

# HAB

ANNUAL REPORT

two-thousand eleven



REACHING THE

TIPPING  
POINT



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# 2012 BOARD OF DIRECTORS



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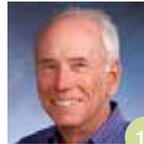
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 Producer

 Officer

 Importer

 Producer Alternate

 Importer Alternate

1. jimmy **LOTUFO**: *Chair*
2. jami **JOHNSON**: *Vice-Chair*
3. tom **SOWDEN**: *Treasurer*
4. bob **SCHAAR**: *Secretary*
5. gary **WOODWORTH**
6. chris **HENRY**
7. mike **SANDERS**
8. reuben **HOFSHI**
9. araceli **ZANABRIA**
10. john **LINDSTROM**
11. scott **BAUWENS**
12. ed **EMBLY**
13. will **CARLETON**
14. casimir **WYTANIEC**
15. david **FAUSSET**
16. isabel **FREELAND**
17. donna **SINGMASTER**
18. ramiro **ORTEGA**
19. emily **GREENBERG**
20. henry **NADER**

\*NOT PICTURED: JAVIER CAMPO, IMPORTER

## FROM THE CHAIRMAN: LOOKING BACK



Working together, the HAB Board and member organizations successfully maintained an avocado market that exceeded 1.1 billion pounds in 2011. Suppliers focused on how best to serve U.S. consumers. That enabled HAB to concentrate on its primary mission: building demand. Both are in line with the strategic direction that has evolved over the past several years.

In 2011, we reached what could be characterized as a "tipping point," a new direction. HAB embarked upon an initiative that will affect our fortunes for years to come: development of a HAB Strategic Plan that redefines our priorities. Board members and avocado category stakeholders approached the planning assignment with a critical dictate: "Think Future." Four "strategic pillars" resulted.

### 1. BUILD DEMAND:

Prompting consumers to consume remains the foundational priority. Barriers to overcome include a volatile economy and inconsistent supply, among others. But Hass avocados shine with taste and versatility (a consumer favorite) and a growing perception of avocados as a nutritious fruit that's indispensable for every day meals.

### 2. SUPPLY/DEMAND DATA COLLECTION:

Data drives market efficiency, an essential ingredient for success in the marketplace. The vast majority of the industry wants to see an effective data-sharing program in place. We are reaching toward a system that will increase efficiency by reporting volume-by-size shipped and sold in the U.S. It will report on inventory levels, which directly affects the quality of the product sold. It will provide an accurate reading of consumption-by-market, allowing marketing dollars to be spent more efficiently by our members.

### 3. QUALITY:

What constitutes "quality" success? When the end user has a consistent, positive avocado experience and the trade sees less shrinkage. Clearly each avocado-producing region can grow high quality fruit. Research and technology – along with the market actually demanding maximum quality – will push this objective in the right direction.

### 4. NUTRITION/PRODUCT RESEARCH:

The avocado industry wants scientifically defensible nutrition messages in its communication. Because of earlier strategic decisions, HAB is dedicating significant resources to nutrition research and is completing several studies with the potential for nutrition messages that will motivate category demand.

Given the serious commitment of HAB to these strategic imperatives, it is very likely that the effort may achieve the final core value written in the plan: "Celebrate Success!"

**JIMMY LOTUFO**

Chairman



**“HAB IS LEADING THE WAY TO REACHING  
CRITICAL MASS FOR CONSISTENT  
NUTRITION MESSAGING CARRIED OUT BY  
THE INDUSTRY YEAR ROUND.”**



The strategic initiatives that our Chairman describes in his letter have set the marching orders for HAB's board and staff: to grow demand for Hass avocados. Over HAB's existence, the division of labor found HAB member organizations sharing promotional responsibility with HAB. Now we have reached a tipping point in our history. As those organizations continue their mastery of marketing communication and market expansion to the consumer, HAB continues to pull back from consumer promotion to provide the foundation for a single-minded category nutrition marketing strategy that leverages category resources to drive avocado consumption and enhance value to the consumer and our stakeholders.

HAB and other stakeholders have spent millions of dollars to build a robust avocado market that far exceeds what might have been anticipated a decade ago. Now HAB's investment shifts to nutrition research and communication, to develop nutrition-focused messages that will resonate with influencers and consumers – and prompt them to eat more Hass avocados. Where avocados were seen in the last century as an unhealthy indulgence, they are now recognized as a food with nutrition benefits that tastes great. Today nutrition research and strategic communications will take us to the next level.

We are confident that our research results will drive demand by offering fresh information that further excites consumers in the produce aisle. Already, we have gathered the most extensive catalog of avocado research ever established. This resource is informing studies that will see at least one initial report released in 2012. The ongoing results over several years will be useful information rooted in science and thoroughly vetted to ensure that resulting messages resonate with consumers.

