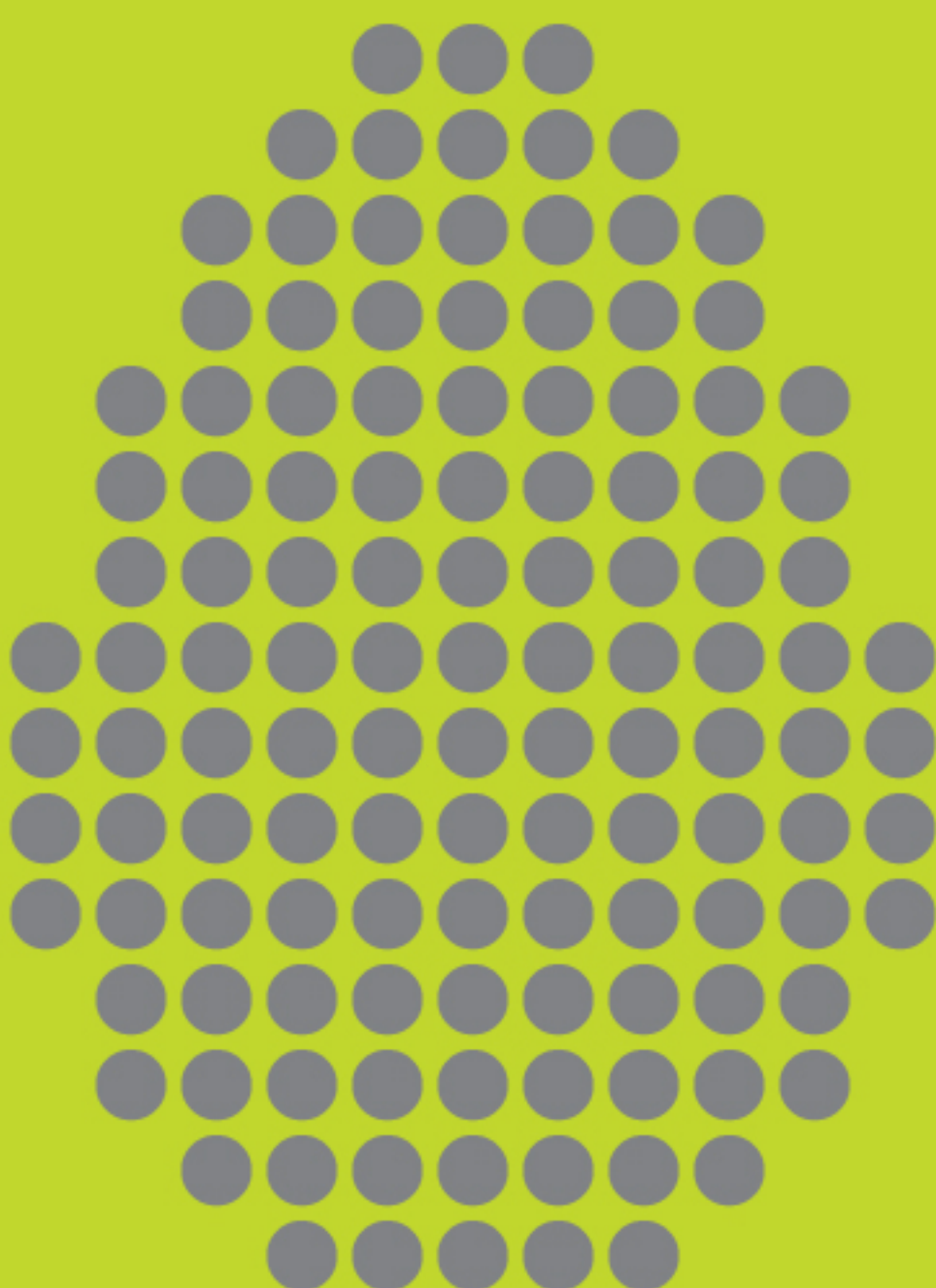


Global Collaboration is Transforming  
the Avocado Marketplace



dominican republic  
california  
new zealand  
peru  
mexico

hass avocado board  
annual report  
2004  
2005

## Table of Contents

Chairman's Message	1
Board Members	2
Program Highlights	3
The Road Well Traveled	4
Information Technology Programs	5
Consumer Programs	6
Retail Programs	8
Foodservice Programs	10
Industry Communications	11
Independent Auditors' Report	12
Financial Statements 2004/2005	13
Management's Discussion & Analysis	15
Notes to Basic Financial Statements	16
Report on Compliance/Internal Control	17





**The** anticipated increased volume of Hass avocados shipped into the United States made the rapid assimilation of suppliers an imperative to ensure category growth in 2005.

The resulting unprecedented industry cooperation helped contribute to the increase in avocado demand across the United States, exceeding that of any other major fruit category.

While there remains a strong and healthy element of competition between Hass suppliers, the unity ardently sought since the institution of the Hass Avocado Board took a quantum leap in 2005.

Most important has been the establishment of closer working relationships between colleagues in California, Mexico, Chile, New Zealand and the Dominican Republic. The level of mutual respect between all parties has risen with the supply.

