



Chris Henry
Chairman



Board Goal: Stay One Step Ahead Of Your Needs!

Hass avocados are grown and purchased all over the world in a surprising number of countries. But nowhere are so many consumed with more gusto than here in America! The Hass Avocado Board, with its critical mission to increase demand nationwide, has done a solid job managing an exploding marketplace for our product.

But as we have watched incredible market penetration from one coast to the other, we remain aware of our responsibility to keep up with — and indeed keep one step ahead of what our stakeholders in the business are telling us they need.

It is on us to make sure we are providing the support all along the food chain that ends up giving avocado lovers good reasons to stay loyal. That, of course, creates good returns on investment from grower to importer to distributor to retailer.

To that end, 2016 brings a fresh look at how the board functions and how we can strategically enhance its activities. Topics on our table include redefining effective board membership and strategically planning for succession over the long term.

We are asking ourselves what our model board should look like and how its composition will ensure it meets the needs of the organization. We will answer that question this year, with Rick Greenwood leading the charge as Corporate Governance Committee chair. We are probing roles and responsibilities of board members, a refresh that will take us to the next level of effectiveness. We realize that such progress requires training on how to do it better, and we'll seek that.

We also are looking at how we communicate and show leadership on industry issues and will complete a plan that recommends new approaches and ideas. History already recognizes our success in doing so with nutrition research, a focus created several years ago that has energized new customers who seek and buy nutritious foods.

What else can we offer to continue the Hass avocado's incredible momentum? We'll find a voice in emerging issues such as food safety and continuing issues such as product quality.

This is a pretty full agenda. We will complete it and our market presence will be stronger for it!

HASS AVOCADO BOARD

Basic Financial Statements

Year Ended December 31, 2015

(With Independent Auditors' Report Thereon)

Board of Directors
Hass Avocado Board
Mission Viejo, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hass Avocado Board (the "Board") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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, 2015 and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior-Year Comparative Information

The financial statements of the Board for the fiscal year ended December 31, 2014 were audited by other auditors whose report dated April 16, 2015 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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.

Other Information

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 statement and 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.

Other Reporting Requirements by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2016 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 conjunction with this report in assessing the results of our audit.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
April 20, 2016

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, 2015. It has been prepared by management and should be read in conjunction with the audited financial statements for the periods ended December 31, 2015.

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.

As required by 7 CFR Part 1219, the Board contracted with the California Avocado Commission (CAC) to assist in its management of board marketing programs in 2015. The Board maintains a nominal marketing program implementation contract with the CAC and disbursed no funds to CAC for this purpose in 2015.

FINANCIAL HIGHLIGHTS

- The assets of the Board exceeded its liabilities as of December 31, 2015 by \$2,209,123 (net position). Of this amount, \$2,175,789 totaling 98% is unrestricted net assets and may be used for Board promotions, research and information obligations.
- The Board's 2015 total net position of \$2,209,123 decreased by \$223,460 from the December 31, 2014 amount of \$2,432,584. Of this amount, net position invested in capital assets, net of related debt, decreased to \$33,334 from \$79,835 in 2014. Net position unrestricted for promotions, research and information decreased from \$2,352,749 to \$2,175,789.

HASS AVOCADO BOARD
Management's Discussion and Analysis

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 Position; Statement of Revenues, Expenses and Changes in Net Position 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 Position* 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 position. Over time, increases or decreases in net position 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, 2014 has been presented in the accompanying supplemental schedules to facilitate financial analysis for the current year ended December 31, 2015.

STATEMENT OF NET POSITION:

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

The largest portion (99.5%) of the Board's total assets were current assets, consisting primarily of cash, investments, and accounts receivable, and prepaid expenses totaling \$6,937,954; up \$445,459 from the prior year amount of \$6,492,495. This increase was mainly attributable to an increase in receivables related to U.S. Customs and Domestic Handlers offset by a reduction in cash and investments on hand. Total current assets to liabilities ratio is 1:5, and indicates adequate liquidity.

