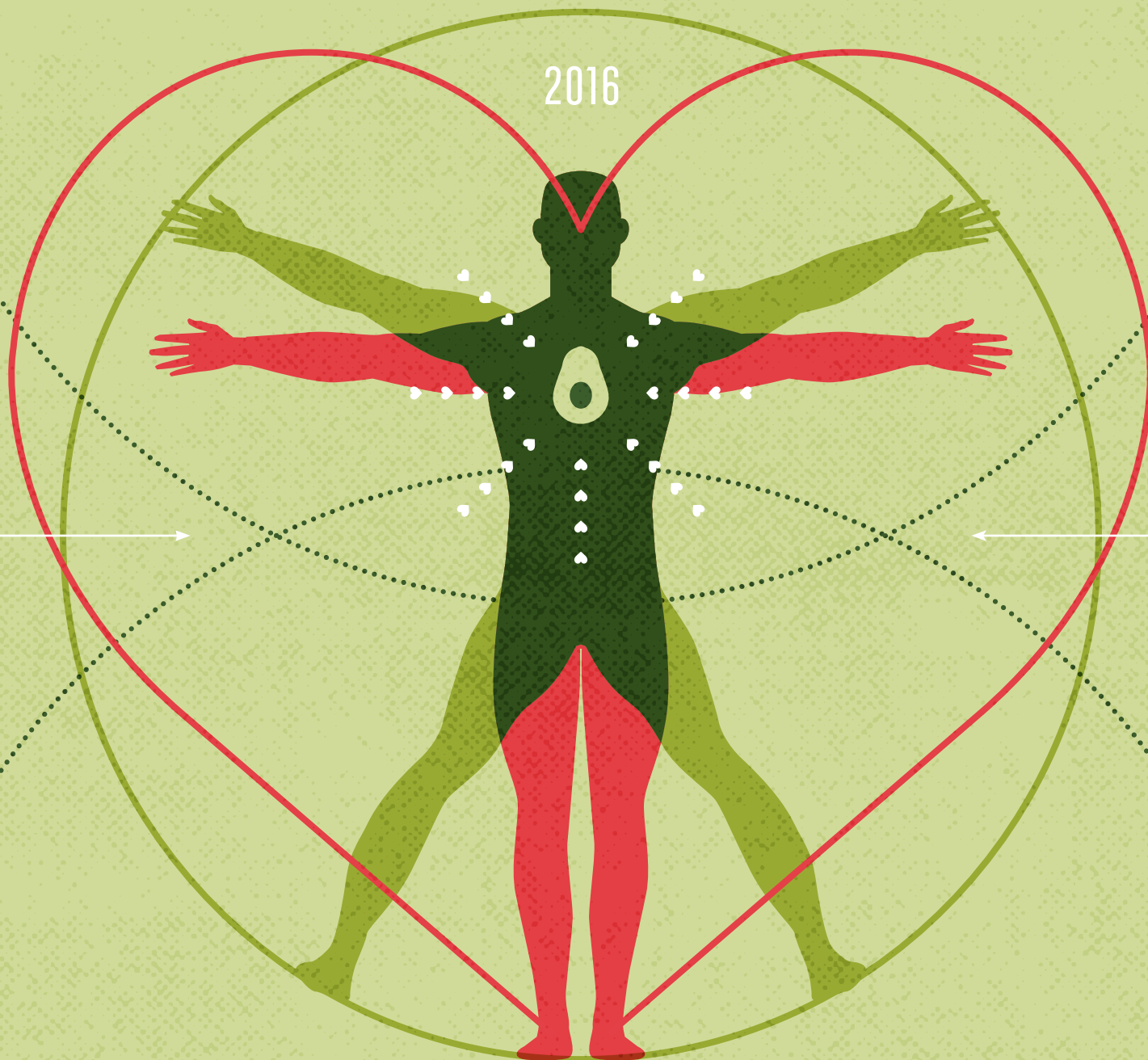


HEART HEALTHY HASS AVOCADOS

2016



HASS AVOCADO BOARD ANNUAL REPORT

BOARD OF DIRECTORS

LETTER FROM EXECUTIVE DIRECTOR

TIMELINE

LETTER FROM CHAIRMAN

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HASS AVOCADO BOARD

CHAIRMAN



Chris
HENRY CHAIRMAN
Importer



Bob
SCHAAR VICE CHAIRMAN
Producer



Laurie
LUSCHEI TREASURER
Producer



Javier
MEDINA SECRETARY
Importer

OFFICERS

DIRECTORS



Linda
MULLINS
Producer



Salvador
DOMINGUEZ
Producer



Keith
BARNARD
Importer



Elaine
BANNATYNE
Producer



Scott
BAUWENS
Producer



Debbie
WILLMANN
Importer



Javier
MEDINA SECRETARY
Importer



Laurie
LUSCHEI TREASURER
Producer



Bob
SCHAAR VICE CHAIRMAN
Producer



Thomas
ESCALANTE
Producer



Chris
HENRY CHAIRMAN
Importer



Gahl
CRANE
Importer



VACANT



Ben
VAN DER KAR
Producer



Pamela
THAKUR
Producer



Jose A.
CASTRO
Importer



Heath
SHOUP
Importer



Michael
ADAMS
Producer



VACANT



Jorge
HERNANDEZ
Importer



Rodrigo
LOPEZ
Importer

ALTERNATES



Ohannes
KARAOGHLANIAN
Producer



Jim
SWOBODA
Producer



Patrick
LUCY
Producer

STAFF MEMBERS



Emiliano
ESCOBEDO
Executive Director



Robert
RUMPH
Vice President
of Finance



Gina
WIDJAJA
Director of Marketing
and Communications



Dr. Nikki
FORD
Director of Nutrition



Alejandro
GAVITO
Category Data and
Research Manager



Natalia
ARIAS
Digital Marketing
and Communications
Manager



Silvia
STANDKE
Executive Assistant



Marita
GRIMES
Program Assistant

A portrait of Emiliano Escobedo, a man with dark hair and a light beard, smiling. He is wearing a grey blazer over a blue button-down shirt. The background is dark and out of focus.

AVOCADOS ARE OFFICIALLY "HEART HEALTHY"!

HAB is recognized as a global leader for what we have accomplished collectively, notably steady, record category growth. We know where we've been and where we are going.

If there is any residual doubt among HAB observers (and participants!) about this truth, it can be laid to rest with a short trip through past annual reports. Our accompanying graphic features comments from previous annual reports about HAB's momentous shift toward nutrition as the most critical strategic assignment we have. This journey was capped by the 2016 declaration by the U.S. Food and Drug Administration that we now can call avocados "healthy" and "heart healthy"!