We now have information-sharing agreements that were unthinkable a few short years ago. We have acceptance of the HAB's major unifying initiative – the Network Marketing Center and avoHQ.com. Each delivered a significant return on investment as more industry members accessed the most powerful produce commodity management system in existence.

This combination of time-tested technology and growing personal relationships should inspire fresh confidence in the direction of Hass avocado marketing.

We've come a long distance in a short amount of time, and we are just getting started. The success achieved in our infancy provides the foundation for all avocado suppliers to optimistically apply the lessons of the past to the continuing challenges of our evolving marketplace.



**Charley Wolk**  
Board Chairman





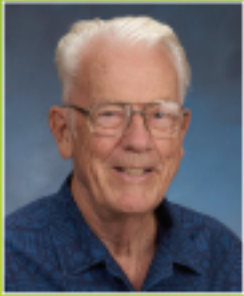
# board of directors 2005-2006



Charley Wolk, Jr.  
Chairman



Robert Bednar  
Vice Chairman



Alva Snider  
Secretary



H. Leonard Francis  
Treasurer



Mark Borchard



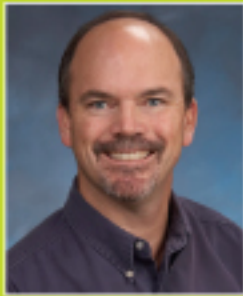
Avi Crane



Ralph De Leon



James De Malo



Jim Donovan



Ben Drake



Ed Figueroa



Don Reeder



Scott McIntyre  
Ex-Officio/CAC



Antonio Villaseñor  
Zurita  
Ex-Officio/MHAIA

## alternates



Giovanni Cavaletto



Robert Flack



Paul Foley



John Lindstrom



Thomas Markle



Bradley Miles



Kenneth Roth



Luke Sears



Carol Steed



**The** 2004-05 program results mark it as the most successful in the short yet busy history of the Hass Avocado Board. Among the highlights:

- The marketing efforts of the HAB and all Hass avocado suppliers helped generate the 14 percent sales revenue growth and 19 percent sales volume growth of the avocado category, tops among all major fruit. By comparison, total fruit sales increased by 5.1 percent and total produce volume by 2.8 percent. (Source: IRI/Fresh Look Data)
- In-country visits and focused communications with international suppliers led to breakthrough agreements with the Chilean Avocado Importers Association (CAIA), la Asociación de Productores, Empacadores y Exportadores de Aguacate de Michoacán (APEAM), the Mexican Hass Avocado Importers Association (MHAIA) and the California Avocado Commission (CAC) for weekly sharing of shipment information, including volume and size, an historic first.
- The HAB unveiled its first-ever booth at the PMA Fresh Summit in Atlanta, the nation's largest produce industry gathering, highlighting the technology and benefits of the NMC and avoHQ.com. More than 1,000 visitors were able to experience avoHQ.com live and gain a broader perspective about one of the most powerful commodity intranets.
- The first cross-country strategic marketing session between HAB leadership and that of APEAM proved the effectiveness of the Network Marketing Center (NMC) as a communications hub. Agreements have been reached with Chile and New Zealand, with Mexico pending, to purchase and install videoconferencing equipment to more closely connect suppliers from those countries with the NMC.

- For the first time in history, CAC, MHAIA, APEAM and CAIA shared their individual marketing programs, facilitating information exchanges that will lead to a greater degree of coordination and informed shipping decisions in the future.
- Registrations on avoHQ.com topped 1,000 registered users by the end of the year. The Web site saw nearly a quarter of a million page views since its launch early in 2005.
- As a result of information sharing, a new feature on avoHQ.com, "Actual Arrival and Volume Projections," offers critical avocado marketing intelligence. For the first time, the individual marketing programs for APEAM, CAC, CAIA and MHAIA appear in the Promotions Section of the site.
- Hass avocado category trade advertising saw a whopping 107 percent growth, supported by the efforts of HAB's Team Hass advertising program.
- The expanded Merchandising Team conducted more than 100 key account calls with major retailers, providing category information to stimulate greater promotion by this critical constituency.



HAB staff welcomed more than a thousand visitors to the new Hass Avocado booth at the PMA Fresh Summit in Atlanta.



## HAB's Managing Director of the Network Marketing Center builds strong international connections

**When** he joined the HAB team in July 2005 as Managing Director of the Network Marketing Center (NMC), José Luis Obregón was immediately captivated by the HAB's communications solution to an extreme challenge: uniting a disparate group of international suppliers while maximizing category performance in the rapidly expanding and white-hot competitive U.S. avocado market.

That solution -- the Network Marketing Center and its online engine, avoHQ.com -- provides a powerful communication hub for the industry, with state-of-the-art technology that literally links the Hass avocado world. But the power of these tools is only unleashed by human cooperation and connectedness.

José Luis accepted the challenge of building this collaboration in a very human way: face-to-face. While part of his nearly 40,000-mile mission to California, Chile, Mexico, New Zealand and the Dominican Republic was to evangelize the NMC, equally important was hearing first-hand the concerns of the international Hass community and answering numerous questions about the system.