Liabilities totaled \$4,762,164 at December 31, 2015, which increased \$622,418 from \$4,139,746 from the prior year. The increase is mainly due to amounts owed to avocado associations and other vendors. Liabilities were primarily accounts payable and are considered current liabilities.

Net position 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 position invested in capital assets (net of accumulated depreciation) total \$33,334, down from the prior year amount of \$79,835.

HASS AVOCADO BOARD
Management's Discussion and Analysis

The decrease was due to depreciation on HAB's Global Data System (a.k.a. AVIS), tradeshow booth, and accounting software which was slightly offset by an increase in tenant improvements.

Unrestricted net position for promotions, research, industry information and consumer information activities are subject to imposed restrictions by federal statute governing their use. Unrestricted net position total \$2,175,789, a decrease of \$176,960 over the prior year amount of \$2,352,749 mainly due to the increased promotional spending to support the higher volume of avocados entering the market. Unrestricted net assets are 99% of total net assets and are subject to external restrictions on how they can be used.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION:

Key highlights and financial analysis are as follows:

- Actual operating revenues of \$53,550,408 in 2015 were \$7,251,237 higher than the \$46,299,171 in 2014. The increase was attributable to a 19.6% increase in import assessment revenues offset by a 6.7% decrease in revenue from domestic producers. Of the operating revenue, the majority \$47,006,190 (approximately 88%) reflects assessments from imported volume; \$6,542,553 (approximately 12%) is generated from domestic volume and the remainder of \$1,664 is from late fees, and interest.
- Actual operating expenses totaled \$53,773,868 in 2015, which was an increase of \$8,328,903 or approximately 18.3% from the prior year amount of \$45,444,965. The increase was due to an overall increase in assessable Hass volume resulting in higher assessment rebate expenses and increased promotional and marketing expenditures.
- At the end of the 2015 year, the Board reported ending net position of \$2,209,123, which was a decrease of \$223,461 from the prior year of \$2,432,584. The decrease was primarily due HAB's plan to maximize promotions and research and deploy funds collected to maximize the impact of HAB's programs.

BUDGETARY HIGHLIGHTS

The 2015 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. The original revenue budget approved by the Board in September 2014 of \$48,750,000 and was increased to \$50,500,000 in November of 2015. Three budget amendments were passed during 2015. The first amendment increased expenditures to \$919,495 and the second amendment increased expenditures an additional \$482,000. The third budget amendment increased expenditures by \$60,000. Beginning budgeted reserves were also increased by \$1,542,706 to \$2,432,584 from the estimated \$889,878 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 2016 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, 2015, total \$33,334 (net of accumulated depreciation), which is a \$46,501 decrease from December 31, 2014 year amount of \$79,835 (net of accumulated depreciation). The Board had no debt as of December 31, 2015.

HASS AVOCADO BOARD
Management's Discussion and Analysis

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, Vice President of Finance, Hass Avocado Board, 25212 Marguerite Parkway Suite 250, Mission Viejo, California 92692.

HASS AVOCADO BOARD**Statement of Net Position**

December 31, 2015

(With Comparative Data for December 31, 2014)

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash and investments (note 2)	\$ 2,326,329	2,672,906
Receivables:		
Customs	4,575,697	3,781,683
Other	4,479	9,214
Deposits	6,051	16,556
Prepaid expenses	<u>25,398</u>	<u>12,136</u>
Total current assets	<u>6,937,954</u>	<u>6,492,495</u>
Noncurrent assets:		
Capital assets (note 3):		
Depreciable	279,027	239,027
Accumulated depreciation	<u>(245,693)</u>	<u>(159,192)</u>
Total noncurrent assets	<u>33,334</u>	<u>79,835</u>
Total assets	<u>6,971,288</u>	<u>6,572,330</u>
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	<u>4,762,166</u>	<u>4,139,746</u>
Total current liabilities	<u>4,762,166</u>	<u>4,139,746</u>
Net Position		
Investment in capital assets	33,334	79,835
Unrestricted	<u>2,175,788</u>	<u>2,352,749</u>
Total Net Position	<u>\$ 2,209,122</u>	<u>2,432,584</u>

