



THE **HAB** HASS AVOCADO BOARD EFFECT

HASS
AVOCADO
BOARD



2018 ANNUAL REPORT

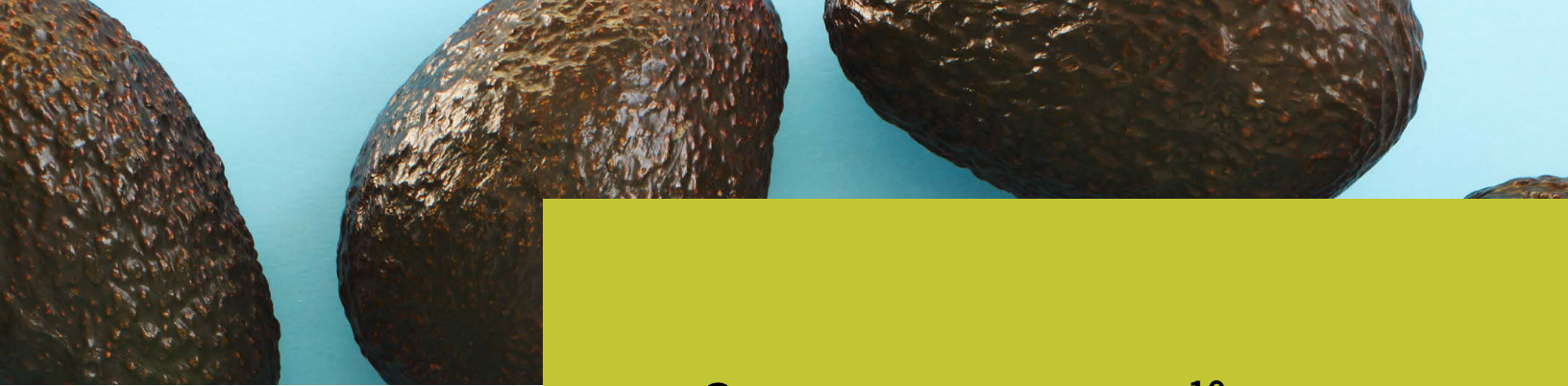


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2019 BOARD ROSTER

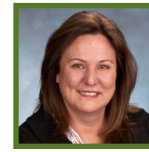
OFFICERS



**Ohannes
Karaoghlanian**
Chairman



**Jorge
Hernandez**
Vice Chairman



**Laurie
Luschei**
Treasurer



**Ben
Van Der Kar**
Secretary

DIRECTORS



**Scott
Bauwens**
Producer



**Charlie
Wolk**
Producer



**Gahl
Crane**
Importer



**Dave
Fausset**
Importer

21



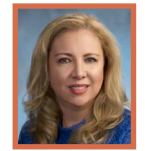
**Paul
Romero**
Producer



**Bob
Schaar**
Producer



**Aaron
Acosta**
Importer



**Elizabeth
Ayala**
Importer

ALTERNATES



**Laurie
Luschei**
Producer



**Ben
Van Der Kar**
Producer



**Susan
Pinkerton**
Producer



**Sergio
Chavez**
Importer



**Jorge
Hernandez**
Importer

20



**Jeff
Dickinson**
Producer



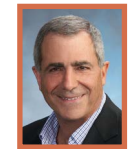
**CJ
Shade**
Producer



**Will
Carleton**
Producer



**Jose Antonio
Gomez**
Importer



**Dave
Billings**
Importer



**Ohannes
Karaoghlanian**
Producer



**Salvador
Dominguez**
Producer



**Keith
Barnard**
Importer

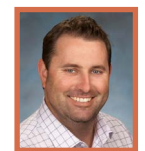
19



**Jim
Swoboda**
Producer



Vacant
Producer



**Patrick
Lucy**
Importer

STAFF MEMBERS



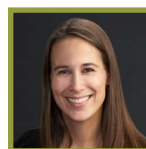
**Emiliano
Escobedo**
Executive
Director



**Robert
Rumph**
Vice President
of Finance



**Gina
Widjaja**
Director of
Marketing &
Communications



**Dr. Nikki
Ford**
Sr. Director
of Nutrition



**John
McGuigan**
Director of
Industry Affairs



**Alejandro
Gavito**
Category Data
& Research
Manager



**Natalia
Arias**
Digital
Marketing &
Communications
Manager



**Silvia
Standke**
Executive
Assistant



EXECUTIVE DIRECTOR'S LETTER

The Hass Avocado Board's job is to make avocados America's most popular fruit – and it's working!

