

2005 - 06 ANNUAL REPORT
HASS AVOCADO BOARD

1,000,000,000



T A B L E O F C O N T E N T S



1 Chairman’s Message

2 Board of Directors

3 2006 Highlights

4-5 Information Technology Impacts the Category

6-9 Marketing Programs

10 Independent Auditors’ Report

11-13 Management’s Discussion and Analysis
 (Required Supplementary Information)

14 Statement of Net Assets

15 Statement of Revenues, Expenses
 and Changes in Net Assets- Budget and Actual

16 Statement of Cash Flows

17-20 Notes to Basic Financial Statements

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



CHAIRMAN'S MESSAGE

THE MORAL OF THE MILESTONE: GROW CAREFULLY

We proudly proclaimed measurable success in 2005 by bringing together a diverse group of domestic and international Hass Avocado suppliers who barely would have spoken in years past. In addition, we issued a call for all avocado suppliers to “optimistically apply the lessons of the past to the continuing challenges of our evolving marketplace.”

The year 2006 proved that optimism was well placed as suppliers hit a major milestone, sending more than 1 billion pounds of Hass Avocados into U.S. markets. That volume was expected. Less apparent, at least early in the season, was the prospect of seeing avocado category performance remain so strong. Could the industry handle so much fruit? Could the market absorb the behemoth volume while maintaining market value?

All those questions received affirmative answers. The fruit flowed relatively smoothly through the market and retail prices remained steady. Several factors accounted for this success:

- The unity of purpose among suppliers since 2003 melded into a **cohesive distribution approach** that found suppliers paying heed to market timing. Both Mexican and Chilean suppliers, for instance, moderated their shipping schedules to reflect the large amount of California fruit available during certain weeks.
- Suppliers embraced a **constantly-improving industry information** resource at avoHQ.com.
- Merchandising efforts effectively **prepared retailers** for the abundance of fruit to come, convincing them that a consistent, 365-day supply would be sustained.
- Each major supplier launched effective **marketing programs** directed at consumer and trade audiences to create and increase awareness in both new and mature Hass Avocado markets.

There can be little question that these efforts counted mightily in moving 1 billion pounds of fruit while preserving consumer perception of value. Nor can we doubt that similar resolve remains crucial to future success.

Given the lessons learned in 2006, the moral of our billion-pound milestone is that success in the future will be measured by more than volume. It will be measured by how careful we are in growing the category so that everyone in its stakeholder ecosystem benefits.

Charley Wolk,
Chairman



B O A R D O F D I R E C T O R S



LEN FRANCIS
 CHARLEY WOLK
 DON REEDER
 ED FIGUEROA
 (FROM LEFT TO RIGHT)



CHARLEY WOLK
 Chairman
 Producer



LEN FRANCIS
 Vice Chairman
 Producer



ED FIGUEROA
 Secretary
 Importer



DON REEDER
 Treasurer
 Producer



ROBERT
 BEDNAR
 Producer



RALPH
 DE LEON
 Producer



BEN
 DRAKE
 Producer



CHARLES
 FROEHLICH
 Producer



AVI
 CRANE
 Importer



JIM
 DONOVAN
 Importer



JIMMY
 LOTUFO
 Importer



GALEN
 NEWHOUSE
 Importer



ANAT
 ARIAV
 Producer Alt.



GIOVANNI
 CAVALETT
 Producer Alt.



JOHN
 LINDSTROM
 Producer Alt.



TOM
 MARKLE
 Producer Alt.



BRADLEY
 MILES
 Producer Alt.



KENNETH
 ROTH
 Producer Alt.



CAROL
 STEED
 Producer Alt.



PILAR
 CHARRADA
 Importer Alt.



ELENA
 GARCIA
 Importer Alt.



NILDA
 MESISTRANO-HYDE
 Importer Alt.



MICHAEL
 PARR
 Importer Alt.



LUKE
 SEARS
 Importer Alt.