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2015
(With Comparative Data for December 31, 2014)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Assessments:		
Customs	\$47,006,190	39,284,206
California	6,542,553	7,013,366
Other income	1,665	1,598
Total operating revenues	<u>53,550,408</u>	<u>46,299,170</u>
Operating expenses:		
Rebate program:		
Mexican Hass Avocado Import Association	37,333,304	28,071,728
California Avocado Commission	5,560,964	5,961,570
Peruvian Avocado Commission	2,122,899	3,001,465
Chilean Avocado Import Association	<u>422,222</u>	<u>2,064,740</u>
Total rebate program	<u>45,439,389</u>	<u>39,099,503</u>
Marketing/Research/Communications Program:		
Nutrition marketing	4,554,788	3,415,981
Nutrition research	1,381,467	977,864
Retail data and research	425,938	380,556
Strategic initiatives	439,541	293,359
Industry communication	<u>256,300</u>	<u>183,612</u>
Total Marketing/Research/Communications	<u>7,058,034</u>	<u>5,251,372</u>
Other Expenses:		
USDA oversight	75,360	90,831
Depreciation (note 3)	<u>86,502</u>	<u>79,596</u>
Total Other Expenses	<u>161,862</u>	<u>170,427</u>
Administration:		
Administration expenses	<u>1,114,585</u>	<u>923,662</u>
Total administration	<u>1,114,585</u>	<u>923,662</u>
Total operating expenses	<u>53,773,870</u>	<u>45,444,964</u>
Change in net position	(223,462)	854,206
Net position, at beginning of year	<u>2,432,584</u>	<u>1,578,378</u>
Net position, at the end of year	<u>\$ 2,209,122</u>	<u>2,432,584</u>

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD

Statement of Cash Flows

Year Ended December 31, 2015
(With Comparative Data for December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from producers and importers	\$ 52,765,408	45,548,205
Cash paid to employees	(1,252,802)	(882,146)
Cash rebate payments	(45,439,389)	(39,099,503)
Payments to suppliers for goods and services	<u>(6,379,794)</u>	<u>(4,811,329)</u>
Net cash provided by (used for) operating activities	<u>(306,577)</u>	<u>755,227</u>
Cash flows from capital and related financing activities:		
Cash paid for the acquisition of capital assets	<u>(40,000)</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>(40,000)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(346,577)	755,227
Cash and investments at beginning of year	<u>2,672,906</u>	<u>1,917,679</u>
Cash and investments at end of year	<u>\$ 2,326,329</u>	<u>2,672,906</u>
Reconciliation of operating income to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$ (223,462)	854,206
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	86,502	79,596
(Increase) decrease in receivables	(789,279)	(750,966)
(Increase) decrease in prepaid expenses and deposits	(2,757)	(16,175)
Increase (decrease) in accounts payable and other liabilities	<u>622,419</u>	<u>588,566</u>
Net cash provided by (used for) operating activities	<u>\$ (306,577)</u>	<u>755,227</u>

Non-cash investing, capital and financing activities:

There were no significant non-cash investing, capital or financing activities during the years ended December 31, 2015 and 2014.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

Year Ended December 31, 2015

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 implement and manage a comprehensive research, marketing, and information program whose overarching object is to increase the consumption of Hass Avocado in the United States. 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. Organically grown and exported 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.

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 Position, and the reported net position 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 position 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:

Software	3-5 years
Office equipment	3-5 years
Tradeshow booth	3-5 years

Compensated Absences

The Board permits employees to accumulate earned but unused vacation and sick leave benefits. Earned vacation hours accrue and may be paid out to a maximum of 240 hours. Accrued sick leave is not paid out upon termination and is not recorded as a liability. Compensated absences are accrued and reported as a liability in the period earned. Amounts payable as of December 31, 2015 are included on the statement of net position.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

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

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.