Avocado consumption in the United States moved to an impressive 7.8 pounds or \$18.88 per capita in 2018. Total volume of conventional Hass avocados sold in the United States jumped up to 2.48 billion pounds, an astounding 19.6% increase over the prior year and the largest one-year total in history. But HAB, working through the lens of our strategic plan, continues to keep our eye on the long term. We continue to work on the demand side of the business, to ensure the increase in consumption drives higher returns for growers and suppliers, because without economically healthy growers and suppliers in the domestic marketplace, the system is not sustainable at the current rate of volume growth.

“But HAB, working through the lens of our strategic plan, continues to keep our eye on the long term.”

In 2018, the third independent economic study done by researchers at UC Davis was completed. This was a comprehensive 5-year evaluation (2013-2017) of the promotion programs conducted by HAB, CAC and the importer associations representing Mexico, Peru and Chile that make up the program. The evaluation found that the program played a fundamental role in expanding demand for Hass avocados in the United States. The combined programs delivered a benefit to cost ratio ranging from 1.6 to 3.6 to the California producers and importers of Hass avocados who funded the programs. The study also found that the



expansion of sales in the U.S. market had primarily been achieved by rising demand, not lowering pricing, which signifies a desirable outcome of shifting the demand curve upward. The researchers further ascertain that an expansion of the program, even by a small amount, would further increase grower and importer returns and profits.

HAB is the only avocado organization that equips the entire industry for success. We collect, focus and distribute investments into the future of the U.S. avocado industry and those investments take two forms: first, we implement programs that benefit all industry members; and second, we enable programs run by associations that benefit specific countries of origin. This two-fold approach is something we like to call “The HAB Effect.” 15% of the assessments we collect and retain fund programs like nutrition research and consumer communications, health professional education, a supply and market data hub, and providing quality data. These programs are provided directly by HAB to the industry to create value for all in the domestic marketplace, regardless of where the avocados originate. While 85% of the assessments HAB collects from producers and importers go towards enabling programs by the member associations to promote their own brands and countries of origin. Collectively, these programs working together have created the growth and benefit that the industry has seen for the past 15 years.

“HAB is the only avocado organization that equips the entire industry for success.”

HAB celebrates the achievements of the industry and is excited about what we have accomplished together. We are convinced it is the collaborative nature of what we do with stakeholders from across the supply chain that is beneficial to the backbone of the industry. Without



the collaborative spirit that only HAB can foster, competitive forces could drive benefit out in an attempt to garner share, which is not an attractive model for anyone in the supply chain. Our goal is to work collectively toward orderly growth that benefits everyone.

“Our goal is to work collectively toward orderly growth that benefits everyone.”

HAB is not resting on the success of the past but looking toward the future of our industry to keep consumers engaged and well-informed about a fruit that tastes great, is nutritious and is part of a healthy lifestyle. HAB supports avocado suppliers with strategic quality and supply and demand data programs so they can make better decisions when running their business. We educate health professionals and dieticians about our latest research efforts, and encourage them to communicate those benefits to their clients and patients.

Lastly, nothing would be possible without great people who are dedicated to efficiently managing the high impact programs that you fund with your assessment dollars. You can count on HAB to be a catalyst for action and a reason to be confident in the future of the industry. This is truly, the HAB Effect.



Emiliano Escobedo
EXECUTIVE DIRECTOR

CHAIRMAN'S LETTER

As the chairman of HAB, I am pleased to report on the progress we have made throughout 2018, as is detailed throughout this Annual Report. Our work continues to support the avocado industry and our collective efforts toward building demand in the U.S. remains strong. Our vision of being the catalyst for fresh avocados being the number one consumed fruit in the U.S. and industry stakeholders being successful remains on-target.

“Our vision of being the catalyst for fresh avocados being the number one consumed fruit in the U.S. and industry stakeholders being successful remains on-target.”

Now in the third year of the 5-year strategic plan that was created back in 2016, we are on a forward-looking path that is laser-focused on our six strategic priorities. I am pleased to report that when it comes to building demand, we saw the consumption of Hass Avocados in the U.S. increase dramatically in 2018, with per capita consumption jumping over 15% from the previous year. On Nutrition, we continue to run a world class program which is one of the best in all of produce and generated publications in peer reviewed scientific journals. Our long-awaited Avocado Quality Manual, if used properly, will ensure that consumers are