SCOTT
 MCINTYRE
 CAC Chairman
 Ex-Officio



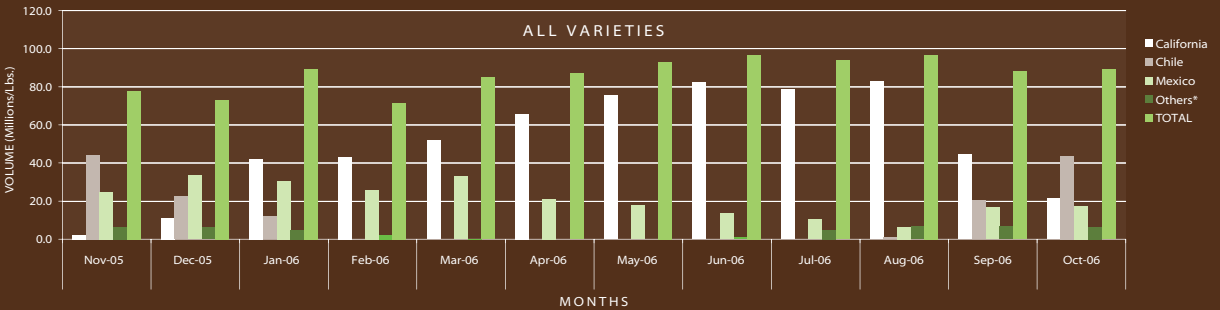
ANTONIO
 VILLASEÑOR ZURITA
 MHAIA Chairman
 Ex-Officio

2006 HIGHLIGHTS

THE VOLUME MILESTONE

American consumers were treated to 1.04 billion pounds of avocados during 2006, up from 892 million pounds a year earlier. This milestone reflects a 365-day a year supply to all corners of the U.S. During the heavy summer months, shipping volume exceeded 20 million pounds for a record 19 consecutive weeks.

2005/06 FISCAL YEAR
U. S. AGGREGATE AVOCADO VOLUME



	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	TOTAL	HASS Actual TOTAL
California	2.2	11.2	42.0	43.2	51.7	65.7	75.3	82.4	78.5	82.8	44.6	21.3	600.9	570.0
Chile	44.2	22.3	12.0	0.1	0.0	0.0	0.0	0.0	0.0	0.8	20.4	43.8	143.6	143.6
Mexico	24.9	33.4	30.5	25.9	33.0	21.1	17.6	13.5	10.5	6.3	16.6	17.5	250.8	250.8
Others*	6.5	6.1	4.9	2.2	0.1	0.0	0.0	0.8	4.7	6.7	6.6	6.5	45.1	7.2
TOTAL	77.8	73.0	89.4	71.4	84.8	86.8	92.9	96.7	93.7	96.6	88.2	89.1	1040.4	971.6

* Others = Florida, Dominican Republic, New Zealand

AVOHQ.COM EXPANSION

Significant enhancements in the content and usability of avoHQ.com, the industry's incredible intranet, are aiding more than 2,000 registered users. Registrations are up nearly 80 percent since November 2005.



A RAPID RISE IN
MARKETING INVESTMENT

Domestic and international suppliers invested more than \$35 million in the market for advertising, promotions, public relations and related marketing activities. This level of investment allows a broader variety of tactical programs than was possible in the past, ranging from regional television and radio commercials to sports promotion like the NASCAR program.

TAILGATING PROMOTION A
FIRST FOR HASS AVOCADO
BOARD (HAB)

HAB's first foray into an integrated generic Hass Avocado marketing program featuring consumer advertising, "Hot Trends in Tailgating," capitalized on the popularity of football games as social culinary events. The campaign included a special 30-minute television program, commercials, online promotion and public relations.



HAB 2005-06

INFORMATION TECHNOLOGY IMPACTS THE CATEGORY

Information Technology, one of two strategic planks in the 2006 HAB business plan, continued to dominate efforts to offer timely, useful information to growers worldwide. International suppliers paid heed to volume statistics and other information on avoHQ.com to make shipping adjustments, creating more category cohesion than ever before.

Efforts to make www.avoHQ.com even more useful and user-friendly to the trade continued in 2006. A board-established Marketing Committee met regularly via video conferences initiated at HAB's Network Marketing Center, helping to formulate and launch the first-ever HAB generic promotional, tailgating-themed program.



