

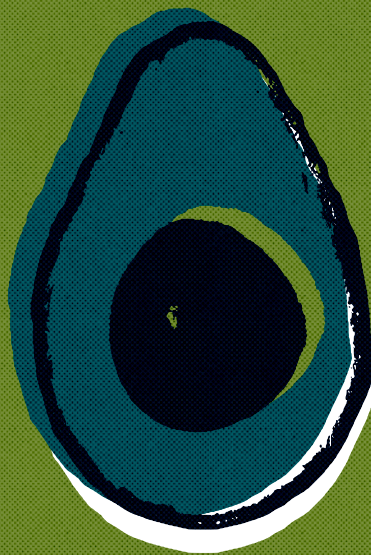
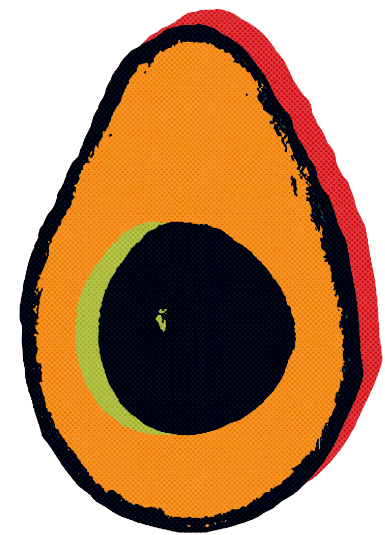
CULTURAL ICON

A PHENOMENON
BEYOND THE
PRODUCE AISLE

**HASS
AVOCADO
BOARD**

2017

ANNUAL REPORT



BOARD OF DIRECTORS

EXECUTIVE DIRECTOR'S LETTER

CHAIRMAN'S LETTER

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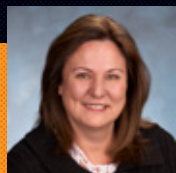


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HASS AVOCADO BOARD

2018
BOARD
ROSTER

DIRECTORS



P LAURIE
LUSCHEI



P BEN
VAN DER KAR



P SUSAN
PINKERTON



I JORGE
HERNANDEZ



I SERGIO
CHAVEZ



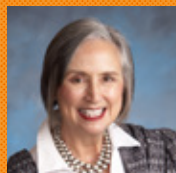
P OHANNES
KARAOGHLANIAN



P SALVADOR
DOMINGUEZ



I KEITH
BARNARD



P ELAINE
BANNATYNE



P SCOTT
BAUWENS



I DEBBIE
WILLMANN



I JAVIER
MEDINA

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



JOHN MCGUIGAN
DIRECTOR OF
INDUSTRY AFFAIRS



ALEJANDRO GAVITO
CATEGORY DATA AND
RESEARCH MANAGER



NATALIA ARIAS
DIGITAL MARKETING
AND COMMUNICATIONS
MANAGER



SILVIA STANDKE
EXECUTIVE ASSISTANT



MARITA GRIMES
PROGRAM ASSISTANT

P = PRODUCER **I** = IMPORTER

OFFICERS



P SCOTT
BAUWENS
CHAIRMAN



I JORGE
HERNANDEZ
VICE CHAIRMAN



P LAURIE
LUSCHEI
TREASURER



I JAVIER
MEDINA
SECRETARY

ALTERNATES



P JEFF
DICKINSON



P CJ
SHADE



P WILL
CARLETON



I VACANT



I JOSE ANTONIO
GOMEZ



P BOB
SCHAAR



P JIM
SWOBODA



I PATRICK
LUCY



P VACANT



P THOMAS
ESCALANTE



I JOSE ANTONIO
CASTRO



I HEATH
SHOUP

EMILIANO ESCOBEDO

EXECUTIVE DIRECTOR

Even with fewer avocados on grocery shelves in 2017, we still sent more than two billion pounds of Hass avocados to consumers. While we were doing so, the dollars we earned actually rose. Let's add a little context. Most of us remember when a little more than a decade ago we were enthusiastically celebrating topping one billion pounds of fruit to market for the first time. That milestone has been exceeded in every year since.