The mileage paid off. The end of the year saw these major objectives achieved:

- Increased acceptance of the NMC and avoHQ.com as essential tools in the evolution of the Hass Avocado industry
- Growing day-to-day participation in avoHQ.com by all suppliers
- Fulfillment of the promise to U.S. retailers to establish and maintain a continuous, year-round supply of fruit



- Strategic integration of promotional plans for all associations involved in the U.S. avocado market

Details in this report show collaboration that is far more than a handshake between once suspicious partners. The Highlights page reveals tremendous progress that would not have been possible without stellar leadership from HAB and the Hass avocado associations, whose executives deserve particular recognition:

- Benjamín Grayeb, president of la Asociación de Productores, Empacadores y Exportadores de Aguacate de Michoacán (APEAM)
- Scott McIntyre, chairman of the California Avocado Commission (CAC)
- Jorge Covarrubias, chairman of the Chilean Avocado Importers Association (CAIA)
- Juan Ruiz Tagle, chairman of the Comité de Paltas in Chile
- Ed Figueroa, chairman of the Mexican Hass Avocado Importers Association (MHAIA)
- Hugh Moore, chairman of the New Zealand Avocado Industry Council

Indications for the new season are for more of the same progressive management.



## Better input... better accuracy... better intelligence

**HAB's** major investment in its information technology infrastructure in 2004 paid significant dividends in 2005. The Network Marketing Center (NMC) became a hub of strategic activity among all suppliers in the Hass deal.

A major videoconference with the leadership of MHAIA in October led to information sharing agreements that exemplifies the best use of the NMC and avoHQ.com.

### Program Highlights

InfoTech programs added more horsepower to the information delivery system by developing strategic intelligence which enabled avocado marketers to share the information essential to orderly marketing throughout the year. Examples of the technological successes include:

- AvoHQ.com now supports well over 1,000 members who access the site via personal username and password to capture marketing information that can help them run their businesses. A large percentage of that growth was due to international suppliers, with a 93 percent

increase in participation from Chilean and a 53 percent increase from Mexican members in the final quarter of the year.

- A specially convened "Advice Squad" comprised of staff, consultants and industry members met to review avoHQ.com features and recommend enhancements to the site. These key improvements focused on ease of use and clarity of content. The site now delivers stronger descriptive information, with important developments highlighted.

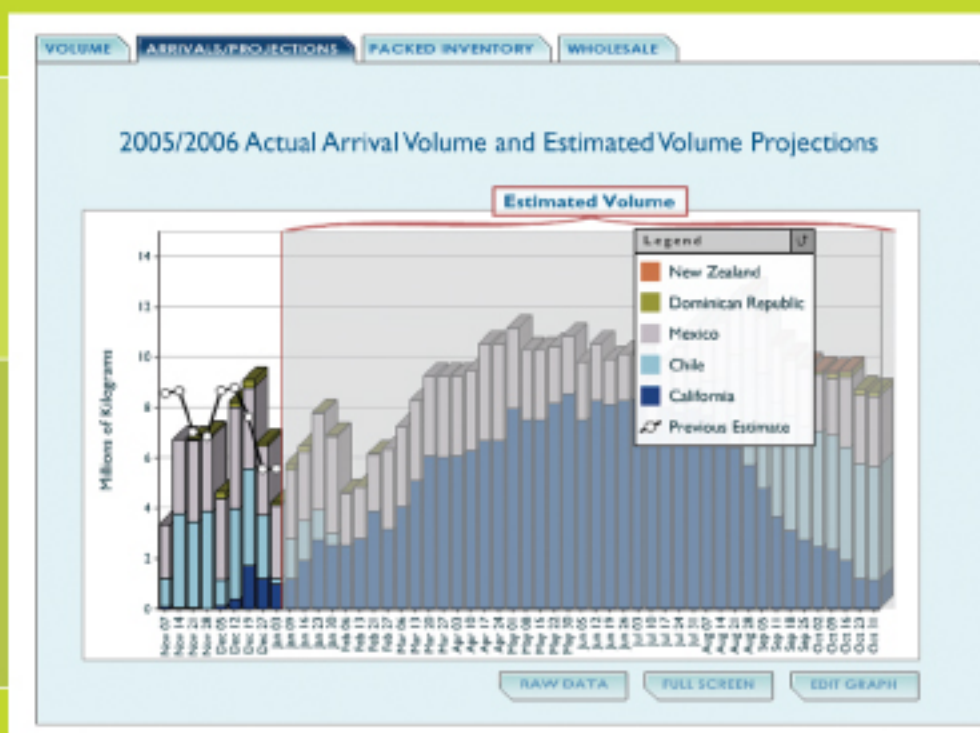
- The new Promotions section now features special pages for the activities of the various supplier associations.



Site visitors can click on any supplier logo to see examples of creative marketing and obtain details of supplier programs.

- The new 2005-06 Actual Arrival/Volume Projections section offers a snapshot view of the upcoming year and can be accessed from a link on the home page.

Rolling the mouse over sections of the graphs on avoHQ.com reveals details of how much is shipped and by which supplier. This information is increasingly generated with regular shipping information provided by the suppliers.





Moving avocados every day. 365 days a year

**More** Hass avocados during more weeks of the year created a clear communications imperative: reach more people in more parts of the country than ever before in a way that complements the individual programs of the California, Mexican and Chilean associations.