Currently HAB is immersed in the development of an ongoing nutrition marketing strategy. In the future HAB will serve the category as the strategy captain by maintaining the science pipeline, conducting consumer insights research and managing the overall activation of the nutrition marketing strategy; including, a communications campaign directed at influencers who can disseminate information to the right audience. More importantly, HAB will supply the tools that member organizations need to incorporate cohesive avocado nutrition messaging in their individual marketing campaigns.

HAB is leading the way to reaching critical mass for consistent nutrition messaging carried out by the industry year round. Looking forward, the future looks bright and we will work hard to get there.

**EMILIANO ESCOBEDO**

Executive Director



# INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Hass Avocado Board  
Irvine, California

We have audited the accompanying statement of net assets of the Hass Avocado Board ("Board") as of and for the year ended December 31, 2011, and related statement of revenues, expenses and changes in net assets – budget and actual, and statement of cash flows for the year ended. 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 prior year partial comparative information has been derived from the financial statements of the Hass Avocado Board for year ended December 31, 2010 and, in our report dated April 7, 2011, we expressed an unqualified opinion on those financial 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 December 31, 2011 and the respective changes in financial position and cash flows of the Hass Avocado Board for the year 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.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hass Avocado Board's basic financial statements. The supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated March 14, 2012 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 results 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 considered in assessing the results of our audits.

*Mayer Hoffman McCann P.C.*

Irvine, California  
March 14, 2012

## 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 December 31, 2011. It has been prepared by management and should be read in conjunction with the audited financial statements for the periods ended December 31, 2011.

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 established 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. and remains unchanged.

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 (CAC) to assist in its management of board marketing programs in 2010. The Board maintains a limited marketing program implementation contract with the CAC.





## FINANCIAL HIGHLIGHTS

- The assets of the Board exceeded its liabilities as of December 31, 2011 by \$1,994,536 (net assets). Of this amount, \$1,994,536 totaling 100% is restricted net assets and may only be used for Board promotions, research and information obligations.
- The Board's 2011 total net assets of \$1,994,536 increased by \$504,033 from the December 31, 2010 amount of \$1,490,503. Of this amount, net assets invested in capital assets, net of related debt, remained unchanged at \$0. Net assets restricted for promotions, research and information increased from \$1,490,503 to \$1,994,536.

## 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 government entities, 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 December 31, 2010 has been presented in the accompanying supplemental schedules to facilitate financial analysis for the current year ended December 31, 2011.

## 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 (100%) of the Board's total assets were current assets, consisting primarily of cash, investments, and accounts receivable, totaling \$4,412,803; up \$393,787 from the prior year amount of \$4,019,016. This increase was mainly attributable to an increase in cash and investments. Total current assets cover liabilities 1.8 times, and indicate adequate liquidity.

Liabilities totaled \$2,418,267 at December 31, 2011, which decreased \$110,246 from \$2,528,513 from the prior year. The decrease is mainly due to amounts owed to vendors and rebates owed to avocado associations. 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 \$0, no change from the prior year amount of \$0.

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 \$1,994,536, an increase of \$504,033 over the prior year amount of \$1,490,503 mainly due to favorability in rebate expense due to non-membership, and a favorable variance in marketing/promotion expenses offset by un-favorability in administration expenses. Restricted net assets are 100% 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 \$28,577,779 in 2011 were \$2,613,901 Lower than the \$31,191,680 in 2010. The decrease was attributable to a 49% decrease in domestic assessment revenues offset by a 9% increase in revenue from imports. Of the operating revenue, the majority \$21,819,409 (76%) reflects assessments from imported volume; \$6,687,180 (23%) is generated from domestic volume and the remainder of \$71,190 (less than 1%) is from late fees, prior year assessments, and interest.
- Actual operating expenses totaled \$28,073,746 in 2011, which was a decrease of \$4,420,372 or 14% from the prior year amount of \$32,494,118. The large decrease was due to an overall reduction in assessable Hass volume, decreasing assessment rebate expenses and available promotional and marketing funds.
- At the end of the 2011 year, the Board reported ending net assets of \$1,994,536, which was an increase of \$504,033 from the prior year of \$1,490,503. This was primarily due to unplanned non-member revenue.

## BUDGETARY HIGHLIGHTS

The 2011 final budget for the Board's operations represents the original budget for the 12-month period and amendments that may have occurred during the period. There was no change in the original revenue budget of \$27,625,000. However, the budget was amended once during the year increasing spending on research and promotion by a total of \$630,500. Beginning reserves were also increased by \$432,712 to \$1,490,503 from the estimated \$1,057,791 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 2012 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 December 31, 2011, total \$0 (net of accumulated depreciation), which is the same as December 31, 2010 year amount of \$0 (net of accumulated depreciation). The Board had no debt as of December 31, 2011.

