRAM HIGHLIGHTS

■ The year began with Super Bowl outreach that included working with David Carr — quarterback for the Houston Texans — to secure broadcast/print coverage. Coverage included regional and national outreach and online placements, reaching over 2.5 million consumers.

■ During Cinco de Mayo, HAB worked with Mariachi Reyna de Los Angeles to promote avocados and guacamole. Coverage included print, radio, news release, SMT Broadcast and guacamole deliveries. Efforts garnered over 20.4 million hits at a media value of \$320,000. The Consumer Marketing Communications program enlisted spokesperson Tasha Noriega

benefits as well as information for the media in Spanish. The site is now live and will be expanded in 2005.

■ Another accomplishment was partnering with Associated Press writer Joan Brunskill for a healthy and innovative fish taco recipe, which was particularly appropriate for celebrating Hispanic Heritage Month, September 15 to October 15. Brunskill's article featured the heart-health benefits of tilapia fish and avocados, and to date has surfaced in over 120 print and Internet publications.

■ This program also developed the avocadocentral.com web site. The web site features recipes, promotion information, nutrition

Trade Programs

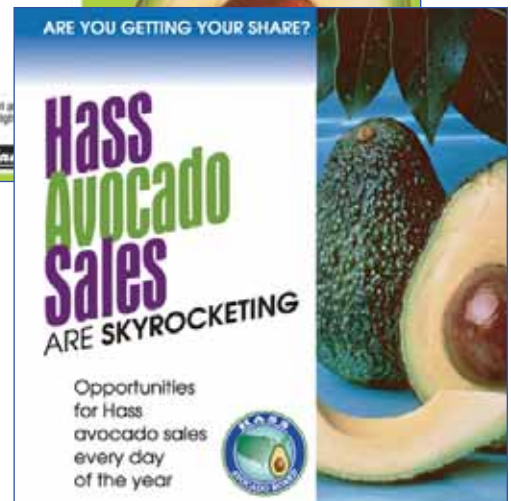
Working for trade: Strategic approaches to reach the front line of distribution

Our Merchandising program is carefully adapted to communicate with retail professionals in the most effective — and cost-effective — ways possible. The veteran team of HAB Merchandisers worked to establish confidence in the HAB Program, and its ability to create and maintain an orderly market environment for trade professionals and the consumers they serve.

■ In-store Super Bowl promotion was developed with Randall's Texas. POS materials featured quarterback David Carr and his take-home recipe for guacamole.

■ Over 200,000 consumer impressions were garnered from in-store POS materials for Cinco de Mayo featuring Mariachi Reyna de Los Angeles.

■ Ongoing Avocado Category Management programs were held with Kroger Corporate, Albertsons Corporate and other key retail



PROGRAM HIGHLIGHTS

■ The Merchandising program garnered enthusiastic support of the Hass Avocado Board from all levels and segments of retail through meetings with key produce personnel in several markets.

■ As part of the outreach, the program secured significant articles in trade publications regarding the formation and ongoing development and progression of the Hass Avocado Board.

■ Leadership, participation and sponsorship of key industry conferences, expos and events: United/FMI, PMA, FPFC/FPFC Expo, regional trade organizations/events.

organizations to set market-level targets for percentage of avocado ripeness, size mix, display size, sales goals and other key measurements for the programs.

Serving up year-round opportunities

By targeting Foodservice and creating a Hass avocado usage guide, HAB opened the door to year-round demand. By increasing awareness about year-round opportunities and providing the industry with creative ideas, we helped integrate Hass avocados into national restaurants.