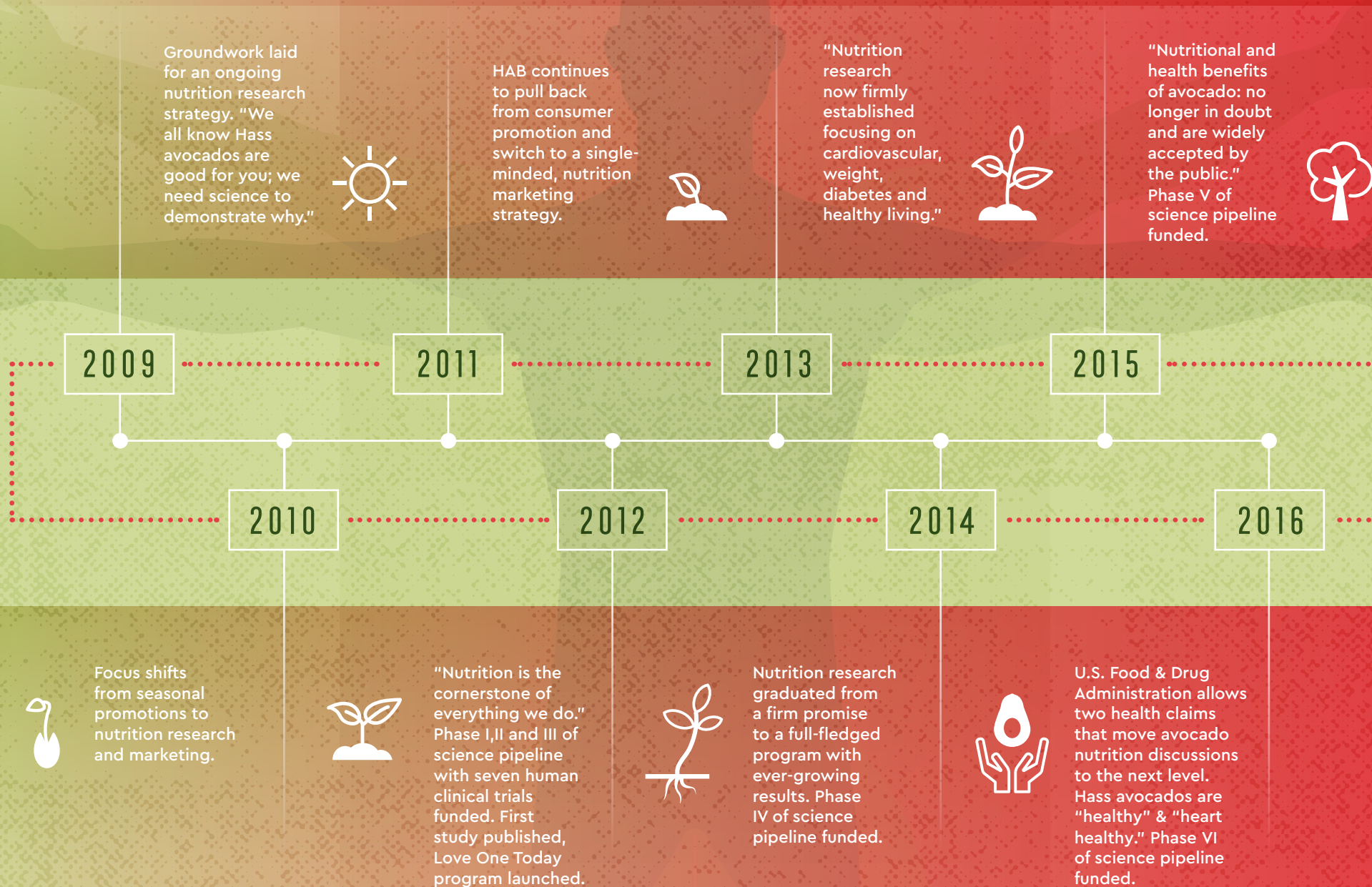
As we have moved down this highway of market expansion, we have witnessed – indeed have lived – startling consumer acceptance of, and passion for, our product. Verifiable recognition of nutritional benefits by health professionals has strengthened the positioning of Hass avocados in the U.S. marketplace. It has led to broadened distribution of our product to all corners of our country on a year round basis.

Given this single-minded focus of HAB for the past seven years, it is gratifying that the government has now provided new guidance that allows all of our stakeholders to officially claim new nutritional benefits associated with the consumption of fresh Hass avocados.

As we launch a brand new Strategic Plan in 2017, HAB's team of dedicated professionals will work hard to ensure your contributions to the program continue to add value to our product and give producers and importers return on your investment.

Thank you for your continued support.

EMILIANO ESCOBEDO
EXECUTIVE DIRECTOR



A portrait of Chris Henry, a man with short brown hair, smiling, wearing a light blue button-down shirt. The background is a solid brown color.

NEW STRATEGIC PRIORITIES WILL KEEP MOMENTUM GOING

Emiliano's letter offers timely support for the value of strategic planning. While heartened by amazing progress over the years, we will not rest now.

Instead, the Board has developed and launched an ambitious new Strategic Plan that sets six priorities, ranging from aggressively building demand to sharpening focus on sustainability in our industry, all represented in the graphic on the next page.

This plan continues our mission to "Support the global avocado industry stakeholders in our collective efforts toward market expansion in the U.S."

Guiding values for this effort included future-thinking, inclusiveness, mutual respect, open mindedness and collaboration. Reaching the six key strategies in the infographic here required a process that started with the first-ever industry-wide Avocado Forum and continued with a supply chain survey, a series of one-on-one interviews, and a planning meeting with influential avocado stakeholders from around the world. This collaborative process led to development and final board approval of what you will see next.