So in a year with constrained supplies in California and Mexico, and growing demand in Europe and Asia, U.S. consumers are spending more on avocados and doing so in many new ways both at home and in restaurants. An interesting question: how much of our product will end up on toast in 2018? In cafes and restaurants around the world, avocado toast has become a popular and profitable menu staple, perhaps a harbinger of fresh uses to come.

In the influential world of social media, avocados led all Instagram post topics with 7,645,622 posts and 730,996 posts for avocado toast as of the end of 2017. Avocados have a number of their own emojis. A leading women's magazine recommends girls put avocado onto every food they eat at lunch to help them look and feel better. There is now an Avocado mattress, fortunately not made of avocados.

While social media drove much of this phenomenon, HAB has not strayed from its mission to support the global avocado industry stakeholders in our collective efforts toward market expansion in the U.S. We continue to do our important nutritional research and share that research with consumers and health professionals. We provide invaluable data to the industry to make better decisions to run their businesses and work to create a collaborative environment for the industry to come together and focus on the task at hand.

Not letting the cultural noise around avocados distract us, we have and will remain focused on our vision of making fresh avocados the number one consumed fruit in America, accompanied by well-deserved success for industry stakeholders.

Growers expect a rebound this year with a volume of 2.4 billion pounds. We will be ready to deliver it to our customers. Let us offer a toast to that!





SCOTT BAUWENS

CHAIRMAN

This new growing year marks the second in which we are focusing on a strong set of strategic priorities and 5-Year working goals, identified in last year's annual report. From the obvious need to build demand to the tremendous challenge of sustainability, we have worked hard to make progress against them, as you will see on the following page.

HAB and all industry stakeholders can rightly celebrate success. But a primary objective for 2018 is to avoid resting on what we have accomplished. An important part of our work this year will be a continued look at ourselves. How will we improve governance and the board experience? How will we improve accountability in everything we are doing? How will we formalize such things as leadership succession both on board and staff? How will we make committees more effective?

We'll look at ways to attract key stakeholders and industry talent to our ranks to ensure we maintain the hard-won growth and success we have seen. Doing so will enable us to keep up with and ahead of the rapidly changing consumer preferences we saw in the past year.

We'll also look at our collaboration with different industry associations in an effort to tackle the multi-level, complex challenge of sustainability, with its many intricate parts that start in the countries of origin, and end with continuing education for American consumers on diet and nutrition. This can only be done with new collaboration.

In summary, we will continue what is best, improve what needs to be improved and keep driving toward those long-term goals that have made the Hass Avocado Board so successful since our inception.

MISSION

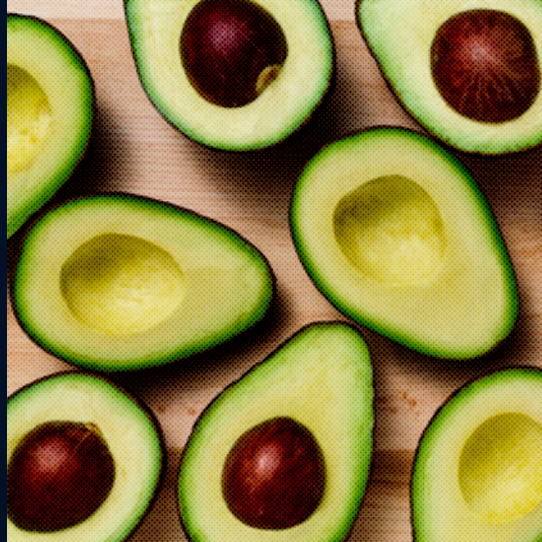
HAB exists to support the global avocado industry stakeholders in our collective efforts toward market expansion in the U.S.

VISION

HAB is the catalyst for fresh avocados being the No. 1 consumed fruit in the U.S. and industry stakeholders being successful.