PROGRAM HIGHLIGHTS

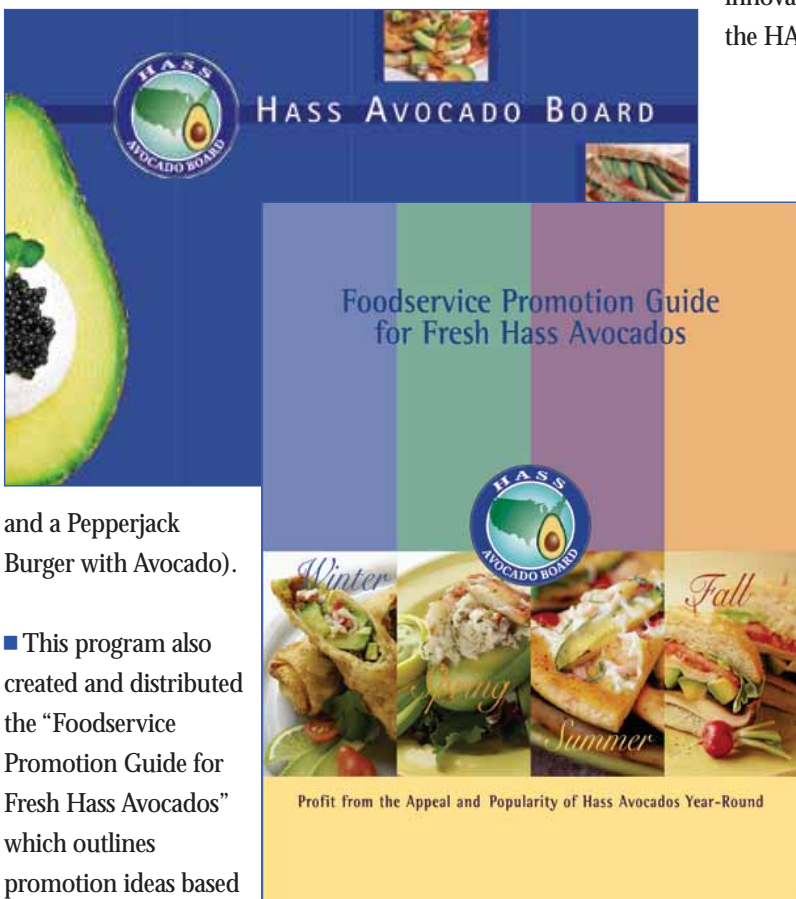
■ The Foodservice program introduced new avocado menu items to California Pizza Kitchen (Club Pizza with Pinwheel of Fresh Avocado), Pick-Up Stix (Avocado Won Tons, Avocado and Salmon Sushi Rolls and Avocado and Chicken Lettuce Wraps) and JBX (Grilled Chicken Sandwich with Bacon and Avocado

on a seasonal calendar and promotes the year-round availability.

■ Additionally, a new Hass Avocado Board trade show booth was developed and sponsorship was garnered for the Menus 2004 Conference (Charleston, SC in February), the PMA Foodservice Conference (Monterey, CA in July) and Chain Leader Live (New Orleans, LA in September).

■ As part of the strategy to use a variety of communication methods, the Foodservice program wrote and transmitted the first HAB e-newsletter to 4,435 foodservice operators in April 2004. The e-newsletter announced the formation of HAB, provided nutritional information, featured foodservice operators using fresh Hass avocados in new and

innovative ways, and offered the HAB Promotional Guide.



and a Pepperjack Burger with Avocado).

■ This program also created and distributed the “Foodservice Promotion Guide for Fresh Hass Avocados” which outlines promotion ideas based

Always in good taste: the new Foodservice Guide. This tool promotes usage based on a seasonal calendar. The ideas trigger new thinking and drive home the message of year-round availability.