In an environment of shrinking household size, HAB programs sought to expand purchase frequency and size of purchase throughout the U.S. HAB initiatives sought to gain significant new consumer attention for Hass avocados, including awareness of their quality, nutrition and versatility. These efforts significantly contributed to this year’s avocado gross media impressions, which exceeded one billion.

Program Highlights

- A new brand identity for Hass Avocados delivered an “Always in Season” tagline critical to the new year-round market. This new logo adorned press materials distributed early in the year to alert media to the industry’s new 356-day orientation.
- “Guac Around the Clock” introduced the season, offering guacamole as the perfect party food for New Year’s Eve and beyond. An electronic media release highlighted special guacamole recipes tailored to different time zones. Media were also directed to [avocadocentral.com](http://avocadocentral.com) for a variety of unique party recipes. The program gained nearly a million gross impressions in a variety of print media.

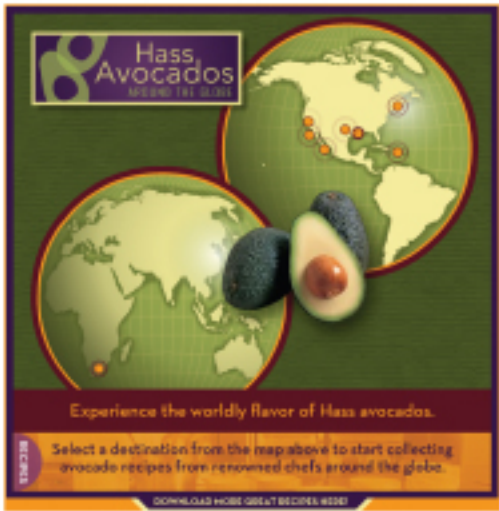
- “Avocados Around the Globe” showed new avocado recipe creations by chefs from around the world. Special promotions on [avocadocentral.com](http://avocadocentral.com) complemented public relations outreach that garnered millions of media impressions over six months.
- The Big Game once again served as a focal point to promote Hass avocados during one of the highest usage periods of the year. The HAB secured a hospitality sponsorship that created visibility in the media center and at media parties, exposing party recipes to more than 3,500 media. A news release predicted consumption of more than 43 million pounds of avocados during Big Game week.



New Consumer Logo



“Guac Around the Clock” promoted different party recipes to celebrate the new year as 2005 broke across the country’s different time zones.



“Avocados Around the Globe” gave consumers new usage ideas from distinguished chefs from supplier countries and promoted them with content at [avocadocentral.com](http://avocadocentral.com) and national publicity.



## Online Consumer Promotions

- “Sizzlin’ Summer Sweepstakes” provided an additional, very successful, attention-getting promotion that increased awareness of new uses and helped to stimulate increased consumption. Visitors were invited to fill out a sweepstakes entry form to win a new Weber Barbeque Grill. The campaign netted nearly 17,000 entries from more than a quarter-million page views. More than 3 million online advertising impressions supported the initiative.

- Nearly every consumer public relations initiative included an Internet component to build traffic and stimulate purchase, including special [avocadocentral.com](http://avocadocentral.com) mini-Web sites for Super Bowl, St. Patrick’s Day and Avos Around the Globe.



“Sizzlin’ Summer Sweepstakes” offered great summer entertainment recipes and a chance for visitors to win a Weber Grill.

## More merchandising fuels avocado category growth

**More** retailers welcomed the idea of a 365-day-a-year Hass avocado market. Connections to the category's critical retail audience, buoyed by the addition of three regional merchandisers, increased promotional confidence in the face of increasing avocado volume in the U.S. The merchandising team conducted an unprecedented number of retailer meetings and mounted fresh promotions to reach consumers directly at point of purchase.

A new director of marketing teamed with a powerful home office staff to pursue increased geographic and household penetration more aggressively than ever.

By the end of the year, there was little doubt that suppliers had indeed helped to expand the Hass category across the calendar and that category potential was being achieved through effective promotions and consistent volume.

### Program Highlights

- Hass Avocado Category Reviews offered retailers an in-depth look into their avocado category - providing sales analysis; category comparison to the market; best practices information; avocado sales market share; ripeness levels of the fruit on display; advertising activity occurring in the marketplace and recommendations on building greater demand for avocados. The HAB Merchandising Team completed more than 30 reviews, including full category reviews and numerous special reports such as regional overviews and advertising impact studies.





- HAB Nationwide Ripe Audits collected numerous data elements, including percentage of ripe, breaking, firm and over-ripe fruit on display; retail signage; pricing information; size of displays and more. Final results were shared with the senior produce personnel of participating retail organizations, including major corporate retailers and chains across the country. The team completed 8,000 such in-store audits, more than double the amount in the previous year.

- Examples of just a few of the regional consumer promotions at retail included advertising and demonstrations. Pathmark performed such demos in 50 stores in April and May. Wegmans promoted Hass avocados in its ads for Mother’s Day. HEB included Hass avocados in its “Combo Loco” bundled promotion, which offered discounts for shoppers purchasing multiple items for use with a specific recipe.



A new “high tech” avocado ad stressed the benefits for trade audiences of registering at [avoHQ.com](http://avoHQ.com) for sales support.

- Team Hass advertising continued an aggressive media placement schedule in several retail and foodservice trade publications. The first ad in a new series stressed the available information for trade members via registration at [avoHQ.com](http://avoHQ.com).