With your help, we are taking the next step towards a bold evolutionary vision: "The Hass Avocado Board is the catalyst for fresh avocados being the No.1 consumed fruit in the U.S. and industry stakeholders being successful."

CHRIS HENRY
CHAIRMAN



STRATEGIC PRIORITIES & 5 YEAR WORKING GOALS

BUILD DEMAND Annual per capita consumption of fresh avocados in the United States will be 14 pounds or \$28 by 2021.

NUTRITION The scientific body of evidence will be relevant, motivating and credible to support health benefits associated with consuming more avocados.

SUPPLY AND DEMAND DATA HAB provides current information to the industry about where avocados are produced, how much, when and how and where avocados are sold, how much and when.

QUALITY HAB is the gold standard of actionable quality related information that pertains to proper handling of the fruit after entry into the U.S. Supply Chain.

INDUSTRY ENGAGEMENT Increase the percent of producers and importers, that pay into the HAB, who know what HAB does and are supportive of the board.

SUSTAINABILITY HAB knows the sustainability concerns of internal and external industry stakeholders and where the industry stands against those concerns.

HASS AVOCADO BOARD

Basic Financial Statements

Year Ended December 31, 2016

(With Independent Auditors' Report Thereon)

HASS AVOCADO BOARD

Basic Financial Statements

Year Ended December 31, 2016

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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, 2016, 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, 2016 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

We have previously audited the Board's financial statements for the year ended December 31, 2015, and we expressed an unmodified audit opinion on those financial statements in our report dated April 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 March 17, 2017 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".

Irvine, California
March 17, 2017

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, 2016. It has been prepared by management and should be read in conjunction with the audited financial statements for the periods ended December 31, 2016.

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 2016. The Board maintains a nominal marketing program implementation contract with the CAC and disbursed no funds to CAC for this purpose in 2016.

FINANCIAL HIGHLIGHTS

- The assets of the Board exceeded its liabilities as of December 31, 2016 by \$1,698,634 (net position). Of this amount, \$1,632,178 totaling 96% is unrestricted net assets and may be used for Board promotions, research and information obligations.
- The Board's 2016 total net position of \$1,698,634 decreased by \$510,488 from the December 31, 2015 amount of \$2,209,122. Of this amount, net position invested in capital assets, net of related debt, increased to \$66,466 from the \$33,334 in 2015. Net position unrestricted for promotions, research and information decreased from \$2,175,788 to \$1,632,178.

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.

HASS AVOCADO BOARD
Management's Discussion and Analysis

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, 2015 has been presented in the accompanying supplemental schedules to facilitate financial analysis for the current year ended December 31, 2016.

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 (99.0%) of the Board's total assets were current assets, consisting primarily of cash, investments, and accounts receivable, and prepaid expenses totaling \$5,771,146; down \$1,166,808 from the prior year amount of \$6,937,954. This increase was mainly attributable to an decrease in cash on hand and receivables related to U.S. Customs and Domestic Handlers. Total current assets to liabilities ratio is 1.4, and indicates adequate liquidity.

Liabilities totaled \$4,138,968 at December 31, 2016, which decreased \$623,198 from \$4,762,166 from the prior year. The decrease is mainly due to reduced amounts owed to avocado importer 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 \$66,456, up from the prior year amount of \$33,334. The increase was due to acquisition of information technology equipment and upgraded assessment system software.

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 \$1,632,178, a decrease of \$543,611 over the prior year amount of \$2,175,788 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.

HASS AVOCADO BOARD
Management's Discussion and Analysis

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION:

Key highlights and financial analysis are as follows:

- Actual operating revenues of \$54,733,977 in 2016 were \$1,183,569 higher than the \$53,550,408 in 2015. The increase was attributable to a 41% increase in domestic producer assessment revenues offset by a 3% decrease in revenue from importers. Of the operating revenue, the majority \$45,540,871 (approximately 83%) reflects assessments from imported volume; \$9,184,197 (approximately 17%) is generated from domestic volume and the remainder of \$8,938 is from late fees, and interest.
- Actual operating expenses totaled \$55,244,465 in 2016, which was an increase of \$1,470,595 or approximately 3% from the prior year amount of \$53,773,870. 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 2016 year, the Board reported ending net position of \$1,698,634, which was a decrease of \$510,488 from the prior year of \$2,209,122. The decrease was primarily due to HAB's plan to maximize promotions and research and deploy funds collected to maximize the impact of HAB's programs.