José Luis Obregón
Managing Director
Information Technology



CUSTOMIZABLE AVOHQ.COM RESOURCES INCREASE USABILITY

Users can now customize online reports based on parameters they select and quickly print in an easy-to-read, easy-to-share PDF format. Dynamic reporting is available for daily and weekly Market Summary Reports, Monthly Size Trend reports, and Weekly Arrival Traffic reports.

A new Welcome Page features an expanded design, more intuitive navigation, and a Message Center. The enhanced Volume section provides additional views of Arrival, Wholesale and Packed Inventory data. The new Markets section offers a more comprehensive view of national, regional and market-level retail data.

Twelve editions of the e-mail distributed AvoAction newsletter posted on avoHQ.com kept subscribers informed about marketing activities of both domestic and international suppliers.





AVOCADOCENTRAL.COM
HAB’s consumer Web site delivered nearly a half million page views and 655,000 monthly e-mail recipe impressions. The site hosts sweepstakes and streaming video to display advertising and other media products.



PMA FRESH SUMMIT BRINGS THE AVOWORLD TOGETHER
HAB exhibited at the Produce Marketing Association’s Fresh Summit in San Diego last October. The participation at the show of representatives from the Chilean and Mexican avocado industries gave the category a strong and unified presence.

Long lines attested to tasty treats that ranged from specialty avocado recipes to “Avo-Dogs” distributed at the Chilean Avocado Importers Association booth. PMA represents the largest gathering of produce merchandisers and marketers in the world, allowing suppliers to mix and meet with buyers from around the globe.





MARKETING PROGRAMS

CONSUMER ADVERTISING

The Hass Avocado Board and Scripps Television Network collaborated to develop a 30-minute television program called **“Hot Trends in Tailgating.”** This partnership featured Hass Avocados and two complementary partners, The Beef Checkoff and a prominent winery located in Napa Valley. The program aired on the Food Network, HGTV and Fine Living Network. These top-rated cable networks reach more than 90 million households in the U.S. The Food Network promotion is the HAB's first venture into broadcast advertising.

The fall tailgating promotions were integrated across multiple consumer touch points: television, online, merchandising, and consumer public relations. The Hass Avocado Board's advertising, public relations and interactive agencies worked together to cross-promote tailgating messages.

In addition to six airings of the 30-minute show on each of the three networks, 30-second consumer advertising spots ran more than 100 times for four consecutive weeks on Food Network. The television exposure alone created more than 27 million media impressions.

All promotion collateral materials carried the same call to action, “Visit avocadocentral.com for additional recipe ideas and tailgating tips.” Streaming video clips from the program ran on avocadocentral.com, hgtv.com, fineliving.com and foodnetwork.com. Recipes demonstrated during the show encouraged light, moderate and heavy avocado users to try new ideas and created opportunities for new users to see how easy it is to incorporate avocados into their tailgating activities.

CONSUMER PUBLIC RELATIONS

Building on the customized Food Network tailgating programming, HAB partnered with the show's host, Chef Jet Tila, for national media outreach. A quote from Chef Jet was included in a nationally-distributed news release, which highlighted consumption statistics for the tailgating season and featured avocado-themed recipes. Chef Jet also participated in a national radio news release, which offered consumers quick and easy ways to incorporate Hass Avocados into their tailgating parties.

Additionally, a matte release went to hundreds of community newspapers nationwide in early March to educate consumers about the basics of handling and preparing Hass Avocados. The campaign generated more than 13 million consumer media impressions.

BIG GAME DAY

HAB participated in a campaign to link Hass Avocados and guacamole with the fruit's monster consumption day – Super Bowl Sunday. Through strategic media outreach and with NFL Hall of Famer Ronnie Lott (right) serving as HAB's spokesperson, coverage resulted in more than 175 million media impressions.

CINCO DE MAYO

Cinco de Mayo presented a key opportunity to highlight the Hass Avocado's popularity and promote increased consumption. HAB conducted a national media outreach with a celebrity chef and author who served as the HAB spokesperson for the campaign. Media coverage resulted in more than 81 million impressions and Cinco de Mayo 2006 edged out the 2006 Super Bowl as the largest consumption day of the year for Hass Avocados.