Point-of-sale advertising attracts consumers to the avocado display in the produce section to find ripe Hass avocados. Numerous retailers used the point-of-sale signage in both English and Spanish.



## More menu mentions confirm foodservice success

A growing percentage of avocado production satisfies the increasing appetite of the foodservice industry. In the expanding Hass avocado market, with multiple suppliers from several countries, the restaurant segment continues as a critical success factor. One industry report measured menu mentions as increasing by 22 percent in 2004 over the previous year.

The emphasis over the past year has been in enriching the menus of more operators with new recipes that are drawing consumer acclaim. The HAB Foodservice Promotion Calendar, first introduced in 2004, continued to stimulate new year-round creative ideas.

### Program Highlights

- A full menu of promotions: California Pizza Kitchen (155 units) featured its new Avocado Egg Roll on table tents during the fall and also introduced an Avocado Poke Martini. Aramark (1,450 units) featured fresh Hass avocados in chilled soups, mini-quesadillas and fresh salads. Togo's (300 units) introduced a new Baja Chicken & Avocado Salad and Sandwich during its "I Love Avocado" promotion. Jazzman's (125 units) created an avocado and turkey flatbread sandwich.

- Four electronic newsletters provided operators with menu ideas and nutrition information, stressing year-round availability.
- The foodservice team launched a Distributor Incentive Program that rewarded increased usage with a chance to win a grand prize vacation. Operators who listened to a special Hass avocado presentation received free avocado slicers.



### Grab This Opportunity to Menu Fresh Hass Avocados

Send for your FREE copy of the *Foodservice Promotion Guide for Fresh Hass Avocados Today!*

With fresh Hass avocados available  for a year, it's easy to keep your menu fresh with seasonal celebrations and signature items. From Super Bowl Sunday to Halloween specials, we have promotional ideas for you.

 Hass Avocado Board

Name \_\_\_\_\_ Title \_\_\_\_\_

Business \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone ( ) \_\_\_\_\_ E-mail \_\_\_\_\_

Primary Restaurant \_\_\_\_\_

Segment: ☐ Family Dining ☐ Casual/Theme ☐ Upscale ☐ Bar ☐ College/University ☐ QSR ☐ Lodging ☐ School ☐ Other \_\_\_\_\_

**Foodservice Promotion Guide:** The HAB continued to supply fresh ideas to foodservice operators by distributing its renowned Foodservice Promotion Guide




### #Winning Menu Ideas

Fresh avocados are on the rise! According to Food Beat™ Inc., a menu monitoring and tracking service of the top 200 chains, menu mentions of fresh avocados from 2003 to 2004 grew 22% -- specifically in salads and sandwiches. Savvy operators understand that fresh avocado adds value, turning an ordinary burger into a California burger. Or upgrade a tossed green salad into a deluxe chopped salad with sliced avocados. For more information about menu trends and analysis, visit [FoodBeat.com](http://FoodBeat.com)®.



1. Executive Chef/Partner  
Randy  
Zweibel of  
Restaurant 27



Hass Avocado E-newsletter



Avocado egg rolls from California Pizza Kitchen



## Shoring the evolution with our own

Confidence must begin at home if both trade and consumer audiences are to feel it. Through internal communications as well as trade media relations, the HAB bolstered that confidence among importers, handlers and growers with regular progress reports.

## Program Highlights

- **AvoAction**, an e-mail newsletter, updates avocado industry members monthly and has grown from a circulation just over 100 to a distribution reaching nearly 1,300 subscribers.
- **Major story placement** in industry media informed internal and external audiences, leveraging the credibility of major trade publications to build awareness of HAB initiatives.

[illegible]



# AVO ACTION

The essential information to succeed in the Hass Avocado Industry



## HAS INDUSTRY COMMUNICATIONS AVOACTION NEWSLETTER, VOLUME 8, NUMBER 11

### HASS AVOCADOS EXHIBIT BOOTH DEBUTS AT PMA FRESH SUMMIT

The Hass Avocado Board (HAB) launched its industry trade show booth at the PMA Fresh Summit in Atlanta in November. Bringing to life the technology of the HAV Network Interacting Center (HVIC) and its on-line component, avoHQ.com, the booth drew hundreds of produce industry representatives who grew to experience the HAV technology and witness firsthand the utilization of HAB's suppliers to the U.S. market.

[Details and more photos here](#)

### AVOHO.COM ENHANCEMENTS CREATE A MORE USER-FRIENDLY SITE

A mid-year review of the benefits and functions of avoHQ.com, the leading information site for the Hass avocado industry, led to a number of recent improvements. AvoHQ.com is now easier to use, with clearer content, descriptions and data detail. In addition, important developments receive special highlights and dashboard pages for quick access to relevant information.

- The **Multiple Programs** section was launched to promote unity among the HAB participating associations from California, Chile and Mexico (CAC, CMA and MMA) as well as Mexico's supplier group, APCAM.
- The **2005-2006 Annual Citruses Production** section, which offers a snapshot view of the upcoming year, has been added to the site. It is highlighted on the Home Page for visibility and easy access.





Charley Wolk (left) accepts recognition for 20 years as chairman of the CAC Nutrition Advisory Committee from Board Chairman Scott McIntyre.