STRATEGIC PRIORITIES

& 5 YEAR
WORKING
GOALS



BUILD DEMAND

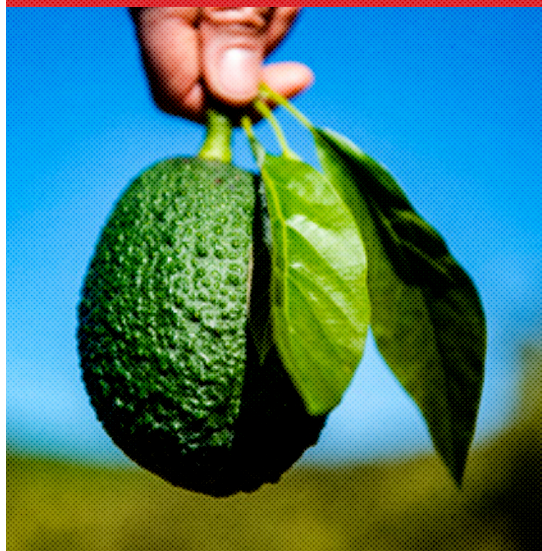
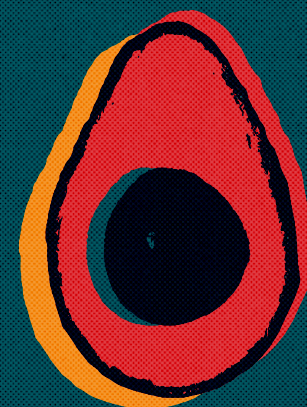
ANNUAL PER CAPITA CONSUMPTION OF FRESH AVOCADOS WILL BE A. 14 POUNDS OR B. \$28 BY 2021

While avocado volume was down in 2017 and pounds per capita consumption declined to 6.6 pounds from 6.9 pounds last year, value was up and per capita consumption increased to \$18.50, up from \$16.93 the prior year. We expect that the 2018 crop year will show positive growth against our goal both in terms of pounds and value.

SUPPLY & DEMAND

GOAL 1 RESEARCH AND OBTAIN INDUSTRY INFORMATION ABOUT WHERE HASS OR HASS-LIKE AVOCADOS ARE PRODUCED, HOW MUCH AND WHEN. GOAL 2 RESEARCH AND OBTAIN INDUSTRY INFORMATION ABOUT WHERE HASS OR HASS-LIKE AVOCADOS ARE SOLD, HOW MUCH AND WHEN.

HAB has found a partner to establish global visibility of avocado production, leading to an understanding of what being produced in key regions that supply the US market. HAB's proprietary Avocado Volume and Inventory System (AVIS) monitors over 82% of the volume marketed in the United States and 98% of supply. On HassAvocadoBoard.com we have published retail sales and volume reports at the national, regional and market level, covering weekly, monthly and quarterly time spans.



NUTRITION

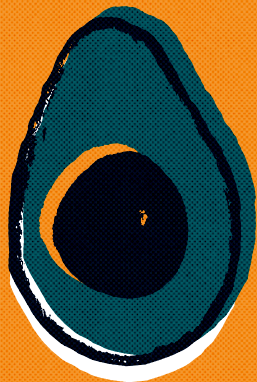
THE GROWING SCIENTIFIC BODY OF EVIDENCE WILL BE RELEVANT, TRANSLATIONAL, & CREDIBLE TO SUPPORT HEALTH BENEFITS ASSOCIATED WITH CONSUMING MORE AVOCADOS.

Investing in nutritional research will continue because that is a critical tool in growing demand by removing barriers to consumption. In 2017 we contracted six new studies, bringing our total number of studies contracted since 2010 to 22. Of those studies, eight have been published in 2010, two of them in 2017.

QUALITY

HAB'S QUALITY RELATED INFORMATION PERTAINING TO THE PROPER HANDLING OF THE FRUIT AFTER ENTRY INTO THE U.S. SUPPLY CHAIN IS USED BY HANDLERS, IMPORTERS, DISTRIBUTORS AND MARKETERS THAT SUPPLY THE U.S. MARKET. COMPANIES THAT MOVE 85% OF THE VOLUME WILL REPORT HAVING THE INFORMATION AVAILABLE AND AMONG THEM 80% WILL REPORT FINDING THE INFORMATION USEFUL.

HAB carried out extensive research to understand how our product is handled along the supply chain. Insights from this research will allow us to produce a comprehensive quality manual that will assist the industry to properly handle and manage fresh Hass avocados once it goes to the US market.



INDUSTRY ENGAGEMENT

INCREASE THE PERCENTAGE OF HASS AVOCADO PRODUCERS AND IMPORTERS IN THE U.S. THAT ARE SUBJECT TO HAB ASSESSMENTS WHO...

