

HAB

ANNUAL REPORT

two-thousand twelve

{ THINK FUTURE }

BUILD

COLLECTION OF SUPPLY/DEMAND

CONSISTENT

RESEARCH OF PRODUCT &

DEMAND

DATA

QUALITY

NUTRITION

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02

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2013 BOARD OF DIRECTORS



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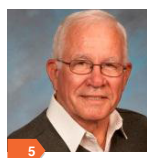
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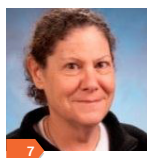
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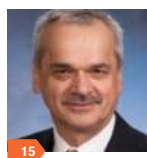
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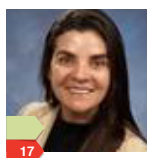
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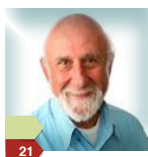
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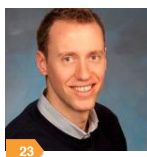
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Officer



Director



Producer



Importer



Producer
Alternate



Importer
Alternate

1. Jamie **JOHNSON** *Chair*
2. Scott **BAUWENS** *Vice-Chair*
3. Chris **HENRY** *Treasurer*
4. Bob **SCHAAR** *Secretary*
5. Bob **HOLLOWAY**
6. Mark **GOLDEN**
7. Emily **GREENBERG**
8. Michael **PARR**
9. Rodrigo **LOPEZ CAMPERO**
10. Javier **MEDINA**
11. Tom **SOWDEN**
12. Ed **EMBL**

13. Will **CARLETON**
14. Gary **WOODWORTH**
15. Casimir **WYTANIEC**
16. David **FAUSSET**
17. Isabel **FREELAND**
18. Gahl **CRANE**
19. Mike **SANDERS**
20. Ohannes **KARAOGHLANIAN**
21. Reuben **HOFSHI**
22. Araceli **ZANABRIA**
23. Nils **GOLDSCHMIDT-ALOMAR**
24. Vacant

NUTRITION IS THE CORNERSTONE OF EVERYTHING WE'VE DONE



**“THE HASS AVOCADO BOARD IS STRONG
AND GETTING STRONGER.”**

Ten years of Hass Avocado history have produced an explosion of growth that must excite the thousands of industry participants who have been along for the ride. When I look at HAB, I see an organization that is almost unrecognizable from when it started. Ten years from now, we may see a similar transformation that takes us to an unimagined level as an industry growing and delivering a quality product to market that is desired for its nutritional benefits and alluring taste.

We expect continued growth in consumption, as consumer belief in the nutritional value of our product finds a willing nationwide following, built with effective marketing programs that help generate sustainable demand. Supporting this optimism, we expect to provide Hass avocado lovers with more than 1.65 billion pounds of quality fruit in 2013.

Nutrition is the cornerstone of everything we do. There are currently seven human clinical studies in the research pipeline – six in progress and one published – that align with HAB's four strategic pillars: heart health, weight management, healthy living and type-2 diabetes. This research will continue to inform avocado marketing efforts throughout the years to come, all under the newly created positioning that supports nutritional messages in a unified way.

The second industry development of great interest is the globalization of the avocado industry. As current producers expand into other markets, HAB and the U.S. market will be affected by the activities of various suppliers in other parts of the world. It will be incumbent upon us to cement a philosophy of inclusiveness that creates the same category environment for newcomers to our markets that has made us successful as an industry.

These twin realities – our product's nutritional value and an inevitable growing global marketplace– will shine clearly in 2013. The Hass Avocado Board is strong and getting stronger. We would welcome the participation of colleagues who can help turn this anticipation into a more powerful alliance of industry experts.

JAMIE JOHNSON
Chairman

Since 2004, the annual consumption of Hass Avocados in the United States has expanded from just over 682 million pounds to more than 1.5 billion, as HAB and its related associations implemented aggressive programs to build demand for their quality product. Continuing a trend, the year 2012 was a record breaking year for Hass avocados, topping the 1.5 billion pound consumption mark, 34 percent more than in 2011 when our customers consumed 1.137 billion pounds.



This satisfying result builds on consecutive annual increases since the industry sent 1 billion pounds to market in 2006. Year after year and week by week, as the industry looks at the volume numbers, some of us who have observed this remarkable growth scratch our heads, asking how it is possible that demand has mushroomed so rapidly.