### HAB CHAIRMAN CHARLEY WOLK RETIRES AS CHAIRMAN OF CAC'S NUTRITION ADVISORY COMMITTEE AFTER 20 YEARS OF LEADERSHIP

Charley Wolk has stepped down after 20 years of successful leadership as chairman of the California Avocado Commission's (CAC) Nutrition Advisory Committee (NAC). He retired from the chairmanship in November after a distinguished tenure of service overseeing the committee responsible for scientific research into the health benefits of California avocados. Also in November, Charley was re-elected to a third year as chairman of the Hass Avocado Board.

[Click for more information](#)

### CAJA CHIEF PROGRAM BIG IN BOSTON

The Chilean Avocado Importers Association (CAJA) PR staff in Boston culminated with Chef Frasco of Salsa Restaurant conducting cooking demonstrations at Shaw's Supermarkets in Cambridge and downtown Boston on November 17 and 18, 2005. More than 600 shoppers sampled Avocado and Doritos Pilsito Hass and Avocado Mission salsas, learned how to select and prepare a Hass avocado and walked away with printed recipe cards. All had a great time!



### HAB FOODSERVICE PROGRAM URGES DISTRIBUTORS TO "PICK UP THE HAB IT"

The Hass Avocado Board launched the pilot program for its foodservice distributor incentive program, "Pick Up the HAB-It with Hass Avocados".

Distributor and marketing sales representatives from FreshPoint/Los Angeles, Hotel/Bylos of Denver, and FreshPoint/Florida's Market of Orlando launched a buy-week promotion to inform their foodservice customers about the year-round availability and versatility of fresh Hass Avocados, and avoHQ.com.

To reinforce the benefits of Fresh Hass Avocados, foodservice operators who meet with their sales representatives will receive a stainless steel avocado slicer. For each distributor branch, the five sales representatives who have met with the most foodservice customers will receive mini iPods®. The distributor branch with the most meetings per sales representative will receive the grand prize, a 3-day, 2-night stay at the Rancho Valencia Resort in Rancho Santa Fe, CA.

[Click for more information](#)



### PPFC CALENDAR FEATURES CALIFORNIA AVOCADOS IN JANUARY

The Fresh Produce and Floral Council (PPFC) creates an annual calendar that is distributed to grocers and produce industry personnel. These calendars (designed to hang on the wall) are frequently seen adorning the buying offices of retail chains. When opened to the month of January, the calendar reminds viewers of California's leadership in providing avocado category information to drive demand for Hass avocados.

[www.avoHQ.com](http://www.avoHQ.com) is the most comprehensive resource for information about the U.S. Hass avocado market. If you are not already logged on, you will be asked to log in once you reach the site. If you don't already have an account, sign up today.



\*By clicking on this link, you will be leaving the HAB Avocados e-Seller and entering a non-HAB Web site.

**FEEDBACK / PRIVACY POLICY**

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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, 2005, 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, 2005 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 20, 2005, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Conrad and Associates, L.L.P.  
*December 20, 2005*



# Financial Statements 2004/2005

## • Statement of net assets

October 31, 2005 (with comparative data for the prior year)

	2005	2004
<b>Assets</b>		
<i>Current Assets</i>		
Cash and Investments (note 3)	\$ 2,890,579	3,463,663
Receivables:		
California	45,707	312,029
Customs	1,745,921	1,295,748
Interest Income	3,209	240
Leases (note 5)	1,500	-
Miscellaneous	1,625	2,004
Prepaid deposits	-	1,820
Total Current Assets	4,688,541	5,075,504
<i>Noncurrent Assets</i>		
Capital assets (note 2)		
Depreciable	75,108	63,853
Accumulated depreciation	(41,475)	(20,191)
Total noncurrent assets	33,633	43,662
Total assets	4,722,174	5,119,166
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable	2,113,763	2,544,826
Total liabilities	2,113,763	2,544,826
<b>Net Assets</b>		
Invested in capital assets, net of related debt	33,633	43,662
Restricted for:		
Promotions, research and information	2,574,778	2,530,678
Unrestricted:	-	-
Total net assets	\$ 2,608,411	2,574,340

See accompanying notes to basic financial statements.

## • Statement of cash flows

Year ended October 31, 2005 (with comparative data for the prior year)

	2005	2004
<b>Cash flows from operating activities</b>		
Cash received from producers and importers	\$ 20,432,552	17,142,350
Cash rebate payments and payments to suppliers for goods and services	(21,076,664)	(16,232,054)
Net cash provided by (used for) operating activities	(644,112)	910,296
<b>Cash flows from investing activities</b>		
Investment income	82,283	7,957
Net cash provided by (used for) investing activities	82,283	7,957
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(11,255)	(6,563)
Net cash provided by (used for) capital and related financing activities	(11,255)	(6,563)
Net increase (decrease) in cash and cash equivalents	(573,084)	911,690
<b>Cash and investments at beginning of year</b>		
Cash and investments at beginning of year	3,463,663	2,551,973
<b>Cash and investments at end of year</b>		
Cash and investments at end of year	\$ 2,890,579	3,463,663
<b>Reconciliation of operating income to net cash provided by (used for) operating activities</b>		
Operating income (loss)	\$ (48,212)	454,400
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	21,284	20,191
(Increase) decrease in receivables	(187,941)	(545,501)
(Increase) decrease in prepaid deposits	1,820	(1,820)
Increase (decrease) in accounts payable and other liabilities	(431,063)	983,026
Net cash provided by (used for) operating activities	\$ (644,112)	910,296
<b>Noncash investing, capital and financing activities</b>		

There were no noncash investing, capital or financing activities during the fiscal year ended October 31, 2005.  
See accompanying notes to basic financial statements.