- A. ARE FAMILIAR WITH HAB FROM THE 2017 BENCHMARK OF 64% TO 90%
- B. KNOW WHAT HAB DOES FROM THE 2017 BASELINE OF 67% TO 90% AND
- C. WHOSE OVERALL OPINION OF THE WORK THE BOARD DOES IS "SOMEWHAT SATISFIED" OR "VERY SATISFIED" INCREASED FROM 48% TO 75%.

HAB undertook a producer/importer survey in 2017 to gain insights into opinions on various topics and also to record statistical information that would be of value in increasing and improving communication. The survey has created benchmarks that can be used to measure future progress against our goals.

SUSTAINABILITY

- A. RESEARCH HOW KEY U.S. CONSUMERS AND HEALTH PROFESSIONALS THINK ABOUT SUSTAINABILITY.
- B. CHARACTERIZE THE U.S. HASS AVOCADO SUPPLY CHAIN ENVIRONMENTAL, SOCIAL & ECONOMIC IMPACT.
- C. DEVELOP A STRATEGY FOR POSITIONING AVOCADOS WITHIN SUSTAINABLE DIETS.

HAB has recognized the tremendous breadth and scope of the issue of sustainability, extending from the value of avocados from a health and nutrition standpoint to maintaining the economic health of the industry. We recognize that every person in the supply chain has a part to play in understanding what is required to maintain a sustainable industry.



HASS AVOCADO BOARD

Basic Financial Statements

Year Ended December 31, 2017

(With Independent Auditors' Report Thereon)

HASS AVOCADO BOARD

Basic Financial Statements

Year Ended December 31, 2017

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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, 2017, 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, 2017 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, 2016, and we expressed an unmodified audit opinion on those financial statements in our report dated March 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 21, 2018 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 Lam CP". The signature is written in a cursive, flowing style.

Irvine, California
March 21, 2018

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, 2017. It has been prepared by management and should be read in conjunction with the audited financial statements for the periods ended December 31, 2017.

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 assessment 2.5 cents per pound on fresh Hass avocados produced in the U. S. and on fresh Hass avocados imported into the United States.

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 maintains a nominal marketing program implementation contract with the CAC and disbursed no funds to the CAC for this purpose in 2017.

FINANCIAL HIGHLIGHTS

- The assets of the Board exceeded its liabilities as of December 31, 2017 by \$1,274,090 (net position). Of this amount, \$1,222,090 totaling 96% is unrestricted net assets and may be used for Board promotions, research and Information obligations.
- The Board's 2017 total net position of \$1,274,090 decreased by \$424,544 from the December 31, 2016 amount of \$1,698,634. Of this amount, net position invested in capital assets, net of related debt, decreased to \$52,000 from the \$66,456 in 2016. Net position unrestricted for promotions, research and information decreased from \$1,632,178 to \$1,222,090.

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, 2016 has been presented in the accompanying supplemental schedules to facilitate financial analysis for the current year ended December 31, 2017.

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 \$4,993,790; down \$777,356 from the prior year amount of \$5,771,146. This increase was mainly attributable to a decrease in cash and equivalents and accounts receivable from U.S. Customs. Total current assets to liabilities ratio is 1.3 and indicates adequate liquidity.

Liabilities totaled \$3,771,700 at December 31, 2017, which decreased \$367,268 from \$4,138,968 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 \$52,000 up from the prior year amount of \$66,456. The decrease was due to additional accumulated depreciation of information technology equipment and assessment system software.