BUDGETARY HIGHLIGHTS

The 2016 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. Four budget amendments were passed during 2016. The first amendment increased expenditures \$162,500 and the second amendment increased expenditures an additional \$69,200. The third budget amendment increased expenditures by \$35,000. The fourth budget amendment increased expenditures by \$899,717. Beginning budgeted reserves were also increased by \$262,500 to \$1,213,206 from the estimated \$950,706 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 2017 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, 2016, total \$66,456 (net of accumulated depreciation), which is a \$33,122 increase from December 31, 2015 year amount of \$33,334 (net of accumulated depreciation). The Board had no debt as of December 31, 2016.

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, 2016

(With Comparative Data for December 31, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 1,462,081	2,326,329
Receivables:		
Customs	4,239,340	4,575,697
Other	15,675	4,479
Deposits	6,051	6,051
Prepaid expenses	<u>47,999</u>	<u>25,398</u>
Total current assets	<u>5,771,146</u>	<u>6,937,954</u>
Noncurrent assets:		
Capital assets (note 3):		
Depreciable	336,082	279,027
Accumulated depreciation	<u>(269,626)</u>	<u>(245,693)</u>
Total noncurrent assets	<u>66,456</u>	<u>33,334</u>
Total assets	<u>5,837,602</u>	<u>6,971,288</u>
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	<u>4,138,968</u>	<u>4,762,166</u>
Total current liabilities	<u>4,138,968</u>	<u>4,762,166</u>
Net Position		
Investment in capital assets	66,456	33,334
Unrestricted	<u>1,632,178</u>	<u>2,175,788</u>
Total Net Position	<u>\$ 1,698,634</u>	<u>2,209,122</u>

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2016
(With Comparative Data for December 31, 2015)

	2016	2015
Operating revenues:		
Assessments:		
Customs	\$ 45,540,871	47,006,190
California	9,188,353	6,542,553
Other income	4,753	1,665
Total operating revenues	<u>54,733,977</u>	<u>53,550,408</u>
Operating expenses:		
Rebate program:		
Mexican Hass Avocado Import Association	35,899,279	37,333,304
California Avocado Commission	7,810,294	5,560,964
Peruvian Avocado Commission	1,444,464	2,122,899
Chilean Avocado Import Association	1,266,955	422,222
Total rebate program	<u>46,420,992</u>	<u>45,439,389</u>
Marketing/Research/Communications Program:		
Nutrition marketing	5,123,754	4,554,788
Nutrition research	1,303,504	1,381,467
Retail data and research	415,473	425,938
Strategic initiatives	482,747	439,541
Industry communication	287,050	256,300
Total Marketing/Research/Communications	<u>7,612,528</u>	<u>7,058,034</u>
Other Expenses:		
USDA oversight	120,884	75,360
Depreciation (note 3)	23,933	86,502
Total Other Expenses	<u>144,817</u>	<u>161,862</u>
Administration:		
Administration expenses	1,066,128	1,114,585
Total administration	<u>1,066,128</u>	<u>1,114,585</u>
Total operating expenses	<u>55,244,465</u>	<u>53,773,870</u>
Operating income (loss)	(510,488)	(223,462)
Net position, at beginning of year	<u>2,209,122</u>	<u>2,432,584</u>
Net position, at the end of year	<u>\$ 1,698,634</u>	<u>2,209,122</u>

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD**Statement of Cash Flows**

Year Ended December 31, 2016

(With Comparative Data for December 31, 2015)