## Statement of revenues, expenses, and changes in net assets-

budget and actual year ended October 31, 2005  
(with comparative data for the prior year)

	2005	2005	2005	2004
	Budget	Actual	Variance*	Actual
<b>Operating Revenues</b>				
<i>Assessments:</i>				
California	\$ 7,625,000	7,183,845	(441,155)	10,219,146
Customs	10,037,500	13,434,640	3,397,140	7,464,388
Miscellaneous	-	188	188	6,137
Total operating revenues	17,662,500	20,618,673	2,956,173	17,689,671
<b>Operating Expenses</b>				
<i>Rebate Program:</i>				
California Avocado Commission	6,481,250	6,106,604	374,646	8,686,262
Chilean Avocado Import Association	4,515,625	5,763,242	(1,247,617)	4,049,437
Mexican Hass Avocado Import Association	3,825,000	4,376,988	(551,988)	1,593,729
Total rebate program	14,821,875	16,246,834	(1,424,959)	14,329,428
<i>Promotions:</i>				
Consumer communications	605,100	561,069	44,031	362,135
Online marketing	220,000	220,062	(62)	-
Trade communications	1,239,000	1,293,106	(54,106)	357,196
Industry communications	370,000	296,448	73,552	139,953
Marketing research	225,000	232,439	(7,439)	-
Total promotions	2,659,100	2,603,124	55,976	859,284
<i>Industry Information:</i>				
Information	105,000	71,104	33,896	219,553
Analysis	235,000	168,976	66,024	44,843
Systems	446,000	444,729	1,271	825,832
Total industry information	786,000	684,809	101,191	1,090,228
Program implementation fee	344,510	344,510	-	219,300
<i>Administration:</i>				
Administration expenses	922,268	766,324	155,944	716,840
Depreciation expense	-	21,284	(21,284)	20,191
Total administration	922,268	787,608	134,660	737,031
Total operating expenses	19,533,753	20,666,885	(1,133,132)	17,235,271
Net operating income (loss)	(1,871,253)	(48,212)	1,823,041	454,400
<b>Non-operating revenues (expenses)</b>				
Investment income	-	82,283	82,283	7,957
Total non-operating revenues (expenses)	-	82,283	82,283	7,957
Change in net assets	(1,871,253)	34,071	1,905,324	462,357
<b>Net assets</b>				
Net assets, at beginning of year	2,574,340	2,574,340	-	2,111,983
Net assets, at the end of year	\$ 703,087	2,608,411	1,905,324	2,574,340

See accompanying notes to basic financial statements.

\*Variance with Budget Positive (Negative).



# Financial Reports



# Management's Discussion & Analysis

## INTRODUCTION

This report, Management's Discussion and Analysis (MD&A), provides an overview and analysis of the financial activities of the Hass Avocado Board (Board) for the fiscal year ended October 31, 2005. 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 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 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 assets of the Board exceeded its liabilities as of October 31, 2005 by \$2,608,411 (net assets). Of this amount, \$2,574,778 totaling over 98% is restricted net assets and may only be used for Board promotions, research and information obligations.
- The Board's 2005 total net assets increased by \$34,071 (\$2,608,411 - \$2,574,340) over the prior 2004 year. Of this amount, net assets invested in capital assets, net of related debt, decreased \$10,029 (\$43,662 - \$33,633) and net assets restricted for promotions, research and information increased \$44,100 (\$2,574,778 - \$2,530,678) over the prior 2004 year.

## OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Board's financial reports. The Board's financial reports include 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, 2004 has been presented in the accompanying financial statements (including Management's Discussion and Analysis) to facilitate financial analysis for the current year ended October 31, 2005.

### STATEMENT OF NET ASSETS:

As noted earlier, net assets may serve over time as a useful indicator of the Board's financial position.

The largest portion (99.3%) of the Board's assets were current assets, consisting primarily of cash, investments, and accounts receivable, totaling \$4,688,541; down \$386,963 from the prior year amount of \$5,075,504. This decrease was mainly due to less cash and investments from a reduction of domestic assessments. Total current assets cover liabilities 2.2 times, and indicate good liquidity.

Liabilities totaled \$2,113,763 for 2005, which decreased \$431,063 from \$2,544,826 over the prior 2004 year. The decrease is mainly due to a reduction in the amounts owed to vendors and import association assessment rebates. Liabilities were primarily accounts payable and are considered current liabilities.