No less an arbiter of success than the Wall Street Journal recently published article titled "Breaking out of Guacamole to Become a Produce Star" (Sep. 18, 2012) that attributes our category growth to a massive retail and food service penetration," The article also talks about the perception of avocados changes from "an exotic fruit that is fattening" to a source of good fats..

The Hass Avocado Board has presided over a confluence of positive factors – geographic and supply expansion, increased demand, recognition as a "good fruit" and, of course, great taste – and taken advantage of every one to create powerful impetus for continued expansion.

Late in 2011 HAB hosted an intensive strategic planning retreat with industry members representing all member organizations affiliated with HAB. The goal of that meeting was to set out a five-to-10 year vision: "Hass avocado stakeholders of all countries of origin benefit from delivering quality and increasing sustainable demand in the U.S. market." We also set strategic priorities to achieve this vision: build demand; continue investing in nutrition research; develop a supply-and-demand data collection system and support initiatives that will improve product quality.

Much progress was made in 2012 against these priorities, including a very visible reminder of the value of science: the release of a nutrition pilot study conducted on 11 healthy men (18 to 35 years old). The study found that eating one-half of a fresh medium Hass avocado with a burger (90 percent lean) rather than eating a burger alone, may curb the production of compounds that contribute to inflammation, a risk factor that may be associated with heart disease."

This continuing emphasis on nutrition was bolstered visibly by a fresh logo that more accurately reflects the 21st Century mission of HAB. Equally important, HAB's new website, www.hassavocadoboard.com, continues to provide information essential to marketing success.

Combined with an evolving comprehensive data system expected to strengthen the avocado category in the U.S. and new agreements among industry members to pursue quality initiatives, HAB continues to march forward to achieve its strategic goals.

HAB is maturing in vision but managing with a youthful enthusiasm that bodes well for future, record-setting growth. Much credit is due to HAB's hard-working board and its enthusiastic staff that both provide the energy that makes progress inevitable.

INDEPENDENT AUDITOR'S REPORT



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Hass Avocado Board
Irvine, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Hass Avocado Board (the "Board") as of December 31, 2012, and the related statement of revenues, expenses and changes in net assets, and statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hass Avocado Board as of December 31, 2012 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Board's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated April 12, 2013 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 audit.

Mayer Hoffman McCann P.C.

Irvine, California
April 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

HASS AVOCADO BOARD 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 December 31, 2012. It has been prepared by management and should be read in conjunction with the audited financial statements for the periods ended December 31, 2012.

The Board is a federal government instrumentality created September 6, 2002 by the Hass Avocado Promotion, Research, and Information Act. The Board is an administrative body established pursuant to 7 CFR Part 1219, with supervisory oversight by the United States 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 2012. 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, 2012 by \$2,117,119 (net assets). Of this amount, \$2,117,119 totaling 100% is unrestricted net assets and may only be used for Board promotions, research and information obligations.
- The Board's 2012 total net assets of \$2,117,119 increased by \$122,583 from the December 31, 2011 amount of \$1,994,536. Of this amount, net assets invested in capital assets, net of related debt, remained unchanged at \$0. Net assets unrestricted for promotions, research and information increased from \$1,994,536 to \$2,117,119.

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.

HASS AVOCADO BOARD

Management's Discussion and Analysis

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, 2011 has been presented in the accompanying supplemental schedules to facilitate financial analysis for the current year ended December 31, 2012.

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 \$5,892,346; up \$1,479,543 from the prior year amount of \$4,412,803. This increase was attributable to an increase in cash and investments as well as an increase in accounts receivable related to U.S. Customs. Total current assets cover liabilities 1.6 times, and indicate adequate liquidity.

Liabilities totaled \$3,775,227 at December 31, 2012, which increased \$1,356,960 from \$2,418,267 from the prior year. The increase 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.

Unrestricted net assets for promotions, research, industry information and consumer information activities are subject to imposed restrictions by federal statute governing their use. Unrestricted net assets total \$2,117,119, an increase of \$122,583 over the prior year amount of \$1,994,536 mainly due to favorability in marketing/promotion expenses and favorability in net revenue due