Trade Communications

A tale of teamwork: Team Hass

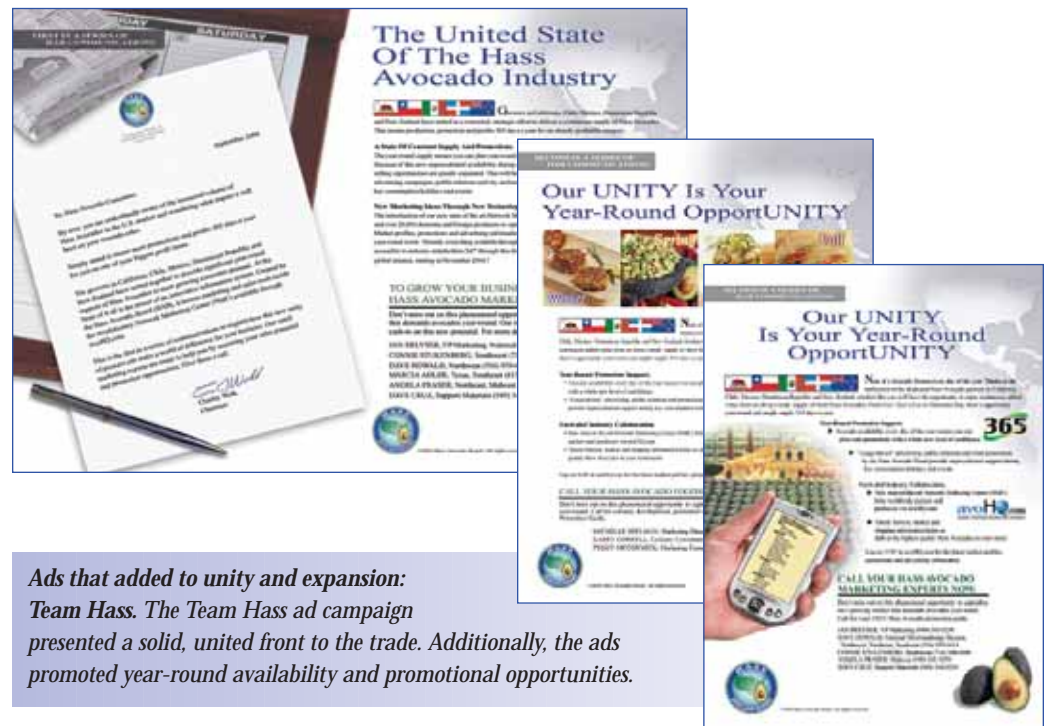
With everything positioned for growth, it came time for HAB to present a solid, united front to the trade. In Fall 2004, the high-profile Team Hass advertising campaign launched. Among other things, the effort seeks to bolster confidence in the year-round availability of avocados, promotional opportunities, fruit flow and the benefits of a unified team.

foundation for Hass avocado promotions 365 days a year.

- The initial ad message set the foundation for unity. Advertising began in September 2004 and will continue through October 2005.

PROGRAM HIGHLIGHTS

- A high-profile Trade Advertising Campaign was launched to communicate the TEAM HASS story. This effort addresses the market's psychological/confidence foundation as it



Ads that added to unity and expansion: Team Hass. The Team Hass ad campaign presented a solid, united front to the trade. Additionally, the ads promoted year-round availability and promotional opportunities.

relates to fruit flow, timing and promotions. It also demonstrates the synergy and coordination between all players — California, Chile, Mexico, Dominican Republic and New Zealand — shipping fruit into the U.S. market to set a positive market context and

Talking among ourselves — communicating with our industry

As HAB moves forward, the industry will become more unified. The industry communications program seeks to build confidence among industry leaders — Importers, Handlers and Growers — in HAB's ability to positively impact the Hass avocado marketing program in the U.S. market. Communicating and sharing information through HAB is critical to success.

PROGRAM HIGHLIGHTS

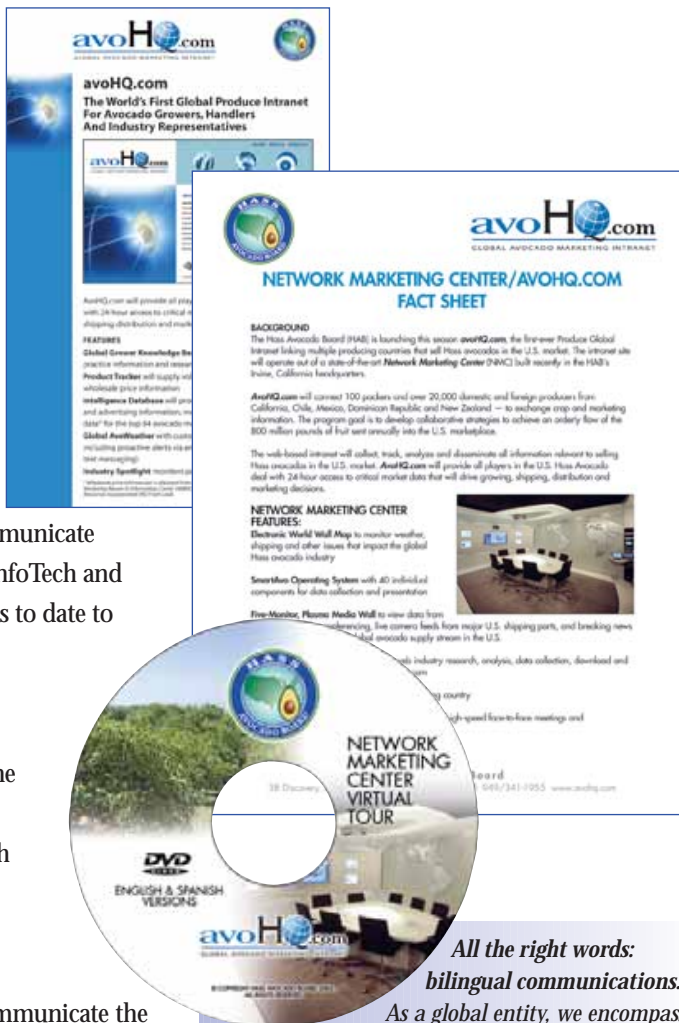
- A multilingual industry newsletter was developed to communicate HAB background and benefits, InfoTech and MarCom plans as well as progress to date to HAB growers.