MARKETING PROGRAMS

ONLINE CONSUMER PROMOTIONS

HAB's consumer Web site, **avocadocentral.com**, delivered nearly a half-million page views and 655,000 monthly e-mail recipe impressions since November 1, 2005. The online Tailgating microsite supported the overall HAB Tailgating promotion with a sweepstakes to win one of 10 Weber® Q™ 200 gas grills. More than 5,000 sweepstakes entries led to an additional 1,153 visitors opting in to the e-mail newsletter. A streaming video page now supports "Trends in Tailgating" video footage and the 30-second spot that supported that campaign, which will continue in 2007.



RETAIL TRADE MERCHANDISING

One of several retail partnerships in 2006, the **"Celebrate Hispanic Heritage Month"** co-marketing promotion featured Hass Avocados and Melissa's chili peppers.

The promotion ran from September through October, offering point-of-sale materials including three delicious spicy guacamole recipes, a retail display contest and a consumer recipe contest. Over 2,500 retail locations participated in this promotion nationally and the **"Celebrate Hispanic Heritage Month"** program appeared on both Melissa's Web site and avocadocentral.com.



Hass Avocados became an important initiative for Publix as it added secondary display locations to all **850 stores**. To further gain consumer interest, Publix's sampled Hass Avocados for 20 hours in each of its stores. Selected locations received up to 64 hours of sampling. This equates to over **17,000 hours** of shoppers sampling Hass Avocados in Publix stores.

Costco, one of the nation's leading retailers of Hass Avocados, also pushed the category to greater heights of consumer awareness through in-store sampling and key display locations. This highly successful promotion took place in each of the **349 Costco** stores nationwide and featured Hass Avocados.

As a result of the promotion, Costco reported selling out of Hass Avocados in many locations.

Based on just 1,000 samples per store, this equates to nearly **350,000** shoppers tasting Hass Avocados.



FOODSERVICE MERCHANDISING

Avocado menu items are on the rise in foodservice chains across the country, thanks to HAB's Foodservice Chain Menu Development Program.

Togo's introduced a Cobb Salad and a Santa Fe Chicken Salad, featuring Hass Avocados. **ARAMARK** featured a Santa Fe Burger and a La Fresca Burritos & Bowls promotion while **California Pizza Kitchen** introduced a Grilled Vegetable Salad with Avocado to its menu.



Bimonthly **news releases** kept Hass Avocados in front of foodservice trade audiences. News releases highlighted “Keep it Fresh All Year,” Cinco de Mayo, Summer Salad Days, Summer Menus and Football Season.

Five thousand foodservice operators received **quarterly e-newsletters** on various topics, including suggestions on how to boost menus with fresh avocados.

A business reply card (BRC) offering the Foodservice Promotion Guide for Fresh Hass Avocados appeared in two issues of *Restaurant Hospitality* magazine. The BRC resulted in more than four times the sales leads of an average ad.

HAB's educational culinary module CD was printed and distributed at culinary education workshops in West Palm Beach, Chicago and Portland. HAB exhibited at the Worlds of Healthy Flavors Conference in Napa; Healthy Customers/ Healthy Profits Conference in Anaheim; and the PMA Foodservice Conference in Monterey, Calif.

H A S S A V O C A D O B O A R D

FINANCIAL STATEMENTS

BOARD OF DIRECTORS
HASS AVOCADO BOARD
IRVINE, CALIFORNIA

Independent Auditors' Report

We have audited the accompanying basic financial statements of the Hass Avocado Board ("Board") as of and for the year ended October 31, 2006, 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. The financial statements as of and for the year ended October 31, 2005 were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose report dated December 20, 2005 expressed an unqualified opinion on those statements.

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 of America. 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, 2006 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated December 14, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

Mayer Hoffman McCann P.C.