	2016	2015
Cash flows from operating activities:		
Cash received from producers and importers	\$ 55,054,859	52,765,408
Cash paid to employees	(1,146,844)	(1,252,802)
Cash rebate payments	(46,665,590)	(45,439,389)
Payments to suppliers for goods and services	(8,049,618)	(6,379,794)
Net cash provided by (used for) operating activities	(807,193)	(306,577)
Cash flows from capital and related financing activities:		
Cash paid for the acquisition of capital assets	(57,055)	(40,000)
Net cash provided by (used for) capital and related financing activities	(57,055)	(40,000)
Net increase (decrease) in cash and cash equivalents	(864,248)	(346,577)
Cash and cash equivalents at beginning of year	2,326,329	2,672,906
Cash and cash equivalents at end of year	\$ 1,462,081	2,326,329
Reconciliation of operating income to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$ (510,488)	(223,462)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	23,933	86,502
(Increase) decrease in receivables	325,159	(789,279)
(Increase) decrease in prepaid expenses	(22,601)	(2,757)
Increase (decrease) in accounts payable and other liabilities	(623,196)	622,419
Net cash provided by (used for) operating activities	\$ (807,193)	(306,577)

Non-cash investing, capital and financing activities:

There were no significant non-cash investing, capital or financing activities during the years ended December 31, 2016 and 2015.

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

Year Ended December 31, 2016

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 may be 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. Organic refunds are recorded net of assessment revenue.

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)

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, 2016 are included on the statement of net position.

Tax Exemption

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

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 Cash Equivalents

Cash and cash equivalents as of December 31, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	<u>\$ 1,462,081</u>
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Cash and cash equivalents as of December 31, 2016 consist of the following:

Demand deposits	<u>\$ 1,462,081</u>
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HASS AVOCADO BOARD
Notes to Basic Financial Statements

(Continued)

3. Capital Assets

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

	<u>January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2016</u>
Capital assets:				
Office equipment	\$ 15,411	44,022	-	59,433
Software	68,700	-	-	68,700
Tradeshow booth	154,916	-	-	154,916
Leasehold improvements	40,000	13,033	-	53,033
Accumulated depreciation:				
Office equipment	(15,411)	(14,659)	-	(30,070)
Software	(68,700)	-	-	(68,700)
Tradeshow booth	(154,916)	-	-	(154,916)
Leasehold improvements	<u>(6,666)</u>	<u>(9,274)</u>	<u>-</u>	<u>(15,940)</u>
Total capital assets, net	<u>\$ 33,334</u>	<u>33,122</u>	<u>-</u>	<u>66,456</u>

Depreciation expense was \$23,933 for the year ended December 31, 2016.

4. Compensated Absences

The following is a summary of changes in compensated absences, included in current liabilities, for the year ended December 31, 2016:

	<u>January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2016</u>
Compensated absences	\$ 29,312	65,395	(57,974)	36,733

5. Revenue Concentration

Approximately 40% of total operating revenue was derived from assessments collected from four Hass avocado handlers/importers.

6. Lease Commitments

On November 9, 2014, the Hass Avocado Board entered into an 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 \$67,064 for the year ended December 31, 2016. 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, 2016.

HASS AVOCADO BOARD
Notes to Basic Financial Statements

(Continued)

6. Lease Commitments (Continued)

Future lease commitments under these agreements are as follows:

2017	\$ 73,644
2018	75,700
2019	75,558
2020	73,632
2021	<u>30,680</u>
Total	<u>\$ 329,214</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 a third-party administrator. Due to the Board's limited administrative involvement, the investments of the PSP are not recorded in the Board's financial statements in accordance with the accounting standards.

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 pension expense for the year ended December 31, 2016 were \$112,833.

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, 2016, forfeitures reduced the Board's pension expense by \$3,869.