- The Industry program secured coverage by industry media on the unveiling of the HAB Network Marketing Center, beginning with a front-page exclusive feature in *The Packer*.

- Collateral was developed to communicate the HAB history, NMC capabilities and function, and to instill confidence among the Hass avocado industry and keep HAB members informed of HAB programs. A series of Open House meetings were held to further educate the industry.

- Working with the HAB InfoTech program, this program conducted In-Country Technology Audits with Chile, Mexico,

Dominican Republic and New Zealand to assess the needs of HAB participants to enable connectivity to the Network Marketing Center (NMC) and HAB via video conferencing.



All the right words: bilingual communications. As a global entity, we encompass different audiences and languages. To accommodate the diversity, all of our industry communications materials featured bilingual content.

Auditors' Report

Board of Directors
Hass Avocado Board
Irvine, California

We have audited the accompanying basic financial statements of the Hass Avocado Board ("Board") as of and for the year ended October 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Hass Avocado Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hass Avocado Board as of October 31, 2004 and the respective changes in financial position and cash flows of the Hass Avocado Board for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying Table of Contents as Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with Government Auditing Standards, we have also issued a report dated December 10, 2004, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.
December 10, 2004

Management's Discussion & Analysis

INTRODUCTION

This report, Management's Discussion and Analysis (MD&A), provides a narrative overview and analysis of the financial activities of the Hass Avocado Board (Board) for the fiscal year ended October 31, 2004. It has been prepared by management and is required supplemental information to the financial statements. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statement — and Management's Discussion and Analysis — for State and Local Governments (GASB 34) in Fiscal Year 2003. The GASB establishes reporting standards for State and Local Governments, whereas the budget is the responsibility of the Board.

The Board is a federal government instrumentality created September 6, 2002 by the Hass Avocado Promotion, Research, and Information Order. The Board is an administrative body established pursuant to 7 CFR Part 1219, with supervisory oversight by the United States (U.S.) Department of Agriculture. The purpose of the industry-funded program is to increase consumption and demand for domestic and imported Hass avocados in the U.S. market.

The Board currently consists of 11 Directors, 8 of whom represent domestic producers and 3 representing importers. Each Board member has an alternate. Appointed by the Secretary of Agriculture, the Board was officially seated March 18, 2003 in Washington D. C.

Producers and importers of Hass avocados pay an assessment under the program, with first handlers involved in the domestic assessment collection process and U.S. Customs responsible for assessment collections on imported Hass avocados. The initial rate of assessment was mandated at 2.5 cents per pound on fresh Hass avocados produced and handled in the United States and on fresh Hass avocados imported into the United States.

An association of avocado importers is eligible to receive an amount of assessment funds equal to 85% of the assessments paid on Hass avocados imported by its members. Additionally, an avocado organization established by State statute in a State with the majority of Hass avocado production in the U.S. shall receive an amount of assessment funds equal to 85% of the assessments paid on Hass avocados produced in such State. Funds received by importer associations or a State avocado organization must be used to finance promotion, research, consumer information and/or industry information programs, plans or projects in the U.S.

The Board contracted with the California Avocado Commission to manage its marketing programs and administrative services for the current year. Strategic programs, plans, projects and budgets were developed and approved. Implementation of marketing communications and industry information programs commenced at the beginning of the fiscal year and continued throughout the year.