Unrestricted net position for promotions, research, and information activities are subject to imposed restrictions by federal statute governing their use. Unrestricted net position total \$1,222,090, a decrease of \$410,088 over the prior year amount of \$1,632,178 mainly due to a shortfall in revenues due to a reduction of domestically grown avocado volume. Unrestricted net assets are 99% of total net assets and are subject to 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 \$51,836,288 in 2017 were \$2,897,689 lower than the \$54,733,977 in 2016. The decrease was mainly attributable to lower avocado volume produced in California. Of the operating revenue, the majority \$46,984,147 (approximately 90%) reflects assessments from imported volume; \$4,845,629 (approximately 10%) is generated from domestic volume and the remainder of \$6,512 is from late fees, and interest.
- Actual operating expenses totaled \$52,260,832 in 2017, which was a decrease of \$2,983,633 or approximately 10% from the prior year amount of \$55,244,465. The decrease was due to an overall decrease in assessable Hass volume resulting in lower assessment rebate expense to the State Association and decreased business plan expenditures.
- At the end of the 2017 year, the Board reported ending net position of \$1,274,090, which was a decrease of \$424,544 from the prior year of \$1,698,634. The decrease was primarily due HAB's intention to maximize promotions and research and fully deploy funds collected to maximize the impact of HAB's programs during the year. As the Board is statutorily barred from taking on debt, the Board considers its net position (reserves) an important indicator of the Board's financial strength and maintains a minimum \$850,000 reserve. The Board's stakeholders expect funds to be expended responsibly during the year to grow consumer demand and not to accumulate large amounts of excess reserve funds.

BUDGETARY HIGHLIGHTS

The 2017 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. Three budget amendments were passed by the board during 2017. The first amendment increased expenditures \$30,000 and the second amendment decreased revenue by \$11,875,000 and decreased expenditures an additional \$11,174,579. The third budget amendment moved \$30,000 from the quality research budget to the sustainability research budget. Beginning budgeted reserves were also increased by \$816,634 to \$1,698,634 from the estimated \$882,000 to reflect the actual audited amount from the prior year financial statements.

During the year, the Board was involved in developing, analyzing and implementing current and long-range financial goals. 2018 budget and programs were developed, reviewed and approved by the board and USDA for implementation.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Board's investment in capital assets for its business type activities as of December 31, 2017, total \$52,000 (net of accumulated depreciation), which is a \$14,456 decrease from December 31, 2016 year amount of \$66,456 (net of accumulated depreciation). The Board had no debt as of December 31, 2017.

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, 2017
(With Comparative Data for December 31, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 1,047,999	1,462,081
Receivables:		
Customs	3,904,623	4,239,340
Other	24,781	15,675
Deposits	6,051	6,051
Prepaid expenses	<u>10,336</u>	<u>47,999</u>
Total current assets	<u>4,993,790</u>	<u>5,771,146</u>
Noncurrent assets:		
Capital assets (note 3):		
Depreciable	350,296	336,082
Accumulated depreciation	<u>(298,296)</u>	<u>(269,626)</u>
Total noncurrent assets	<u>52,000</u>	<u>66,456</u>
Total assets	<u>5,045,790</u>	<u>5,837,602</u>
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	<u>3,771,700</u>	<u>4,138,968</u>
Total current liabilities	<u>3,771,700</u>	<u>4,138,968</u>
Net Position		
Investment in capital assets	52,000	66,456
Unrestricted	<u>1,222,090</u>	<u>1,632,178</u>
Total Net Position	<u>\$ 1,274,090</u>	<u>1,698,634</u>

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2017
(With Comparative Data for December 31, 2016)

	2017	2016
Operating revenues:		
Assessments:		
Customs	\$ 46,984,147	45,540,871
California	4,845,629	9,188,353
Other income	6,512	4,753
Total operating revenues	<u>51,836,288</u>	<u>54,733,977</u>
Operating expenses:		
Rebate program:		
Mexican Hass Avocado Import Association	35,141,821	35,899,279
California Avocado Commission	4,118,479	7,810,294
Peruvian Avocado Commission	2,945,079	1,444,464
Chilean Avocado Import Association	1,732,927	1,266,955
Total rebate program	<u>43,938,306</u>	<u>46,420,992</u>
Marketing/Research/Communications program:		
Nutrition marketing	4,590,926	5,123,754
Nutrition research	1,337,743	1,303,504
Retail data and research	415,449	415,473
Strategic initiatives	440,956	482,747
Industry communication	300,735	287,050
Total marketing/research/communications program	<u>7,085,809</u>	<u>7,612,528</u>
Other expenses:		
USDA oversight	137,705	120,884
Depreciation (note 3)	28,670	23,933
Total other expenses	<u>166,375</u>	<u>144,817</u>
Administration:		
Administration expenses	1,070,342	1,066,128
Total administration	<u>1,070,342</u>	<u>1,066,128</u>
Total operating expenses	<u>52,260,832</u>	<u>55,244,465</u>
Operating income (loss)	(424,544)	(510,488)
Net position, at beginning of year	<u>1,698,634</u>	<u>2,209,122</u>
Net position, at the end of year	<u>\$ 1,274,090</u>	<u>1,698,634</u>