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, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	<u>\$ 2,326,329</u>

Cash and investments as of December 31, 2015 consist of the following:

Demand deposits	<u>\$ 2,326,329</u>
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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, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2015</u>
Capital assets:				
Office equipment	\$ 15,411	-	-	\$ 15,411
Software	68,700	-	-	68,700
Tradeshow booth	154,916	-	-	154,916
Leasehold improvements	-	40,000	-	40,000
Accumulated depreciation:				
Office equipment	(10,263)	(5,147)	-	(15,411)
Software	(45,754)	(22,946)	-	(68,700)
Tradeshow booth	(103,174)	(51,742)	-	(154,916)
Leasehold improvements	-	(6,667)	-	(6,667)
Total capital assets, net	<u>\$ 79,835</u>	<u>(46,502)</u>	<u>-</u>	<u>\$ 33,334</u>

Depreciation expense was \$86,502 for the year ended December 31, 2015.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

4. Compensated Absences

The following is a summary of changes in compensated absences, included in current liabilities, for the year ended December 31, 2015:

	<u>January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2015</u>
Compensated absences	\$ 24,349	50,102	(45,139)	\$ 29,312

5. Revenue Concentration

Approximately 39% of total operating revenue was derived from assessments collected from four Hass avocado handlers/importers.

6. Lease Commitments

The Hass Avocado Board entered into an operating lease on September 25, 2009 for office space. The operating lease was a 5.5 year lease which expired on February 28, 2015. On November 9, 2014, the Board entered into a new operating lease for office space located in Mission Viejo, California. The lease commenced on March 1, 2015 and is a 6 year, 3 month lease with payments ranging from \$0 a month to \$6,136 a month. Office space lease expense was \$73,464 for the year ended December 31, 2015. The Board has also entered into an agreement to lease a printer/copier. This lease is for 63 months at a rate of \$381 a month expiring on June 3, 2018. Equipment lease expense was \$4,572 for the year ended December 31, 2015.

Future lease commitments under these agreements are as follows:

2016	\$ 71,636
2017	73,644
2018	75,700
2019	75,558
2020	<u>73,632</u>
Total	<u>\$370,170</u>

7. Pension Plan

The Board contributes to the Hass Avocado Board Profit Sharing Plan (PSP), a defined contribution pension plan, for eligible Board employees. The PSP is administered by the Board.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

7. Pension Plan (continued)

Benefit terms, including contribution requirements, for PSP are established and may be amended by the Board. The plan limits contributions strictly from the Board. For each employee in the pension plan, 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, 2015 were \$98,128.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in Board contributions and earnings on Board contributions after completion of 3 years of creditable service with the Board. Non-vested Board contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses and to offset future contributions. For the year ended December 31, 2015, forfeitures reduced the Board's pension expense by \$0.