DECEMBER 14, 2006
IRVINE, CALIFORNIA

H A S S A V O C A D O B O A R D

MANAGEMENT'S DISCUSSION AND 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, 2006. 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 12 Directors, 7 of whom represent domestic producers and 5 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 U. S. and on fresh Hass avocados imported into the U. S.

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, 2006 by \$2,441,072 (net assets). Of this amount, \$2,424,710, totaling 99.4%, is restricted net assets and may only be used for Board promotions, research and information obligations.
- The Board's 2006 total net assets decreased by \$167,339 (\$2,608,411 - \$2,441,072) over the prior year. Of this amount, net assets invested in capital assets, net of related debt, decreased \$17,271 (\$33,633 - \$16,362) and net assets restricted for promotions, research and information decreased \$150,068 (\$2,574,778 - \$2,424,710) over the prior year.

H A S S A V O C A D O B O A R D

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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, 2005 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, 2006.

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 (99.8%) of the Board's assets were current assets, consisting primarily of cash, investments, and accounts receivable, totaling \$6,789,581; up \$2,101,040 from the prior year amount of \$4,688,541. This increase was mainly due to more cash and investments from an increase of domestic assessments. Total current assets cover liabilities 1.6 times, and indicate good liquidity.

Liabilities totaled \$4,364,871 for 2006, which increased \$2,251,108 from \$2,113,763 over the prior year. The increase is mainly due to 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 \$16,362; a decrease of \$17,271 from the prior year amount of \$33,633 primarily due to accumulated depreciation. Capital assets make up .67% of total net assets.

H A S S A V O C A D O B O A R D

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 \$2,424,710, an increase of \$150,068 over the prior year amount of \$2,574,778, due to an increase in assessment revenues. Restricted net assets are 99.4% 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 \$24,292,790 in 2006 were \$3,674,117 or 17.8% higher than the \$20,618,673 in 2005. The majority of the increase was from higher assessment revenue from an increase in domestic Hass avocado volume. Of the operating revenue, the largest portion \$14,251,139 (58.7%) reflects assessments from domestic production; \$10,039,289 (41.3%) is generated from imports and the balance is interest income.
- Actual operating expenses totaled \$24,575,924 in 2006, which was an increase of \$3,909,039 or 18.9% over the prior year amount of \$20,666,885. This was due to additional industry programs and rebate payments to the California Avocado Commission resulting from the increase in assessment revenues from higher domestic volume.
- At the end of the current 2006 fiscal year, the Board reported ending net assets of \$2,441,072, which was \$167,339 lower than the prior year of \$2,608,411. This was primarily due to payment of higher assessment rebates from the increase in domestic volume.

BUDGETARY HIGHLIGHTS

The 2006 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 \$25,300,000. The expenditure budget of \$26,149,030 increased \$383,282 from \$25,765,748 mainly for marketing and related communications programs. In addition, beginning reserves were increased by \$1,608,411 to \$2,608,411 from \$1,000,000 to reflect the actual audited amount from the prior year financial statements.

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 2007 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, 2006, total \$16,362 (net of accumulated depreciation), which is a decrease of \$17,271 from the prior year amount of \$33,633 (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, 2006 and 2005.

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.

HASS AVOCADO BOARD

STATEMENT OF NET ASSETS

OCTOBER 31, 2006

(with comparative data for the prior year)

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash and investments (note 2)	\$ 4,773,269	\$2,890,579
Receivables:		
California	472,812	45,707
Customs	1,534,267	1,745,921
Interest	2,022	3,209
Leases (note 5)	3,018	1,500
Miscellaneous	2,093	1,625
Prepaid expenses	2,100	-
	<hr/>	<hr/>
Total current assets	6,789,581	4,688,541
	<hr/>	<hr/>
Noncurrent assets:		
Capital assets (note 3):		
Depreciable	81,584	75,108
Accumulated depreciation	(65,222)	(41,475)
	<hr/>	<hr/>
Total noncurrent assets	16,362	33,633
	<hr/>	<hr/>
Total assets	6,805,943	4,722,174
	<hr/>	<hr/>
Liabilities		
Current Liabilities:		
Accounts payable	4,364,871	2,113,763
	<hr/>	<hr/>
Total liabilities	4,364,871	2,113,763
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of accumulated depreciation	16,362	33,633
Restricted for:		
Promotions, research and information	2,424,710	2,574,778
	<hr/>	<hr/>
Total net assets	\$ 2,441,072	2,608,411
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to basic financial statements.