Net assets invested in capital assets, net of related debt, 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 \$33,633; a decrease of \$10,029 from the prior year amount of \$43,662 primarily due to accumulated depreciation. Capital assets make up 1.3% 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 \$2,574,778, an increase of \$44,100 over the prior year amount of \$2,530,678, due to an increase in assessment revenues. Restricted net assets are 98.7% of total net assets and are subject to external restrictions on how they can be used.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS-BUDGET AND ACTUAL:**  
Key highlights and financial analysis are as follows:

- Actual operating revenues of \$20,618,673 in 2005 were \$2,929,002 or 16.6% higher than the \$17,689,671 in 2004. The majority of the increase was from higher assessment revenue from an increase in imported Hass avocado volume. Of the operating revenue, the largest portion \$13,434,640 (65.2%) reflects Customs assessment revenue. The next largest portion \$7,183,845 (34.8%) comes from California assessment revenue.
- Actual operating expenses totaled \$20,666,885 in 2005, which was an increase of \$3,431,614 or 19.9% over the prior year amount of \$17,235,271. This was due to additional consumer and trade communications and rebate payments to importer associations resulting from the increase in assessment revenues from higher import volume.
- At the end of the current 2005 fiscal year, the Board reported ending net assets of \$2,608,411, which \$34,071 higher than the 2004 year of \$2,574,340. This was primarily due to higher assessment revenues from the increase in import volume.

### BUDGETARY HIGHLIGHTS

The 2005 final budget for the Board's operations represents the original budget and amendments that may have occurred during the year. There was no change in the revenue budget of \$17,662,500. The expenditure budget of \$19,533,753 increased \$176,900 from \$19,356,853 mainly for industry communications and related information technology programs.

During the year, the Board was involved in developing, analyzing and implementing current and long-range financial goals and activities for strategic planning purposes. Next year's 2006 budget and programs were developed, reviewed and approved for implementation.

### CAPITAL ASSET AND DEBT ADMINISTRATION

The Board's investment in capital assets for its business type activities as of October 31, 2005, total \$33,633 (net of accumulated depreciation), which is a decrease of \$10,029 from the prior year amount of \$43,662 (net of accumulated depreciation). The majority of the decrease represents depreciation of equipment used for program activities of the Board. The Board had no debt as of October 31, 2005 and 2004.

### 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.



# Notes to Basic Financial Statements

Year ended October 31, 2005

## 1. Summary of Significant Accounting Policies

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

### Reporting Board

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. Organic avocados produced in the United States are exempt from assessment. Exports of U.S. Hass avocados are also exempt from assessment.

### Fund Accounting

The basic accounting and reporting Board is a *fund*. A fund is defined as an independent fiscal and accounting Board 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
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### 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	\$19,356,853
Amendments	<u>176,900</u>
Amended budget	<u>\$19,533,753</u>

### 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, 2005, the Board had no employees.

### Prior Year Data

Comparative data for the year ended October 31, 2004 has been included in the accompanying financial statements to facilitate financial analysis.

## 2. Capital Assets

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

	November 1, 2004	Additions	Deletions	October 31, 2005
Capital assets:				
Office equipment	\$63,853	19,375	(8,128)	75,100
Accumulated depreciation:				
Office equipment	(28,191)	(21,284)	-	(49,475)
Total capital assets, net	<u>\$43,662</u>	<u>(1,909)</u>	<u>(8,128)</u>	<u>33,633</u>

## 3. Cash and Investments

Cash and investments as of October 31, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$ 2,890,579</u>
Total cash and investments	<u>\$ 2,890,579</u>

Cash and investments as of October 31, 2005 consist of the following:

Demand deposits	\$1,599,305
Certificate of deposit	<u>891,274</u>
Total cash and investments	<u>\$ 2,890,579</u>

Investments Authorized by the United States Department of Agriculture and the Hass Avocado Board

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)

### 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. One of the ways that the Board manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Board's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Board's investments by maturity:

### Remaining Maturity (in Months)

Investment Type	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months
Certificate of deposit	<u>\$891,274</u>	-	-	-
Total	<u>\$891,274</u>	-	-	-

### 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. Presented below is the minimum rating required by (where applicable) the Board's investment policy, or the Order, and the actual rating as of year end for each investment type.

		Minimum Legal Ranking	Exempt From Disclosure	Not AAA	As Rated
Investment Type					
Certificate of deposit	<u>\$891,274</u>	<u>N/A</u>	<u>891,274</u>	-	-



# Notes (cont.)

## 4. Required Disclosures

Approximately 52% of total operating revenue was derived from assessments collected from four Hass avocado producers.

the right to exercise the option to purchase the equipment for \$300. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

## 5. Capital Leases

In October 2005, the Board entered into a lease agreement, as the lessor, in leasing equipment to the New Zealand Avocado Industry Council. The term of the lease is for 36 months, which the New Zealand Avocado Industry Council will pay an annual amount of \$500. At the termination of the lease, the lessee has

On November 1, 2005, the Board entered into a separate lease agreement as the lessor in leasing equipment to the Chilean Avocado Importers Association.

# Board of Directors Hass Avocado Board Irvine, California

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

We have audited the financial statements of the Hass Avocado Board (the Board) as of and for the year ended October 31, 2005 and have issued our report thereon dated December 20, 2005. 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.

## 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 an opinion 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 reportable 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 caused by error or fraud 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.

## COMPLIANCE AND OTHER MATTERS

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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 20, 2005*



## 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. A 12-member Board, appointed by the Secretary of Agriculture, administers the program. The HAB has contracted with the California Avocado Commission 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.





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