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD
Statement of Cash Flows
Year Ended December 31, 2017
(With Comparative Data for December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from producers and importers	\$ 52,169,879	55,054,859
Cash paid to employees	(1,310,622)	(1,146,844)
Cash rebate payments	(44,253,570)	(44,182,904)
Payments to suppliers for goods and services	<u>(7,005,555)</u>	<u>(10,532,304)</u>
Net cash provided by (used for) operating activities	<u>(399,868)</u>	<u>(807,193)</u>
Cash flows from capital and related financing activities:		
Cash paid for the acquisition of capital assets	<u>(14,214)</u>	<u>(57,055)</u>
Net cash provided by (used for) capital and related financing activities	<u>(14,214)</u>	<u>(57,055)</u>
Net increase (decrease) in cash and cash equivalents	(414,082)	(864,248)
Cash and cash equivalents at beginning of year	<u>1,462,081</u>	<u>2,326,329</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,047,999</u></u>	<u><u>1,462,081</u></u>
Reconciliation of operating income to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$ (424,544)	(510,488)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	28,670	23,933
(Increase) decrease in receivables	325,611	325,159
(Increase) decrease in prepaid expenses	37,663	(22,601)
Increase (decrease) in accounts payable and other liabilities	<u>(367,268)</u>	<u>(623,196)</u>
Net cash provided by (used for) operating activities	<u><u>\$ (399,868)</u></u>	<u><u>(807,193)</u></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, 2017 and 2016.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

Year Ended December 31, 2017

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 acquisition 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, 2017 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, 2017 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and cash equivalents	<u>\$ 1,047,999</u>
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Cash and cash equivalents as of December 31, 2017 consist of the following:

Demand deposits	<u>\$ 1,047,999</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, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2017</u>
Capital assets:				
Office equipment	\$ 59,433	-	-	73,647
Software	68,700	14,214	-	82,914
Tradeshow booth	154,916	-	-	154,916
Leasehold improvements	53,033	-	-	53,033
Accumulated depreciation:				
Office equipment	(30,070)	(14,659)	-	(49,468)
Software	(68,700)	(4,738)	-	(73,438)
Tradeshow booth	(154,916)	-	-	(154,916)
Leasehold improvements	<u>(15,940)</u>	<u>(9,272)</u>	<u>-</u>	<u>(25,212)</u>
Total capital assets, net	<u>\$ 66,456</u>	<u>(14,456)</u>	<u>-</u>	<u>52,000</u>

Depreciation expense was \$28,670 for the year ended December 31, 2017.

4. Compensated Absences

The following is a summary of changes in compensated absences, included in current liabilities, for the year ended December 31, 2017:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2017</u>
Compensated absences	\$ 36,732	71,734	(48,621)	59,845

5. Revenue Concentration

Approximately 37% 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, 2016 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 \$69,072 for the year ended December 31, 2017. 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, 2017.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

6. Lease Commitments (Continued)

Future lease commitments under these agreements are as follows:

2018	\$ 75,700
2019	75,558
2020	73,632
2021	<u>30,680</u>
Total	<u>\$ 255,570</u>

7. Contract Commitments

The Board has significant active nutrition research agreements as of December 31, 2017 in the amount of \$8,118,572. At December 31, 2017, \$5,181,632 of such contract commitments had not yet been incurred.

8. 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, 2017 were \$127,200.