H A S S A V O C A D O B O A R D
 STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN NET ASSETS-BUDGET AND ACTUAL
 YEAR ENDED OCTOBER 31, 2006
 (with comparative data for the prior year)

	2006			2005
	Budget	Actual	Variance with Budget Positive (Negative)	Actual
Operating revenues:				
Assessments:				
California	\$ 11,200,000	14,251,139	3,051,139	7,183,845
Customs	14,100,000	10,039,289	(4,060,711)	13,434,640
Miscellaneous	-	2,362	2,362	188
Total operating revenues	<u>25,300,000</u>	<u>24,292,790</u>	<u>(1,007,210)</u>	<u>20,618,673</u>
Operating expenses:				
Rebate program:				
California Avocado Commission	9,520,000	12,113,469	(2,593,469)	6,106,604
Chilean Avocado				
Import Association	5,418,750	2,954,571	2,464,179	5,763,242
Mexican Hass Avocado				
Import Association	6,375,000	4,744,177	1,630,823	4,376,988
Total rebate program	<u>21,313,750</u>	<u>19,812,217</u>	<u>1,501,533</u>	<u>16,246,834</u>
Promotions:				
Consumer communications	946,738	957,608	(10,870)	781,131
Trade communications	1,046,000	1,096,094	(50,094)	1,293,106
Industry communications	572,000	508,438	63,562	528,887
Total promotions	<u>2,564,738</u>	<u>2,562,140</u>	<u>2,598</u>	<u>2,603,124</u>
Industry information:				
Information	122,000	123,434	(1,434)	71,104
Analysis	210,000	197,375	12,625	168,976
Interaction	432,000	404,241	27,759	378,566
Network Marketing Center	169,000	179,052	(10,052)	66,163
Total industry information	<u>933,000</u>	<u>904,102</u>	<u>28,898</u>	<u>684,809</u>
Program implementation fee	<u>349,774</u>	<u>349,774</u>	<u>-</u>	<u>344,510</u>
Administration:				
Administration expenses	987,768	923,944	63,824	766,324
Depreciation expense	-	23,747	(23,747)	21,284
Total administration	<u>987,768</u>	<u>947,691</u>	<u>40,077</u>	<u>787,608</u>
Total operating expenses	<u>26,149,030</u>	<u>24,575,924</u>	<u>1,573,106</u>	<u>20,666,885</u>
Net operating income (loss)	<u>(849,030)</u>	<u>(283,134)</u>	<u>565,896</u>	<u>(48,212)</u>
Non-operating revenues (expenses):				
Investment income	-	135,304	135,304	82,283
Loss on lease of capital assets	-	(19,509)	(19,509)	-
Total non-operating revenues (expenses)	<u>-</u>	<u>115,795</u>	<u>115,795</u>	<u>82,283</u>
Change in net assets	<u>(849,030)</u>	<u>(167,339)</u>	<u>681,691</u>	<u>34,071</u>
Net assets, at beginning of year	<u>2,608,411</u>	<u>2,608,411</u>	<u>-</u>	<u>2,574,340</u>
Net assets, at the end of year	<u>\$ 1,759,381</u>	<u>2,441,072</u>	<u>681,691</u>	<u>2,608,411</u>

See accompanying notes to basic financial statements.