SUPPLEMENTARY INFORMATION

HASS AVOCADO BOARD

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

Year Ended December 31, 2016
(With Comparative Data for December 31, 2015)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2015
Operating revenues:				
Assessment revenues	\$ 56,250,000	54,729,224	(1,520,776)	53,548,743
Other income	-	4,753	4,753	1,665
Total operating revenues	<u>56,250,000</u>	<u>54,733,977</u>	<u>(1,516,023)</u>	<u>53,550,408</u>
Operating expenses:				
Rebate program:				
Rebates	<u>47,812,500</u>	<u>46,420,992</u>	<u>1,391,508</u>	<u>45,439,389</u>
Marketing/Research/Communications Program:				
Nutrition marketing	5,627,763	5,123,754	504,009	4,554,788
Nutrition research	1,540,668	1,303,504	237,164	1,381,467
Retail data and research	395,000	415,473	(20,473)	425,938
Strategic initiatives	641,462	482,747	158,715	439,541
Industry communication	<u>417,620</u>	<u>287,050</u>	<u>130,570</u>	<u>256,300</u>
Total Marketing/Research/Communications	<u>8,622,513</u>	<u>7,612,528</u>	<u>1,009,985</u>	<u>7,058,034</u>
Other Expenses:				
USDA oversight	132,037	120,884	11,153	75,360
Depreciation	6,667	23,933	(17,266)	86,502
Program implementation fee	<u>2,400</u>	<u>-</u>	<u>2,400</u>	<u>-</u>
Total Other Expenses	<u>141,104</u>	<u>144,817</u>	<u>(3,713)</u>	<u>161,862</u>
Administration:				
Administration expenses	<u>1,045,943</u>	<u>1,066,128</u>	<u>(20,185)</u>	<u>1,114,585</u>
Total administration	<u>1,045,943</u>	<u>1,066,128</u>	<u>(20,185)</u>	<u>1,114,585</u>
Total operating expenses	<u>57,622,060</u>	<u>55,244,465</u>	<u>2,377,595</u>	<u>53,773,870</u>
Operating income (loss)	(1,372,060)	(510,488)	861,572	(223,462)
Net Position, at beginning of year	<u>2,209,122</u>	<u>2,209,122</u>	<u>-</u>	<u>2,432,584</u>
Net Position, at the end of year	<u>\$ 837,062</u>	<u>1,698,634</u>	<u>861,572</u>	<u>2,209,122</u>

HASS AVOCADO BOARD

Schedule of Program Expenditures - Budget and Actual

Year Ended December 31, 2016
(With Comparative Data for December 31, 2015)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2015
Nutrition marketing				
Research publications announcements	\$ 1,765,170	1,561,045	204,125	1,791,798
Strategy, issues radar and reporting	482,100	449,782	32,318	425,441
Events	423,850	435,345	(11,495)	371,986
Creative content	604,650	398,064	206,586	488,739
Staff allocation	374,763	446,706	(71,943)	298,917
Online/website/social media	415,155	412,220	2,935	533,477
Thought leader education	31,000	16,353	14,647	28,650
Consumer research tracking	150,500	117,569	32,931	148,681
Program management	197,900	159,863	38,037	151,661
Strategic partnerships	1,101,675	1,066,839	34,836	314,073
Message testing and approval	81,000	59,968	21,032	1,365
Total nutrition marketing	5,627,763	5,123,754	504,009	4,554,788
Nutrition research				
Science pipeline	877,800	675,541	202,259	851,422
Staff allocation	228,168	247,999	(19,831)	201,287
Project management	101,000	85,962	15,038	94,992
Events	111,500	104,589	6,911	110,267
Strategy and issues radar	222,200	189,413	32,787	123,499
Total nutrition research	1,540,668	1,303,504	237,164	1,381,467
Retail data and research				
Data services	111,000	127,381	(16,381)	117,903
Track and monitor	61,000	71,413	(10,413)	95,423
Retail best practices	91,000	96,933	(5,933)	36,469
Communications	132,000	119,746	12,254	46,879
Market performance	-	-	-	-
Retail purchase behaviors	-	-	-	129,264
Total retail data and research	395,000	415,473	(20,473)	425,938
Strategic initiatives				
Staff allocation	237,913	243,141	(5,228)	224,536
Global data system	113,000	49,339	63,661	75,634
Quality	117,832	49,457	68,375	93,304
Corporate governance	35,000	41,549	(6,549)	46,067
Planning meetings	137,717	97,761	39,956	-
Supply and demand	-	1,500	(1,500)	-
Total strategic initiatives	641,462	482,747	158,715	439,541
Industry communications				
Staff allocation	75,855	73,115	2,740	60,874
Industry website	96,310	40,694	55,616	47,558
HAB promotional materials	10,000	5,582	4,418	4,885
Newsletter	13,500	234	13,266	3,432
Project management	88,255	44,877	43,378	31,224
Industry meetings and events	99,200	117,689	(18,489)	84,525
Annual report	6,500	4,859	1,641	6,302
Content design	14,100	-	14,100	-
Outreach	13,900	-	13,900	17,500
Total industry communications	417,620	287,050	130,570	256,300
Total marketing/research/communications	\$ 8,622,513	7,612,528	1,009,984	7,058,034