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, 2017, 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, 2017
(With Comparative Data for December 31, 2016)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2016
Operating revenues:				
Assessment revenues	\$ 56,875,000	51,829,776	(5,045,224)	54,729,224
Other income	-	6,512	6,512	4,753
Total operating revenues	<u>56,875,000</u>	<u>51,836,288</u>	<u>(5,038,712)</u>	<u>54,733,977</u>
Operating expenses:				
Rebate program:				
Rebates	<u>48,343,750</u>	<u>43,938,306</u>	<u>4,405,444</u>	<u>46,420,992</u>
Marketing/Research/Communications program:				
Nutrition marketing	4,972,513	4,590,926	381,587	5,123,754
Nutrition research	1,485,615	1,337,743	147,872	1,303,504
Retail data and research	425,992	415,449	10,543	415,473
Strategic initiatives	558,821	440,956	117,865	482,747
Industry communication	<u>533,379</u>	<u>300,735</u>	<u>232,644</u>	<u>287,050</u>
Total marketing/research/communications program	<u>7,976,320</u>	<u>7,085,809</u>	<u>890,511</u>	<u>7,612,528</u>
Other expenses:				
USDA oversight	135,000	137,705	(2,705)	120,884
Depreciation	10,267	28,670	(18,403)	23,933
Program implementation fee	<u>1,000</u>	<u>-</u>	<u>1,000</u>	<u>-</u>
Total other expenses	<u>146,267</u>	<u>166,375</u>	<u>(20,108)</u>	<u>144,817</u>
Administration:				
Administration expenses	<u>1,172,790</u>	<u>1,070,342</u>	<u>102,448</u>	<u>1,066,128</u>
Total administration	<u>1,172,790</u>	<u>1,070,342</u>	<u>102,448</u>	<u>1,066,128</u>
Total operating expenses	<u>57,639,127</u>	<u>52,260,832</u>	<u>5,378,295</u>	<u>55,244,465</u>
Operating income (loss)	(764,127)	(424,544)	339,583	(510,488)
Net Position, at beginning of year	<u>1,698,634</u>	<u>1,698,634</u>	<u>-</u>	<u>2,209,122</u>
Net Position, at the end of year	<u>\$ 934,507</u>	<u>1,274,090</u>	<u>339,583</u>	<u>1,698,634</u>

HASS AVOCADO BOARD

Schedule of Program Expenditures - Budget and Actual

Year Ended December 31, 2017

(With Comparative Data for December 31, 2016)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2016
Nutrition marketing				
Research publications announcements	\$ 1,149,861	1,080,851	69,010	1,561,045
Strategy, issues radar and reporting	424,700	342,694	82,006	449,782
Events	374,000	360,080	13,920	435,345
Creative content	342,439	306,918	35,521	398,064
Staff allocation	428,013	476,765	(48,752)	446,706
Online/website/social media	372,500	400,682	(28,182)	412,220
Thought leader education	11,000	9,894	1,106	16,353
Consumer research tracking	212,000	196,293	15,707	117,569
Program management	110,500	105,436	5,064	159,863
Strategic partnerships	1,494,500	1,277,201	217,299	1,066,839
Message testing and approval	53,000	34,112	18,888	59,968
Total nutrition marketing	4,972,513	4,590,926	381,587	5,123,754
Nutrition research				
Science pipeline	1,063,750	894,624	169,126	675,541
Staff allocation	271,615	279,391	(7,776)	247,999
Project management	84,250	83,851	399	85,962
Events	4,500	5,403	(903)	104,589
Strategy and issues radar	61,500	74,474	(12,974)	189,413
Total nutrition research	1,485,615	1,337,743	147,872	1,303,504
Retail data and research				
Data services	131,200	131,694	(494)	127,381
Track and monitor	78,500	75,846	2,654	71,413
Retail best practices	36,500	19,625	16,875	96,933
Communications	165,792	168,348	(2,556)	119,746
Retail purchase behaviors	14,000	19,936	(5,936)	-
Total retail data and research	425,992	415,449	10,543	415,473
Strategic initiatives				
Staff allocation	323,621	287,634	35,987	243,141
Global data system	95,200	60,697	34,503	49,339
Quality	120,000	88,275	31,725	49,457
Corporate governance	20,000	4,350	15,650	41,549
Planning meetings	-	-	-	97,761
Supply and demand	-	-	-	1,500
Total strategic initiatives	558,821	440,956	117,865	482,747
Industry communications				
Staff allocation	277,539	167,501	110,038	73,115
Industry website	32,540	39,625	(7,085)	40,694
HAB promotional materials	10,000	5,532	4,468	5,582
Newsletter	10,000	56,418	(46,418)	234
Project management	7,800	1,162	6,638	44,877
Industry meetings and events	65,000	19,921	45,079	117,689
Annual report	6,500	7,736	(1,236)	4,859
Communications	71,000	2,623	68,377	-
Outreach	23,000	217	22,783	-
Sustainability research	30,000	-	30,000	-
Total industry communications	533,379	300,735	232,644	287,050
Total marketing/research/communications	\$ 7,976,320	7,085,809	890,510	7,612,528