## **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 Robert M. Rumph, Controller/Financial Services Manager, Hass Avocado Board, 230 Commerce Suite 190 Irvine, California 92602.

# STATEMENT OF NET ASSETS

**DECEMBER 31, 2011**

(With Comparative Data for December 31, 2010)

	2011	2010	
ASSETS	CURRENT ASSETS:		
	Cash and investments (note 2)	\$ 2,016,960	1,702,115
	Receivables:		
	California	2,522	24,409
	Customs	2,348,249	2,259,937
	Miscellaneous	24,652	-
	Prepaid expenses	20,420	32,555
	Total current assets	4,412,803	4,019,016
	NONCURRENT ASSETS:		
	Capital assets (note 3):		
Depreciable	81,584	81,584	
Accumulated depreciation	(81,584)	(81,584)	
Total noncurrent assets	-	-	
Total assets	4,412,803	4,019,016	
LIABILITIES	CURRENT LIABILITIES:		
	Accounts payable and other liabilities	2,418,267	2,528,513
	Total current liabilities	2,418,267	2,528,513
NET ASSETS	Restricted for:		
	Promotions, research and information	1,994,536	1,490,503
	Total net assets	1,994,536	1,490,503

See accompanying notes to basic financial statements.

# STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS-BUDGETS & ACTUAL

## YEAR ENDED DECEMBER 31, 2011

(With Comparative Data for December 31, 2010)

	Final Budget	2011	Variance with Final Budget Positive (Negative)	2010
<b>OPERATING REVENUES</b>				
ASSESSMENTS:				
California	\$ 6,250,000	6,738,609	488,609	13,011,765
Customs	21,375,000	21,819,407	444,407	18,173,327
Miscellaneous	-	18,015	18,015	2,819
Total operating revenues	27,625,000	28,576,031	951,031	31,187,911
<b>OPERATING EXPENSES</b>				
REBATE PROGRAM:				
California Avocado Commission	5,312,500	5,728,443	(415,943)	11,060,448
Chilean Avocado Import Assoc.	4,250,000	3,242,434	1,007,566	2,889,361
Mexican Hass Avocado Import Assoc.	12,750,000	13,734,124	(984,124)	11,005,611
Peruvian Avocado Commission	850,000	421,328	428,672	-
Total rebate program	23,162,500	23,126,329	36,171	24,955,420
PROMOTIONS:				
Consumer communications	2,083,392	2,057,023	26,369	3,811,458
Trade communications	44,200	39,500	4,700	1,018,39
Industry communications	122,750	92,445	30,305	103,617
Marketing research	1,431,393	1,366,139	65,254	974,062
Total promotions	3,681,735	3,555,107	126,628	5,907,535
INDUSTRY INFORMATION:				
Interaction	106,931	86,680	20,251	92,013
Educational programs	-	9,932	(9,932)	8,977
Total industry information	106,931	96,612	10,319	100,990
Program implementation fee	225,000	225,000	-	617,646
ADMINISTRATION:				
Administration expenses	1,037,125	1,070,698	(33,573)	912,527
Total administration	1,037,125	1,070,698	(33,573)	912,527
Total operating expenses	28,213,291	28,073,746	139,545	32,494,118
Net operating income (loss)	(588,291)	502,285	1,090,576	(1,306,207)
<b>NON OPERATING REVENUES</b>				
Investment income	-	1,748	1,748	3,769
Total non-operating revenues	-	1,748	1,748	3,769
Change in net assets	(588,291)	504,033	1,092,324	(1,302,438)
<b>NET ASSETS</b>				
At beginning of year	1,490,503	1,490,503	-	2,792,941
At the end of year	\$ 902,212	1,994,536	1,092,324	1,490,503

See accompanying notes to basic financial statements.

# STATEMENT OF CASH FLOWS

## YEAR ENDED DECEMBER 31, 2011

(With Comparative Data for December 31, 2010)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from producers and import	\$ 28,484,954	31,113,816
Cash rebate payments and payments to suppliers for goods and services	(28,171,857)	(32,150,580)
Net cash provided by (used for) operating activities	313,097	(1,036,764)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	1,748	3,769
Net cash provided by (used for) operating activities	1,748	3,769
Net increase (decrease) in cash and cash equivalents	314,845	(1,032,995)
<b>CASH AND INVESTMENTS</b>		
At beginning of year	1,702,115	2,735,110
At end of year	\$ 2,016,960	1,702,115
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 502,285	(1,306,207)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
(Increase) decrease in receivables	(91,077)	(79,521)
(Increase) decrease in prepaid deposits	12,135	(7,240)
Increase (decrease) in accounts payable and other liabilities	(110,246)	356,204
Net cash provided by (used for) operating activities	\$ 313,097	(1,036,764)
<b>NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
There were no significant non-cash investing, capital or financing activities during the year ended December 31, 2011.		