HASS AVOCADO BOARD

Schedule of Administration Expenditures - Budget and Actual

Year Ended December 31, 2016
(With Comparative Data for December 31, 2015)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2015
Other expenses:				
USDA oversight	\$ 132,037	120,884	11,153	75,360
Depreciation (note 3)	6,667	23,933	(17,266)	86,502
Program implementation fee	2,400	-	2,400	-
Total other expenses	<u>141,104</u>	<u>144,817</u>	<u>(3,713)</u>	<u>161,862</u>
Administration expenses:				
Staff allocation	314,187	374,430	(60,243)	300,103
Fixed expenses (rent, supplies, fax, etc.)	98,400	96,631	1,769	79,691
Travel expense	40,000	27,111	12,889	47,461
Meeting/board member expenses	192,920	150,270	42,650	220,868
Benefits	66,862	83,608	(16,746)	111,507
Professional fees - legal	75,000	86,482	(11,482)	64,602
Internet/email expense	39,600	45,849	(6,249)	41,669
CPA - auditor	40,000	35,844	4,156	38,930
Insurance liability	35,000	45,516	(10,516)	33,298
Pension	33,697	5,365	28,332	33,492
Consulting fees/temp services	6,000	8,914	(2,914)	16,909
Nomination/election	18,000	21,753	(3,753)	15,490
Office supplies and expenses	12,000	19,084	(7,084)	19,667
Communication expense	9,000	7,441	1,559	8,041
Bank fees	7,800	4,758	3,042	7,015
Computer supplies and expenses	6,000	5,727	273	7,339
Photo copying	6,000	7,474	(1,474)	7,212
Courier charges	4,000	8,029	(4,029)	2,986
Postage	3,000	3,021	(21)	2,743
Education, training, conferences, seminars	29,177	19,457	9,720	20,262
Furniture/equipment	6,000	4,721	1,279	30,625
Equipment maintenance and expenses	2,100	1,949	151	990
Printing	1,200	2,694	(1,494)	3,685
Total administration expenses	<u>\$ 1,045,943</u>	<u>1,066,128</u>	<u>(20,185)</u>	<u>1,114,585</u>

HASS AVOCADO BOARD
Schedule of Cash Receipts and Disbursements
Year Ended December 31, 2016
(With Comparative Data for December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash receipts:		
California assessments	\$ 9,172,878	6,551,567
Customs assessments	<u>45,881,981</u>	<u>46,213,841</u>
Total cash receipts	<u>55,054,859</u>	<u>52,765,408</u>
Cash disbursements:		
Rebates	46,665,590	44,712,085
Nutrition marketing	5,371,272	4,987,558
Nutrition research	1,462,727	1,211,708
Retail data & research	425,473	415,938
Industry communication	284,888	256,300
Strategic initiatives	482,747	439,541
USDA oversight	120,884	75,360
Administration	1,048,471	1,013,495
Acquisition of capital assets	<u>57,055</u>	<u>-</u>
Total cash disbursements	<u>55,919,107</u>	<u>53,111,985</u>
Excess of receipts over disbursements	(864,248)	(346,577)
Cash and investments at beginning of year	<u>2,326,329</u>	<u>2,672,906</u>
Cash and investments at end of year	<u>\$ 1,462,081</u>	<u>2,326,329</u>

HASS AVOCADO BOARD

Schedule of Total Payroll Disbursements

Year Ended December 31, 2016
(With Comparative Data for December 31, 2015)

	<u>2016</u>	<u>2015</u>
Salaries and wages	\$ 1,146,844	\$ 970,921
Payroll taxes	62,676	55,316
Pension expenses	112,833	98,129
Benefits (health, life, dental and vision)	<u>194,554</u>	<u>143,358</u>
Total payroll disbursements	<u>\$ 1,516,907</u>	<u>1,267,724</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, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated March 17, 2017.

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
March 17, 2017

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, 2016. 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, 2016.

- 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
March 17, 2017