MANAGEMENT'S DISCUSSION AND ANALYSIS

HASS AVOCADO BOARD Management's Discussion and Analysis

to an increase in avocado volume. Unrestricted 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 \$37,692,234 in 2012 were \$9,116,203 higher than the \$28,576,031 in 2011. The increase was attributable to a 63% increase in domestic assessment revenues combined with a 22% increase in revenue from imports. Of the operating revenue, the majority \$26,719,063 (71%) reflects assessments from imported volume; \$10,958,892 (29%) is generated from domestic volume and the remainder of \$14,279 (less than 1%) is from late fees, and interest.
- Actual operating expenses totaled \$37,570,696 in 2012, which was an increase of \$9,496,950 or 34% from the prior year amount of \$28,073,746. The large increase was due to an overall increase in assessable Hass volume resulting in higher assessment rebate expenses and available promotional and marketing funds.
- At the end of the 2012 year, the Board reported ending net assets of \$2,117,119, which was an increase of \$122,583 from the prior year of \$1,994,536. This modest increase was primarily due to favorability in marketing/promotion expenses.

BUDGETARY HIGHLIGHTS

The 2012 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 \$36,000,000. However, the budget was amended twice during the year increasing spending on research and promotion by a total of \$300,000. Beginning budgeted reserves were also increased by \$694,536 to \$1,994,536 from the estimated \$1,300,000 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 2013 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, 2012, total \$0 (net of accumulated depreciation), which is the same as December 31, 2011 year amount of \$0 (net of accumulated depreciation). The Board had no debt as of December 31, 2012.

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

HASS AVOCADO BOARD

Statement of Net Assets

December 31, 2012

(With Comparative Data for December 31, 2011)

	2012	2011
Assets		
Current assets:		
Cash and investments (note 2)	\$ 2,883,671	2,016,960
Receivables:		
California	2,475	2,522
Customs	2,995,780	2,348,249
Miscellaneous	-	24,652
Prepaid expenses	10,420	20,420
Total current assets	<u>5,892,346</u>	<u>4,412,803</u>
Noncurrent assets:		
Capital assets (note 3):		
Depreciable	81,584	81,584
Accumulated depreciation	<u>(81,584)</u>	<u>(81,584)</u>
Total noncurrent assets	<u>-</u>	<u>-</u>
Total assets	<u>5,892,346</u>	<u>4,412,803</u>
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	<u>3,775,227</u>	<u>2,418,267</u>
Total current liabilities	<u>3,775,227</u>	<u>2,418,267</u>
Net Assets		
Unrestricted	<u>2,117,119</u>	<u>1,994,536</u>
Total net assets	<u>\$ 2,117,119</u>	<u>1,994,536</u>

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

HASS AVOCADO BOARD

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended December 31, 2012
(With Comparative Data for December 31, 2011)

	2012	2011
Operating revenues:		
Assessments:		
California	\$ 10,958,892	6,738,609
Customs	26,719,063	21,819,407
Miscellaneous	14,279	18,015
Total operating revenues	<u>37,692,234</u>	<u>28,576,031</u>
Operating expenses:		
Rebate program:		
California Avocado Commission	9,317,171	5,728,443
Chilean Avocado Import Association	1,993,673	3,242,434
Mexican Hass Avocado Import Association	19,840,861	13,734,124
Peruvian Avocado Commission	727,050	421,328
Total rebate program	<u>31,878,755</u>	<u>23,126,329</u>
Promotions:		
Consumer communications	1,577,504	2,057,023
Trade communications	74,380	39,500
Industry communications	146,438	92,445
Market/nutrition research and communication	2,421,467	1,366,139
Total promotions	<u>4,219,789</u>	<u>3,555,107</u>
Industry information:		
Interaction	78,291	86,680
Education programs	150,906	9,932
Total industry information	<u>229,197</u>	<u>96,612</u>
Program implementation fee	<u>120,000</u>	<u>225,000</u>
Administration:		
Administration expenses	1,122,955	1,070,698
Total administration	<u>1,122,955</u>	<u>1,070,698</u>
Total operating expenses	<u>37,570,696</u>	<u>28,073,746</u>
Net operating income (loss)	121,538	502,285
Non-operating revenues:		
Investment income	1,045	1,748
Total non-operating revenues	<u>1,045</u>	<u>1,748</u>
Change in net assets	122,583	504,033
Net assets, at beginning of year	1,994,536	1,490,503
Net assets, at the end of year	<u>\$ 2,117,119</u>	<u>1,994,536</u>

STATEMENT OF CASH FLOWS

HASS AVOCADO BOARD

Statement of Cash Flows

Year Ended December 31, 2012

(With Comparative Data for December 31, 2011)