H A S S A V O C A D O B O A R D
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2006
(with comparative data for the prior year)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from producers and importers	\$24,075,353	20,432,552
Cash rebate payments and payments to suppliers for goods and services	<u>(22,300,168)</u>	<u>(21,076,664)</u>
Net cash provided by (used for) operating activities	<u>1,775,185</u>	<u>(644,112)</u>
Cash flows from investing activities:		
Interest income	136,491	82,283
Acquisition of capital assets	<u>(28,986)</u>	<u>(11,255)</u>
Net cash provided by (used for) investing activities	<u>107,505</u>	<u>71,028</u>
Net increase (decrease) in cash and cash equivalents	1,882,690	(573,084)
Cash and investments at beginning of year	<u>2,890,579</u>	<u>3,463,663</u>
Cash and investments at end of year	<u><u>\$4,773,269</u></u>	<u><u>2,890,579</u></u>
Reconciliation of operating income to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$(283,134)	(48,212)
Loss on lease of capital assets	(19,509)	(6,620)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	23,747	21,284
(Increase) decrease in receivables	(194,927)	(187,941)
(Increase) decrease in prepaid deposits	(2,100)	1,820
Increase (decrease) in accounts payable and other liabilities	<u>2,251,108</u>	<u>(424,443)</u>
Net cash provided by (used for) operating activities	<u><u>\$1,775,185</u></u>	<u><u>(644,112)</u></u>

Noncash investing, capital and financing activities:
There were no noncash investing, capital or financing activities during the fiscal year ended October 31, 2006.

See accompanying notes to basic financial statements.

H A S S A V O C A D O B O A R D

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2006

1. Summary of Reporting Entity and Significant Accounting Policies

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. Financial reporting is based upon all GASB pronouncements, as well as the FASB statements and interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or after November 30, 1989 that do not conflict with GASB pronouncements.

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

H A S S A V O C A D O B O A R D

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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	\$25,765,748
Amendments	<u>383,282</u>
Amended budget	<u><u>\$26,149,030</u></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, 2006, the Board had no employees.

Prior Year Data

Comparative data for the year ended October 31, 2005 has been included in the accompanying financial statements to facilitate financial analysis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HASS AVOCADO BOARD

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. Cash and Investments
- Cash and investments as of October 31, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 4,773,269
Total cash and investments	\$ 4,773,269

Cash and investments as of October 31, 2006 consist of the following:

Demand deposits	\$ 3,670,948
Certificate of deposit	1,102,321
Total cash and investments	\$ 4,773,269

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 Entity 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 Hass Avocado Board's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Hass Avocado Board's investments by maturity:

H A S S A V O C A D O B O A R D
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. Cash and Investments, (Continued)

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
Certificate of deposit	<u>\$1,102,321</u>	<u>1,102,321</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,102,321</u>	<u>1,102,321</u>	<u>-</u>	<u>-</u>	<u>-</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 California Government Code, the Entity's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Certificate of Deposit	<u>\$1,102,321</u>	N/A	<u>1,102,321</u>	<u>-</u>	<u>-</u>	<u>-</u>

3. Capital Assets

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

	<u>November 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>October 31, 2006</u>
Capital assets:				
Office equipment	\$75,108	28,986	(22,510)	81,584
Accumulated depreciation:				
Office equipment	<u>(41,475)</u>	<u>(23,747)</u>	<u>-</u>	<u>(65,222)</u>
Total capital assets, net	<u>\$33,633</u>	<u>5,239</u>	<u>(22,510)</u>	<u>16,362</u>

Depreciation expense was \$23,747 for the year ended October 31, 2006.

4. Required Disclosures

Approximately 56% of total operating revenue was derived from assessments collected from four hass avocado producers.

5. Capital Leases

The Hass Avocado Board leases equipment to the New Zealand Avocado Industry Council, the Chilean Avocado Importers Association and the Mexican Hass Avocado Importers Association. The term of each lease is for 36 months, which the Association will pay an annual amount of \$500. At the termination of the lease, each Association has the right to exercise the option to purchase the equipment for \$300 from the Hass Avocado Board. The following schedule presents the minimum future lease payments under the lease agreement for the fiscal year end October 31:

2007	\$ 1,518
2008	<u>1,500</u>
	<u>\$ 3,018</u>

Board of Directors
Hass Avocado Board
Irvine, California

**Report On Compliance and Other Matters 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, 2006 and have issued our report thereon dated December 14, 2006. 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 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*.

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 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 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, board of directors, finance committee, and the U.S.D.A. and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffman McCann P.C.

December 14, 2006
Irvine, California



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