SUPPLEMENTARY INFORMATION

HASS AVOCADO BOARD

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

Year Ended December 31, 2015
(With Comparative Data for December 31, 2014)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>Actual 2014</u>
Operating revenues:				
Assessment revenues	\$ 50,500,000	53,548,743	3,048,743	46,297,572
Other income	-	1,665	1,665	1,598
Total operating revenues	<u>50,500,000</u>	<u>53,550,408</u>	<u>3,050,408</u>	<u>46,299,170</u>
Operating expenses:				
Rebate program:				
Rebates	<u>42,925,000</u>	<u>45,439,389</u>	<u>(2,514,389)</u>	<u>39,099,503</u>
Marketing/Research/Communications Program:				
Nutrition marketing	4,941,139	4,554,788	386,351	3,415,981
Nutrition research	1,339,384	1,381,467	(42,083)	977,864
Retail data and research	826,093	425,938	400,155	380,556
Strategic initiatives	249,866	439,541	(189,675)	293,359
Industry communication	<u>213,270</u>	<u>256,300</u>	<u>(43,030)</u>	<u>183,612</u>
Total Marketing/Research/Communications	<u>7,569,752</u>	<u>7,058,034</u>	<u>511,718</u>	<u>5,251,372</u>
Other Expenses:				
USDA oversight	90,000	75,360	14,640	90,831
Depreciation	79,596	86,502	(6,906)	79,596
Program implementation fee	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Total Other Expenses	<u>174,596</u>	<u>161,862</u>	<u>12,734</u>	<u>170,427</u>
Administration:				
Administration expenses	<u>1,129,626</u>	<u>1,114,585</u>	<u>15,041</u>	<u>923,662</u>
Total administration	<u>1,129,626</u>	<u>1,114,585</u>	<u>15,041</u>	<u>923,662</u>
Total operating expenses	<u>51,798,974</u>	<u>53,773,870</u>	<u>(1,974,896)</u>	<u>45,444,964</u>
Change in net position	(1,298,974)	(223,462)	1,075,512	854,206
Net Position, at beginning of year	<u>2,432,584</u>	<u>2,432,584</u>	<u>-</u>	<u>1,578,378</u>
Net Position, at the end of year	<u>\$ 1,133,610</u>	<u>2,209,122</u>	<u>1,075,512</u>	<u>2,432,584</u>

HASS AVOCADO BOARD

Schedule of Program Expenditures - Budget and Actual

Year Ended December 31, 2015
(With Comparative Data for December 31, 2014)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2014
Nutrition marketing				
Research publications announcements	\$ 2,171,800	1,791,798	380,002	1,218,931
Strategy, issues radar and reporting	493,500	425,441	68,059	535,794
Events	130,000	371,986	(241,986)	434,345
Creative content	159,500	488,739	(329,239)	311,174
Staff allocation	263,552	298,917	(35,365)	271,598
Online/website/social media	547,000	533,477	13,523	185,012
Thought leader education	32,000	28,650	3,350	125,069
Consumer research tracking	129,500	148,681	(19,181)	117,303
Program management	216,534	151,661	64,873	107,931
Strategic partnerships	168,000	314,073	(146,073)	55,383
Message testing and approval	18,000	1,365	16,635	19,613
Consumer research insights	50,000	-	50,000	31,749
Third party endorsement/announcements	-	-	-	2,080
Total nutrition marketing	4,379,386	4,554,788	(175,402)	3,415,981
Nutrition research				
Science pipeline	767,850	851,422	(83,572)	616,606
Staff allocation	201,534	201,287	247	207,736
Project management	216,534	94,992	121,542	29,237
Events	130,000	110,267	19,733	-
Strategy and issues radar	225,000	123,499	101,501	124,285
Total nutrition research	1,540,918	1,381,467	159,451	977,864
Retail data and research				
Data services	109,500	117,903	(8,403)	123,882
Track and monitor	121,250	95,423	25,827	118,754
Retail best practices	6,000	36,469	(30,469)	79,083
Communications	61,450	46,879	14,571	40,463
Market performance	109,500	-	109,500	-
Retail purchase behaviors	40,350	129,264	(88,914)	18,374
Total retail data and research	448,050	425,938	22,112	380,556
Strategic initiatives				
Global data system	345,293	300,170	45,123	212,506
Quality	113,270	93,304	19,966	75,651
International presentation	-	-	-	5,202
Corporate governance	40,000	46,067	(6,067)	-
Total strategic initiatives	498,563	439,541	59,022	293,359
Industry communications				
Staff allocation	56,866	60,874	(4,008)	61,390
Industry website	46,300	47,558	(1,258)	42,638
HAB promotional materials	10,000	4,885	5,115	21,733
Newsletter	20,700	3,432	17,268	17,959
Project management	70,266	31,224	39,042	15,128
Industry meetings and events	59,500	84,525	(25,025)	12,603
Annual report	9,600	6,302	3,298	6,978
Board reports	-	-	-	3,364
Content design	15,000	-	15,000	1,820
Outreach	18,500	17,500	1,000	-
Total industry communications	306,732	256,300	50,432	183,612
Total marketing/research/communications	\$ 7,173,649	7,058,034	115,614	5,251,372