	2012	2011
Cash flows from operating activities:		
Cash received from producers and importers	\$ 37,069,402	28,484,954
Cash paid to employees	(561,934)	(452,972)
Cash rebate payments and payments to suppliers for goods and services	(35,641,802)	(27,718,885)
Net cash provided by (used for) operating activities	865,666	313,097
Cash flows from investing activities:		
Interest income	1,045	1,748
Net cash provided by (used for) investing activities	1,045	1,748
Net increase (decrease) in cash and cash equivalents	866,711	314,845
Cash and investments at beginning of year	2,016,960	1,702,115
Cash and investments at end of year	\$ 2,883,671	2,016,960
Reconciliation of operating income to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$ 121,538	502,285
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
(Increase) decrease in receivables	(622,832)	(91,077)
(Increase) decrease in prepaid deposits	10,000	12,135
Increase (decrease) in accounts payable and other liabilities	1,356,960	(110,246)
Net cash provided by (used for) operating activities	\$ 865,666	313,097

Non-cash investing, capital and financing activities:

There were no significant non-cash investing, capital or financing activities during the years ended December 31, 2012 and 2011.

NOTES TO BASIC FINANCIAL STATEMENTS

HASS AVOCADO BOARD

Notes to Basic Financial Statements

Year Ended December 31, 2012

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, and marketing 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

Enterprise funds 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 enterprise funds 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.

Enterprise 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.

HASS AVOCADO BOARD
Notes to Basic Financial Statements
(Continued)

1. Summary of Reporting Entity and Significant Accounting Policies. (Continued)

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. 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
------------------	-----------

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 Counsel 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.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

1. Summary of Reporting Entity and Significant Accounting Policies. (Continued)

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, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$ 2,883,671</u>
Total cash and investments	<u>\$ 2,883,671</u>

Cash and investments as of December 31, 2012 consist of the following:

Money market	\$ 1,451,217
Demand deposits	<u>1,432,454</u>
Total cash and investments	<u>\$ 2,883,671</u>

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

2. Cash and Investments, (Continued)

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:

	<u>January 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2012</u>
Capital assets:				
Office equipment	\$ 81,584	-	-	81,584
Accumulated depreciation:				
Office equipment	<u>(81,584)</u>	<u>-</u>	<u>-</u>	<u>(81,584)</u>
Total capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

Depreciation expense was \$0 for the year ended December 31, 2012.

4. Revenue Concentration

Approximately 51% of total operating revenue was derived from assessments collected from four Hass avocado handlers/importers.

NOTES TO BASIC FINANCIAL STATEMENTS

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

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, 2012 are:

2013	\$ 109,689
2014	113,040
2015	<u>18,944</u>
Total	<u>\$ 241,673</u>

6. Pension Plan

The Board of Directors of the Hass Avocado Board (Board) implemented a defined contribution retirement plan 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. Employees are eligible to receive the Board's contribution after 1,500 hours of employment. Total Benefit expenses for the year ended December 31, 2012 was \$43,956.

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

HASS AVOCADO BOARD

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

Year Ended December 31, 2012
(With Comparative Data for December 31, 2011)