FINANCIAL HIGHLIGHTS

- The Board's financial position was strong at October 31, 2004, with total assets of \$5,119,166 and liabilities of \$2,544,826.
- Net assets, which represent the residual interest in the Board's assets after liabilities are deducted, are \$2,574,340. This is a 21.9% increase over last fiscal year's net assets of \$2,111,983. The increase in net assets is primarily attributable to an increase in assessment revenue due to higher Hass avocado volume from California and importing countries.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Board's financial reports.

One of the most important questions asked about the Board's finances is, "Is the Board as a whole better or worse off as a result of this year's activities?" The basic financial statements report information about the Board as a whole and about its activities in a way that helps answer that question. The Board's financial report includes three basic financial statements: Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets — Budget and Actual; and Statement of Cash Flows. These basic financial statements are designed to present a broad overview of the financial data for the Board, in a manner similar to a private-sector business.

Fund Financial Statements:

The Statement of Net Assets presents information on all assets and liabilities of the Board 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 Board. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other federal governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Board's fund is considered an enterprise fund (which is a proprietary fund type) and accounts for assessment collections for avocado marketing programs and activities.

Notes to the Financial Statements:

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

FINANCIAL ANALYSIS

Comparative data for the year ended October 31, 2003 has been presented in the accompanying financial statements (including Management's Discussion and Analysis) to facilitate financial analysis. It should be noted that since the year ended October 31, 2003 was the first year of incorporation, the comparative data does not reflect a full twelve months of activity.

As noted earlier, net assets may serve over time as a useful indicator of the Board's financial position. The largest portion of the Board's current assets, which consisted primarily of cash, investments, and accounts receivable, totaled \$5,075,504; up \$1,459,011 from the prior year amount of \$3,616,493. This increase was due to an increase in cash and investments from additional assessment revenue. Total current assets cover liabilities 2.0 times, and indicate good liquidity.

Liabilities consisted primarily of accounts payable and are considered current liabilities. Total liabilities are \$2,544,826; up \$983,026 from the prior year amount of \$1,561,800 and primarily due to amounts owed to vendors and import association assessment rebates.

Net assets invested in capital assets represent the Board'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) total \$43,662; a decrease of \$13,628 from the prior year amount of \$57,290 primarily due to accumulated depreciation. Capital assets make up 1.7% of total net assets.

Restricted net assets for promotions, research, industry information and consumer information activities are subject to imposed restrictions by federal statute governing their use. Restricted net assets total \$2,530,678, an increase of \$475,985 over the prior year amount of \$2,054,693 due to an increase in assessment revenues. Restricted net assets are 98.3% of total net assets and are subject to external restrictions on how they can be used.

Financial activities during the fiscal year, as noted in The Statement of Revenues, Expenses and Changes in Net Assets — Budget and Actual, increased net assets by \$462,357 to arrive at ending net assets of \$2,574,340 (exceeding the budgeted ending net assets of \$1,378,493 by \$1,195,847). Key elements of this increase are as follows:

- Operating revenues brought in actual assessment revenues of \$17,689,671 against a budget of \$16,325,000. The overage of \$1,364,671 is due to an increase in domestic and foreign Hass avocado volume.
- Non-operating revenues (investment income) brought in \$7,957.
- Operating expenses totaled \$17,235,271 against a budget of \$17,058,490, an overage of \$176,781 which was due to additional rebate payments to State and importer associations resulting from the increase in assessment revenues from additional volume.

BUDGETARY HIGHLIGHTS

The final budget represents the original budget and any amendments that may have occurred during the year.

In 2004, no changes were made to the revenue budget and it stayed the same at \$16,325,000. A minor program change of \$212,300 was made to the operating expense budget during the year, increasing the operating expenditure bottom line from \$16,846,190 to \$17,058,490.

The variations in the actual amounts from the original and final expenditure budgets did not negatively impact programs or activities provided from fund resources or the liquidity of fund assets.

During the year, the Board was involved in developing, analyzing and implementing current and long-range financial goals and priorities for strategic planning purposes. In addition to the 2004 budget, the 2004-05 budget and programs were developed and approved.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Board's investment in capital assets for its business type activities as of October 31, 2004, amounts to \$43,662 (net of accumulated depreciation), which is a decrease of \$13,628 due to depreciation from the prior year amount of \$57,290, and does not include any debt activity. This investment in capital assets includes equipment for program activities of the Board.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Board's finances and to show the Board'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 Valetta Weaver, Administrator, Hass Avocado Board, 38 Discovery #150, Irvine, California 92618-3105.