HASS AVOCADO BOARD

Schedule of Administration Expenditures - Budget and Actual

Year Ended December 31, 2017
(With Comparative Data for December 31, 2016)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2016
Other expenses:				
USDA oversight	\$ 135,000	137,705	(2,705)	120,884
Depreciation (note 3)	10,267	28,670	(18,403)	23,933
Program implementation fee	1,000	-	1,000	-
Total other expenses	146,267	166,375	(20,108)	144,817
Administration expenses:				
Staff allocation	450,724	415,890	34,834	374,430
Fixed expenses (rent, supplies, fax, etc.)	96,000	100,031	(4,031)	96,631
Travel expense	48,000	41,275	6,725	27,111
Meeting/board member expenses	124,217	120,951	3,266	150,270
Benefits	72,371	76,646	(4,275)	83,608
Professional fees	77,000	74,957	2,043	86,482
Internet/email expense	42,000	44,039	(2,039)	45,849
CPA - auditor	40,000	29,773	10,227	35,844
Insurance liability	45,000	45,127	(127)	45,516
Pension	36,278	6,979	29,299	5,365
Consulting fees/temp services	13,400	6,477	6,923	8,914
Nomination/election	18,000	23,596	(5,596)	21,753
Office supplies and expenses	20,400	24,787	(4,387)	19,084
Communication expense	8,800	8,883	(83)	7,441
Bank fees	8,400	7,873	527	4,758
Computer supplies and expenses	22,000	11,706	10,294	5,727
Photo copying	7,800	6,707	1,093	7,474
Courier charges	6,000	2,166	3,834	8,029
Postage	3,000	2,952	48	3,021
Education, training, conferences, seminars	24,000	12,948	11,052	19,457
Furniture/equipment	4,000	3,994	6	4,721
Equipment maintenance and expenses	2,400	1,806	594	1,949
Printing	3,000	779	2,221	2,694
Total administration expenses	\$ 1,172,790	1,070,342	102,448	1,066,128

HASS AVOCADO BOARD

Schedule of Cash Receipts and Disbursements

Year Ended December 31, 2017
(With Comparative Data for December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash receipts:		
California assessments	\$ 4,844,503	9,172,878
Customs assessments	<u>47,325,376</u>	<u>45,881,981</u>
Total cash receipts	<u>52,169,879</u>	<u>55,054,859</u>
Cash disbursements:		
Rebates	44,253,570	46,665,590
Nutrition marketing	4,647,371	5,371,272
Nutrition research	1,326,128	1,462,727
Retail data & research	349,977	425,473
Industry communication	291,657	284,888
Strategic initiatives	440,956	482,747
USDA oversight	137,705	120,884
Administration	1,122,383	1,048,471
Acquisition of capital assets	<u>14,214</u>	<u>57,055</u>
Total cash disbursements	<u>52,583,961</u>	<u>55,919,107</u>
Excess of receipts over disbursements	(414,082)	(864,248)
Cash and investments at beginning of year	<u>1,462,081</u>	<u>2,326,329</u>
Cash and investments at end of year	<u>\$ 1,047,999</u>	<u>1,462,081</u>

HASS AVOCADO BOARD
Schedule of Total Payroll Disbursements
Year Ended December 31, 2017
(With Comparative Data for December 31, 2016)

	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 1,310,622	1,146,844
Payroll taxes	77,434	62,676
Pension expenses	127,200	112,833
Benefits (health, life, dental and vision)	<u>199,103</u>	<u>194,554</u>
Total payroll disbursements	<u>\$ 1,714,359</u>	<u>1,516,907</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**

Independent Auditor's Report

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, 2017, 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 21, 2018.

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 Lam" followed by a stylized flourish.

Irvine, California
March 21, 2018

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, 2017. 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, 2017.

- 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 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 Lee UP". The signature is written in a cursive, flowing style.

Irvine, California
March 21, 2018