HASS AVOCADO BOARD

Schedule of Administration Expenditures - Budget and Actual

Year Ended December 31, 2015
(With Comparative Data for December 31, 2014)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2014
Other expenses:				
USDA oversight	90,000	75,360	14,640	90,831
Depreciation (note 3)	76,596	86,502	(9,906)	79,596
Program implementation fee	5,000	-	5,000	-
Total industry information	<u>171,596</u>	<u>161,862</u>	<u>9,734</u>	<u>170,427</u>
Administration expenses:				
Staff allocation	259,925	300,103	(40,178)	238,587
Fixed expenses (rent, supplies, fax, etc.)	129,300	79,691	49,609	106,736
Travel expense	60,000	47,461	12,539	91,270
Meeting/board member expenses	202,050	220,868	(18,818)	79,839
Benefits	87,000	111,507	(24,507)	71,779
Professional fees - legal	60,000	64,602	(4,602)	56,536
Internet/email expense	48,000	41,669	6,331	42,970
CPA - auditor	40,000	38,930	1,070	38,579
Insurance liability	35,000	33,298	1,702	36,178
Payroll taxes	16,966	-	16,966	33,720
Pension	30,532	33,492	(2,960)	31,057
Consulting fees/temp services	12,000	16,909	(4,909)	22,317
Nomination/election	18,000	15,490	2,510	16,301
Office supplies and expenses	18,000	19,667	(1,667)	14,095
Communication expense	9,000	8,041	959	9,313
Bank fees	7,800	7,015	785	7,041
Computer supplies and expenses	5,000	7,339	(2,339)	6,045
Photo copying	6,000	7,212	(1,212)	5,790
Courier charges	4,000	2,986	1,014	4,834
Postage	3,000	2,743	257	3,704
Education, training, conferences, seminars	30,000	20,262	9,738	2,554
Furniture/equipment	34,420	30,625	3,795	2,323
Equipment maintenance and expenses	3,500	990	2,510	1,411
Printing	5,000	3,685	1,315	682
Total administration expenses	<u>1,124,493</u>	<u>1,114,585</u>	<u>9,908</u>	<u>923,662</u>

HASS AVOCADO BOARD

Schedule of Cash Receipts and Disbursements

Year Ended December 31, 2015

(With Comparative Data for December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash receipts:		
California assessments	\$ 6,551,567	7,009,590
Customs assessments	46,213,841	38,538,615
Total cash receipts	<u>52,765,408</u>	<u>45,548,205</u>
Cash disbursements:		
Rebates	44,712,085	38,677,182
Nutrition marketing	4,987,558	3,276,771
Nutrition research	1,211,708	977,864
Retail data & research	415,938	380,556
Industry communication	256,300	183,612
Strategic initiatives	439,541	293,359
USDA oversight	75,360	90,831
Administration	1,013,495	912,803
Total cash disbursements	<u>53,111,985</u>	<u>44,792,978</u>
Excess of receipts over disbursements	(346,577)	755,227
Cash and investments at beginning of year	<u>2,672,906</u>	<u>1,917,679</u>
Cash and investments at end of year	<u>\$ 2,326,329</u>	<u>2,672,906</u>

Board of Directors
Hass Avocado Board
Mission Viejo, 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, 2015, 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 20, 2016.

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

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

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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
April 20, 2016

Board of Directors
Hass Avocado Board
Mission Viejo, 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, 2015. 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, 2015.

- Complied with the allowability provisions of 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.
- 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 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, 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 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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
April 20, 2016