Financial Statements 2003/2004

STATEMENT OF NET ASSETS

October 31, 2004 (with comparative data for the prior year)

	2004	2003
Assets		
Current assets:		
Cash and investments (note 3)	\$3,463,663	2,551,973
Receivables:		
California	312,029	95,264
Customs	1,295,748	968,994
Interest income	240	262
Miscellaneous	2,004	—
Prepaid deposits	1,820	—
Total current assets	<u>5,075,504</u>	<u>3,616,493</u>
Noncurrent assets:		
Capital assets (note 2):		
Depreciable	63,853	57,290
Accumulated depreciation	(20,191)	—
Total noncurrent assets	<u>43,662</u>	<u>57,290</u>
Total assets	<u>5,119,166</u>	<u>3,673,783</u>
Liabilities		
Current Liabilities:		
Accounts payable	2,544,826	1,561,800
Total liabilities	<u>2,544,826</u>	<u>1,561,800</u>
Net Assets		
Invested in capital assets, net of accumulated depreciation	43,662	57,290
Restricted for:		
Promotions, research and information	2,530,678	2,054,693
Unrestricted	—	—
Total net assets	<u>\$2,574,340</u>	<u>2,111,983</u>

See accompanying notes to basic financial statements.

STATEMENT OF CASH FLOWS

Year ended October 31, 2004 (with comparative data for the prior year)

	2004	2003
Cash flows from operating activities:		
Cash received from producers and importers	\$17,142,350	10,794,190
Cash rebate payments and payments to suppliers for goods and services	(16,232,054)	(8,188,932)
Net cash provided by (used for) operating activities	<u>910,296</u>	<u>2,605,258</u>
Cash flows from investing activities:		
Interest income	7,957	4,005
Acquisition of capital assets	(6,563)	(57,290)
Net cash provided by (used for) investing activities	<u>1,394</u>	<u>(53,285)</u>
Net increase (decrease) in cash and cash equivalents	911,690	2,551,973
Cash and investments at beginning of year	2,551,973	—
Cash and investments at end of year	<u>\$3,463,663</u>	<u>2,551,973</u>
Reconciliation of operating income to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$454,400	2,107,978
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	20,191	—
(Increase) decrease in receivables	(545,501)	(1,064,519)
(Increase) decrease in prepaid deposits	(1,820)	—
Increase (decrease) in accounts payable and other liabilities	983,026	1,561,799
Net cash provided by (used for) operating activities	<u>\$910,296</u>	<u>2,605,258</u>

Noncash investing, capital and financing activities:

There were no noncash investing, capital or financing activities during the fiscal year ended October 31, 2004.

See accompanying notes to basic financial statements.

Financial Statements

2003/2004

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS — BUDGET AND ACTUAL

Year ended October 31, 2004

(with comparative data for the prior year)

	2004		Variance with Budget Positive (Negative)	2003
	Budget	Actual		Actual
Operating revenues:				
Assessments:				
California	\$8,500,000	10,219,146	1,719,146	7,600,218
Customs	7,825,000	7,464,388	(360,612)	4,258,492
Miscellaneous	—	6,137	6,137	—
Total operating revenues	16,325,000	17,689,671	1,364,671	11,858,710
Operating expenses:				
Rebate program:				
California Avocado Commission	7,225,000	8,686,262	(1,461,262)	6,460,185
Chilean Avocado				
Import Association	4,781,250	4,049,437	731,813	2,289,272
Mexican Hass Avocado				
Import Association	1,700,000	1,593,729	106,271	—
Other	170,000	—	170,000	—
Total rebate program	13,876,250	14,329,428	(453,178)	8,749,457
Promotions:				
Consumer communications	391,771	362,135	29,636	48,900
Trade communications	403,229	357,196	46,033	59,082
Industry communications	110,000	139,953	(29,953)	38,517
Total promotions	905,000	859,284	45,716	146,499
Industry information:				
Information	252,500	219,553	32,947	28,619
Analysis	118,800	44,843	73,957	—
Interaction	723,700	658,956	64,744	286,560
Network Marketing Center	193,000	166,876	26,124	—
Avocado Quality Conference	—	—	—	25,000
Total industry information	1,288,000	1,090,228	197,772	340,179
Program implementation fee	219,300	219,300	—	149,875
Administration:				
Administration expenses	769,940	716,840	53,100	364,722
Depreciation expense	—	20,191	(20,191)	—
Total administration	769,940	737,031	32,909	364,722
Total operating expenses	17,058,490	17,235,271	(176,781)	9,750,732
Net operating income (loss)	(733,490)	454,400	1,187,890	2,107,978
Non-operating revenues (expenses):				
Investment income	—	7,957	7,957	4,005
Total non-operating revenues				
(expenses)	—	7,957	7,957	4,005
Change in net assets	(733,490)	462,357	1,195,847	2,111,983
Net assets, at beginning of year	2,111,983	2,111,983	—	—
Net assets, at the end of year	\$1,378,493	2,574,340	1,195,847	2,111,983