	Final Budget	2012	Variance with Final Budget Positive (Negative)	2011
Operating revenues:				
Assessments:				
California	\$ 10,470,000	10,958,892	488,892	6,738,609
Customs	25,530,000	26,719,063	1,189,063	21,819,407
Miscellaneous	-	14,279	14,279	18,015
Total operating revenues	<u>36,000,000</u>	<u>37,692,234</u>	<u>1,692,234</u>	<u>28,576,031</u>
Operating expenses:				
Rebate program:				
California Avocado Commission	7,437,500	9,317,171	(1,879,671)	5,728,443
Chilean Avocado Import Association	6,375,000	1,993,673	4,381,327	3,242,434
Mexican Hass Avocado Import Association	14,875,000	19,840,861	(4,965,861)	13,734,124
Peruvian Avocado Commission	<u>1,593,750</u>	<u>727,050</u>	<u>866,700</u>	<u>421,328</u>
Total rebate program	<u>30,281,250</u>	<u>31,878,755</u>	<u>(1,597,505)</u>	<u>23,126,329</u>
Promotions:				
Consumer communications	1,581,703	1,577,504	4,199	2,057,023
Trade communications	89,398	74,380	15,018	39,500
Industry communications	190,965	146,438	44,527	92,445
Market/nutrition research and communication	<u>2,570,930</u>	<u>2,421,467</u>	<u>149,463</u>	<u>1,366,139</u>
Total promotions	<u>4,432,996</u>	<u>4,219,789</u>	<u>213,207</u>	<u>3,555,107</u>
Industry information:				
Interaction	233,395	78,291	155,104	86,680
Education programs	<u>300,000</u>	<u>150,906</u>	<u>149,094</u>	<u>9,932</u>
Total industry information	<u>533,395</u>	<u>229,197</u>	<u>304,198</u>	<u>96,612</u>
Program implementation fee	<u>120,000</u>	<u>120,000</u>	<u>-</u>	<u>225,000</u>
Administration:				
Administration expenses	<u>1,132,359</u>	<u>1,122,955</u>	<u>9,404</u>	<u>1,070,698</u>
Total administration	<u>1,132,359</u>	<u>1,122,955</u>	<u>9,404</u>	<u>1,070,698</u>
Total operating expenses	<u>36,500,000</u>	<u>37,570,696</u>	<u>(1,070,696)</u>	<u>28,073,746</u>
Net operating income (loss)	(500,000)	121,538	621,538	502,285
Non-operating revenues:				
Investment income	-	1,045	1,045	1,748
Total non-operating revenues	<u>-</u>	<u>1,045</u>	<u>1,045</u>	<u>1,748</u>
Change in net assets	(500,000)	122,583	622,583	504,033
Net assets, at beginning of year	<u>1,994,536</u>	<u>1,994,536</u>	<u>-</u>	<u>1,490,503</u>
Net assets, at the end of year	<u>\$ 1,494,536</u>	<u>2,117,119</u>	<u>622,583</u>	<u>1,994,536</u>

SCHEDULE OF PROGRAM EXPENITURES BUDGET & ACTUAL

HASS AVOCADO BOARD

Schedule of Program Expenditures - Budget and Actual

Year Ended December 31, 2012
(With Comparative Data for December 31, 2011)

	Final Budget	2012	Variance with Final Budget Positive (Negative)	2011
Consumer communications:				
Advertising	\$ -	-	-	14,382
Public relations	1,013,540	1,138,666	(125,126)	917,146
Joint promotion	16,221	16,221	-	539,146
Program elements	307,942	219,066	88,876	210,646
Video on demand	-	-	-	109,667
Marketing and promotions	203,000	162,733	40,267	231,038
E-mail communications	<u>41,000</u>	<u>40,818</u>	<u>182</u>	<u>34,998</u>
Total consumer communications	<u>1,581,703</u>	<u>1,577,504</u>	<u>4,199</u>	<u>2,057,023</u>
Trade communications:				
Retail trade outreach	37,923	32,872	5,051	28,505
Trade media	<u>51,475</u>	<u>41,508</u>	<u>9,967</u>	<u>10,995</u>
Total trade communications	<u>89,398</u>	<u>74,380</u>	<u>15,018</u>	<u>39,500</u>
Industry communications:				
Industry	155,215	117,809	37,406	70,286
Internal	<u>35,750</u>	<u>28,629</u>	<u>7,121</u>	<u>22,159</u>
Total industry communications	<u>190,965</u>	<u>146,438</u>	<u>44,527</u>	<u>92,445</u>
Market/nutrition research and communication	<u>2,570,930</u>	<u>2,421,467</u>	<u>149,463</u>	<u>1,366,139</u>
Total promotions	<u>\$ 4,432,996</u>	<u>4,219,789</u>	<u>213,207</u>	<u>3,555,107</u>
Industry information:				
Interaction	\$ 233,395	78,291	155,104	86,680
Education programs	<u>300,000</u>	<u>150,906</u>	<u>149,094</u>	<u>9,932</u>
Total industry information	<u>\$ 533,395</u>	<u>229,197</u>	<u>304,198</u>	<u>96,612</u>
Program implementation fee	<u>\$ 120,000</u>	<u>120,000</u>	<u>-</u>	<u>225,000</u>

SCHEDULE OF ADMINISTRATION EXPENDITURES BUDGET & ACTUAL

HASS AVOCADO BOARD

Schedule of Administration Expenditures - Budget and Actual

Year Ended December 31, 2012
(With Comparative Data for December 31, 2011)