## **1. SUMMARY OF REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

### **REPORTING ENTITY**

The Hass Avocado Board is authorized under the United States Department of Agriculture (USDA), 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 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 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

# NOTES TO BASIC FINANCIAL STATEMENTS

## 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 USDA 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	\$27,582,791
Amendments	<u>630,500</u>
Amended budget	<u>\$28,213,291</u>

## ADMINISTRATION AND PROGRAM SERVICES

The Board contracts with the California Avocado Commission to provide certain marketing services necessary in carrying out the purpose described in the Order.

## TAX EXEMPTION

The Office of Chief Council of the Internal Revenue Service, U.S. Treasury Department ruled on October 22, 1992, that research and promotion boards, such as the Hass Avocado Board, are not subject to federal income taxation. Such boards are also generally exempt from all forms of taxation, including personal, real property taxes, and sales taxes.

## 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.

## PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in

accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's prior year financial statements, from which this selected financial data was derived.

## 2. CASH AND INVESTMENTS

Cash and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$ 2,016,960</u>
Total cash and investments	<u><u>\$ 2,016,960</u></u>

Cash and investments as of December 31, 2011 consist of the following:

Demand deposits	<u>\$ 2,016,960</u>
Total cash and investments	<u><u>\$ 2,016,960</u></u>

### INVESTMENTS AUTHORIZED BY THE UNITED STATES DEPARTMENT OF AGRICULTURE AND THE HASS AVOCADO BOARD

Under provision of the USDA 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)
- Merrill Lynch insured savings accounts

### 3. CAPITAL ASSETS

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

	January 1, 2011	Additions	Deletions	December 31, 2011
Capital assets:				
Office equipment	\$ 81,584	-	-	\$ 81,584
Accumulated depreciation:				
Office equipment	(81,584)	-	-	(81,584)
Total capital assets, net	\$ -	-	-	-

Depreciation expense was \$0 for the year ended December 31, 2011.

### 4. REVENUE CONCENTRATION

Approximately 55% of total operating revenue was derived from assessments collected from five hass avocado handlers/importers.

### 5. LEASE COMMITMENTS

The Hass Avocado Board entered into an operating lease on September 25, 2009 for office space. The operating lease is a 5.5 year lease expiring on February 28, 2015. The future commitments of the Board for the year ended December 31, 2011 are:

2012	\$ 107,232
2013	109,689
2014	113,040
2015	18,944
Total	\$ 348,905

### 6. POST-EMPLOYMENT BENEFIT PLAN

The Board of Directors of the Hass Avocado Board (Board) implemented a Profit Sharing Plan (PSP) for eligible Board employees, effective November 1, 2007. The plan limits contributions strictly from the Board. The Board contributes 10% of the participant's compensation. Total Benefit expenses for the year ended December 31, 2011 was \$39,043.

## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE HASS AVOCADO PROMOTION, RESEARCH AND INFORMATION ACT OF 2000 AND ORDER

### INDEPENDENT AUDITORS' REPORT

#### Compliance

We have audited the Hass Avocado Board's (the "Board"), compliance with the compliance requirements of the Hass Avocado Promotion, Research and Information Act of 2000 and Order that are indicated below for the year ended December 31, 2011. Compliance with the requirements referred to below is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Hass Avocado Promotion, Research and Information Act of 2000 and Order. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to below that could have a material effect on the Board has occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to below that are applicable for the year ended December 31, 2011.

- Complied with laws and regulations applicable to the Board.
- Complied with Section 575, Subsection (g) of the Hass Avocado Promotion, Research and Consumer Information Act of 2000 and Section 1219.42, Subsection (b) of the Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action.

# REPORT ON COMPLIANCE

- Expended assessment funds for purposes authorized by the Hass Avocado Promotion, Research and Consumer Information Act and Order.
- Expended or obligated assessment funds only for projects in the fiscal year authorized to be expended by the Board's approved budget and marketing plan.
- Funds were used only for projects and other expenses in a budget approved by the USDA.
- Obtained a written contract or agreement with any person or entity providing goods or services to the Board.
- Complied with the Agriculture Marketing Service (AMS) investment policy as interpreted by Direction 2210.2 and the Research and Promotion Branch paper, "Securing Research and Promotion Brand Funds," relating to the limitations on the types of investments which may be purchased by the Board and the insurance or collateral that must be obtained for all Board deposits and investments.
- Complied with the by-laws of the Board or any other policy of the Board, specifically as they relate to all financial matters, including time and attendance and travel.

## INTERNAL CONTROL OVER COMPLIANCE

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Board's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management of the Board and the USDA and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
March 14, 2012

HASS AVOCADO  
BOARD



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