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

Year ended October 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The Hass Avocado Board is authorized under the United States Department of Agriculture (U.S.D.A.), Code of Federal Regulations (7 CFR Part 1219) — Hass Avocado Promotion, Research, and Information Order (the Order) to carry on programs of advertising, promotion, marketing research, and production research relating to the sale of Hass avocados. The Board is authorized to levy an assessment against producers of Hass avocados for purposes of carrying out its programs. Under the order, producers and importers pay an initial assessment of 2.5 cents per pound on fresh Hass avocados produced in or imported into the United States for consumption in the United States. Exports of U.S. Hass avocados are exempt from assessment.

FUND ACCOUNTING

The basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Board's fund was classified as a major enterprise fund in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Proprietary fund types are accounted for on the economic resources measurement focus. Accordingly, all assets and liabilities are included on the Statement of Net Assets, and the reported net assets provides an indication of the historical net worth of the fund. Operating statements for proprietary fund types report increases (revenues) and decreases (expenses) in total historical net worth.

The Board uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded when the liability is incurred for receipt of the related goods and services.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. Operating expenses include the cost of program services provided, general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

INVESTMENTS

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are defined to include demand deposits, as well as any direct investment in short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less. Investments in federal agency securities are not considered to be cash equivalents as defined above and, therefore, are excluded from the statements of cash flows.

CAPITAL ASSETS

Capital assets purchased by the Board are capitalized at historical cost. Data reflected in the Board capital asset records may include estimates of original cost as determined by knowledgeable Board

personnel. Capital assets that are contributed are recorded as contributed capital assets, which increases the net assets of the Board. Such contributed capital assets are recorded at their fair market value at the time of donation.

Any single item purchased by the Board with a cost greater than or equal to \$5,000 and an estimated useful life of greater than one year is capitalized and depreciated. Depreciation is charged to operations using the straight-line method based on the estimated useful life of the asset. The estimated useful lives are as follows:

Office equipment 3-5 years

BUDGETARY PRACTICES

The budget is prepared on the accrual basis of accounting. The Board's administration shall prepare and submit the proposed annual budget to the Board of Directors for its approval for the business-type fund. After reviewing the proposed budget, the Board of Directors shall further consider the proposed budget and make any revisions thereof it may deem necessary. The budget is then legally enacted by means of a budget resolution passed by the Board of Directors and the U.S.D.A. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

During the year, the Board amended its expense budget as follows:

Original budget	\$16,846,190
Amendments	212,300
Amended budget	\$17,058,490

ADMINISTRATION AND PROGRAM SERVICES

The Board contracts with the California Avocado Commission to provide all administrative and program services (including overhead costs) necessary in carrying out the purpose described in the Order. As of October 31, 2004, the Board had no employees.

PRIOR YEAR DATA

Comparative data for the year ended October 31, 2003 has been included in the accompanying financial statements to facilitate financial analysis. Since the year ended October 31, 2003 was the first year of incorporation, the comparative data does not reflect a full twelve months of activity or a presentation in accordance with GAAP.