	Final Budget	2012	Variance with Final Budget Positive (Negative)	2011
Administration expenses:				
CPA - auditor	\$ 50,000	38,288	11,712	36,483
Bank fees	15,300	6,602	8,698	12,793
Consulting fees/temp services	48,000	48,093	(93)	115,223
Courier charges	1,000	412	588	590
Meeting/board member expenses	42,500	75,796	(33,296)	65,628
Nomination/election	20,000	13,636	6,364	20,859
Postage	4,000	2,427	1,573	4,766
Printing	1,800	7,275	(5,475)	256
Professional fees - legal	55,000	47,435	7,565	33,113
Insurance liability	30,000	24,131	5,869	25,398
Communication expense	5,500	5,414	86	5,062
Travel expense	30,000	44,788	(14,788)	31,263
Salaries/wages	417,563	413,069	4,494	344,343
Benefits	100,632	104,908	(4,276)	69,587
Pension	41,941	43,956	(2,015)	39,043
Payroll taxes	27,172	25,031	2,141	23,196
Furniture/equipment	12,500	11,430	1,070	11,594
Office supplies and expenses	5,000	8,539	(3,539)	4,825
Photo copying	4,000	4,298	(298)	3,525
Computer supplies and expenses	4,500	7,066	(2,566)	5,499
Equipment maintenance and expenses	2,000	1,695	305	1,295
Internet/email expense	20,000	29,642	(9,642)	20,571
Education, training, conferences, seminars	15,000	7,540	7,460	25,079
Fixed expenses (rent, supplies, fax, etc.)	104,951	91,618	13,333	104,947
Total administration expenses	<u>1,058,359</u>	<u>1,063,089</u>	<u>(4,730)</u>	<u>1,004,938</u>
Other expenses				
USDA user fee	70,000	59,866	10,134	65,760
Office of General Counsel (OGC)	4,000	-	4,000	-
Total other expenses	<u>74,000</u>	<u>59,866</u>	<u>14,134</u>	<u>65,760</u>
Total administration expenses	<u>\$ 1,132,359</u>	<u>1,122,955</u>	<u>9,404</u>	<u>1,070,698</u>

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

HASS AVOCADO BOARD

Schedule of Cash Receipts and Disbursements

Year Ended December 31, 2012

(With Comparative Data for December 31, 2011)

	2012	2011
Cash receipts:		
California assessments	\$ 10,958,939	6,760,496
Customs assessments	26,110,463	21,724,458
Interest income	1,045	1,748
Total cash receipts	<u>37,070,447</u>	<u>28,486,702</u>
Cash disbursements:		
Rebates	30,990,183	23,182,799
Promotions	3,753,593	3,604,344
Industry information	229,197	96,612
Program implementation fee	120,000	225,000
Administration	<u>1,110,763</u>	<u>1,063,102</u>
Total cash disbursements	<u>36,203,736</u>	<u>28,171,857</u>
Excess of receipts over disbursements	866,711	314,845
Cash and investments at beginning of year	<u>2,016,960</u>	<u>1,702,115</u>
Cash and investments at end of year	<u>\$ 2,883,671</u>	<u>2,016,960</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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, in accordance with the 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, the financial statements of the Hass Avocado Board (the "Board"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated April 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control 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, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, 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. 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. Such provisions included those provisions of

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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 Hass Avocado Board
Page 2

of Agriculture (USDA) and as interpreted in the *Guidelines for Agricultural Marketing Service Board of Directors*.

Oversight of Commodity Research and Promotion Programs, issued by the USDA. 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*. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McLean P.C.

Irvine, California
April 12, 2013

REPORT ON COMPLIANCE



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Hass Avocado Board
Irvine, California

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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, and contracts, applicable to the Hass Avocado Promotion, Research and Information Act of 2000 and Order.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of the Board's requirements of the Hass Avocado Promotion, Research and Information Act of 2000 and Order based on our audit of the types of compliance requirements referred to above. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below that could have a direct and 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 on compliance. However, our audit does not provide a legal determination of 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, 2012.

- Complied with the *Code of Federal Regulations (7 CFR Part 1219)- Hass Avocado Promotion, Research, and Information Order*, issued by the United States Department of Agriculture (USDA) and as interpreted in the *Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotion Programs*, issued by the USDA.

REPORT ON COMPLIANCE

Board of Directors
Hass Avocado Board
Page 2

- 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.
- 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 contact 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with compliance requirements of the Hass Avocado Promotion, Research and Information Act of 2000 and Order, 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control

Board of Directors
Hass Avocado Board
Page 3

over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Hass Avocado Promotion, Research and Information Act of 2000 and Order. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

Irvine, California
April 12, 2013

HASS AVOCADO BOARD



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230 Commerce
Suite 190
Irvine, CA 92602
949.341.3250