2. CAPITAL ASSETS

Changes in capital assets and related accumulated depreciation were as follows:

	Nov. 1, 2003	Additions	Deletions	Oct. 31, 2004
Capital assets:				
Office equipment	\$57,290	6,563	—	63,853
Accumulated depreciation:				
Office equipment	—	(20,191)	—	(20,191)
Total capital assets, net	\$57,290	(13,628)	—	43,662

3. CASH AND INVESTMENTS

Cash and investments at October 31, 2004, consisted of the following:

Demand deposits - Cash in bank	\$ 666,707
Certificates of deposit	298,000
United States Treasury bills	1,500,515
United States Treasury notes	998,441
Total cash and investments	\$3,463,663

Deposits of the Board are classified in three categories to give an indication of the level of credit risk assumed by the Board. Category 1 includes deposits that are insured or collateralized with securities held by the Board or its agent in the Board's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized Agent or Depository and is subject to certain regulatory requirements under State law. Category 3 includes

deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name. Category 3 also includes any uncollateralized deposits. Deposits are categorized as follows:

FORM OF DEPOSIT	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$100,000	831,358	—	931,358	666,707
Certificates of deposits	298,000	—	—	298,000	298,000
Total deposits	\$398,000	831,358	—	1,229,358	964,707

AUTHORIZED INVESTMENTS:

Under provision of the U.S.D.A. Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotions Programs investment policy, and the investment policy adopted by the Board, authorized investments include the following:

- U.S. Government securities and other obligations
- California state and local government securities
- Commercial paper
- Bankers' acceptances
- Nonnegotiable certificates of deposit
- Bonds, debentures, and notes issued by corporations organized and operating within the United States. Such securities shall be within the top three ratings of a nationally recognized rating service
- Money market funds (broker accounts)

Investments of the Board are classified in three categories to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Board's or its agent (other than the institution through which the Board purchased the securities) in the Board's name. Investments held "in the Board's name" include securities held in a separate custodial or fiduciary account and identified as owned by the Board in the custodian's internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held in the Board's name by the dealer's agent (or by the trust department of the dealer if the dealer was a financial institution and another department of the institution purchased the securities for the Board). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's agent (or by the trust department of the institution which purchased the securities for the Board), but not in the Board's name. Category 3 also includes all securities held by the broker-dealer agent of the Board (the party that purchased the securities for the Board) regardless of whether or not the securities are being held in the Board's name.

FORM OF INVESTMENT	Category			Fair Value
	1	2	3	
U.S. treasury bills	\$1,500,515	—	—	1,500,515
U.S. treasury notes	998,441	—	—	998,441
Total investments	\$2,498,956	—	—	2,498,956

4. REQUIRED DISCLOSURES

Approximately 64% of total operating revenue was derived from assessments collected from four Hass avocado producers.

5. CONTINGENCIES

The Hass Avocado Promotion Act has been challenged in court by importers alleging that compulsory assessments violate their First Amendment rights. A decision for the importers could threaten the existence and operation of the Hass Avocado Board. A similar case challenging the Beef Promotion Act has reached the U.S. Supreme Court. Since the Supreme Court decision could potentially affect the outcome in the case against the Hass Avocado Act, proceedings in the avocado case have been stayed pending a final ruling by the Supreme Court.

Board of Directors
Hass Avocado Board
Irvine, California

Report on Compliance and On Internal Control Over Financial Reporting Based On an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*.

We have audited the financial statements of the Hass Avocado Board (the Board) as of and for the year ended October 31, 2004 and have issued our report thereon dated December 10, 2004. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Board are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Code of Federal Regulations (7 CFR Part 1219) — Hass Avocado Promotion, Research, and Information Order*, issued by the United States Department of Agriculture (U.S.D.A.) and as interpreted in the *Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotion Programs*, issued by the U.S.D.A. 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management and the U.S.D.A. and is not intended to be and should not be used by anyone other than those specified parties.

Conrad and Associates, L.L.P.
December 10, 2004

Hass Avocado Board

The Hass Avocado Board (HAB) was established in 2002 after approval by producers and importers of Hass avocados in a national referendum. Operating under the supervision of the United States Department of Agriculture (USDA), the HAB has contracted with the California Avocado Commission (CAC) to implement its marketing programs. Over 20,000 producers and 100 importers are involved in the HAB, which covers fresh domestic and imported Hass avocados sold in the U.S. market.

Hass Avocado Board

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