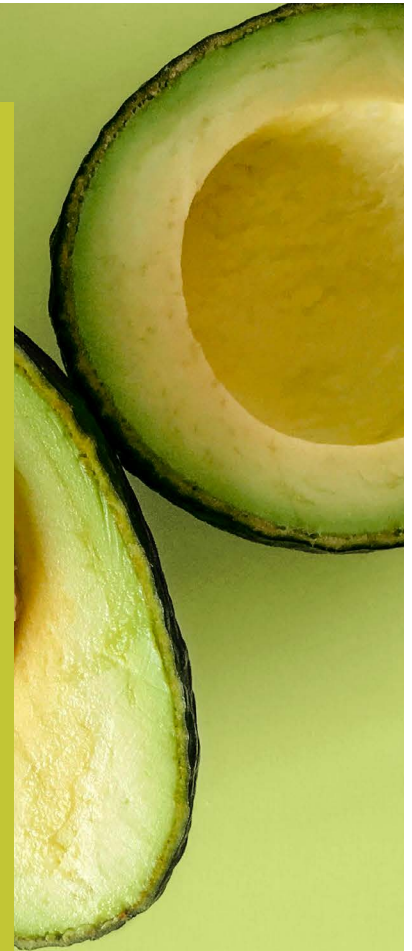
getting the very best product that the industry can deliver. Regarding supply and demand, we work diligently to provide information that is vital to the industry's success, whether it is short-term inventory data, or long-term consumer data that helps all in the supply chain keep a knowledgeable eye on the consumer and their purchasing drivers. With industry engagement, we must make sure that all industry stakeholders support the work and efforts of HAB, because collectively we are stronger than we are individually. Finally, to address sustainability, we will pursue the opportunity to tell the avocado industry's positive and sustainable story, including those of the growers that supply the U.S. who are true stewards of the land on which they operate.

“... we must make sure that all industry stakeholders support the work and efforts of HAB, because collectively we are stronger than we are individually.”

In summary, while we are progressing well against our goals, we continue to look ahead toward the future and what it will take for continued success for the industry. Our goal is to make avocados America's most popular fruit – and I'm glad to say it's working.

Ohannes Karaoghlanian

CHAIRMAN



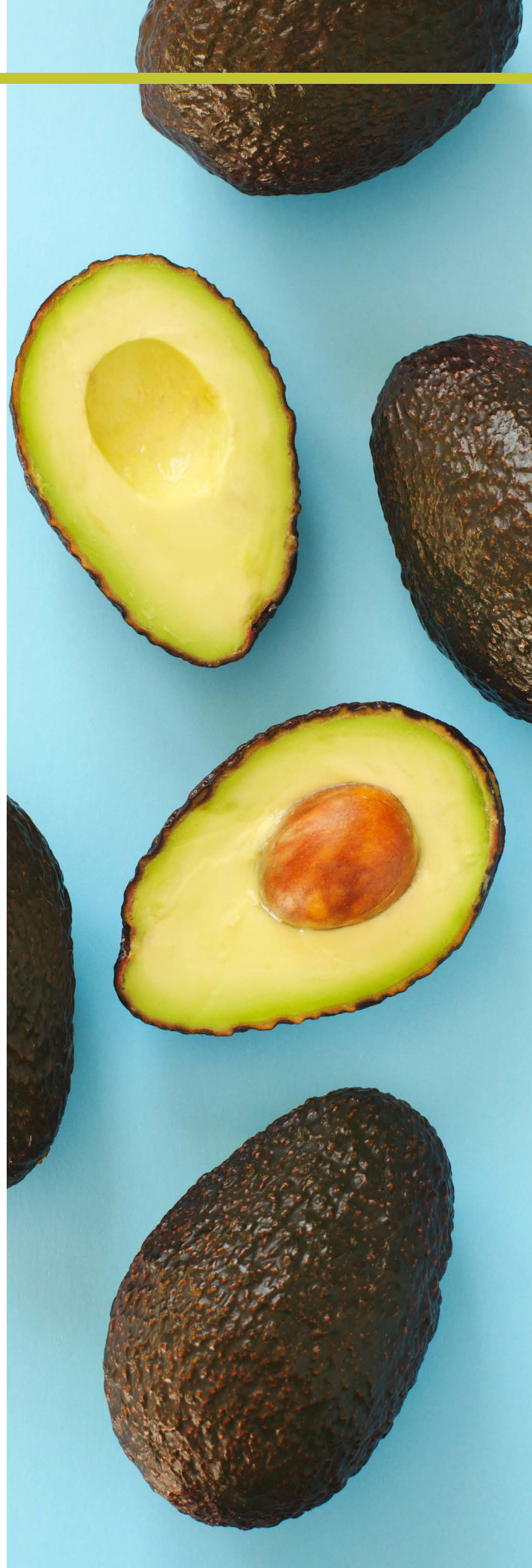


MISSION

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 number one consumed fruit in the U.S. and industry stakeholders being successful.





STRATEGIC PRIORITIES

AND FIVE YEAR WORKING GOALS



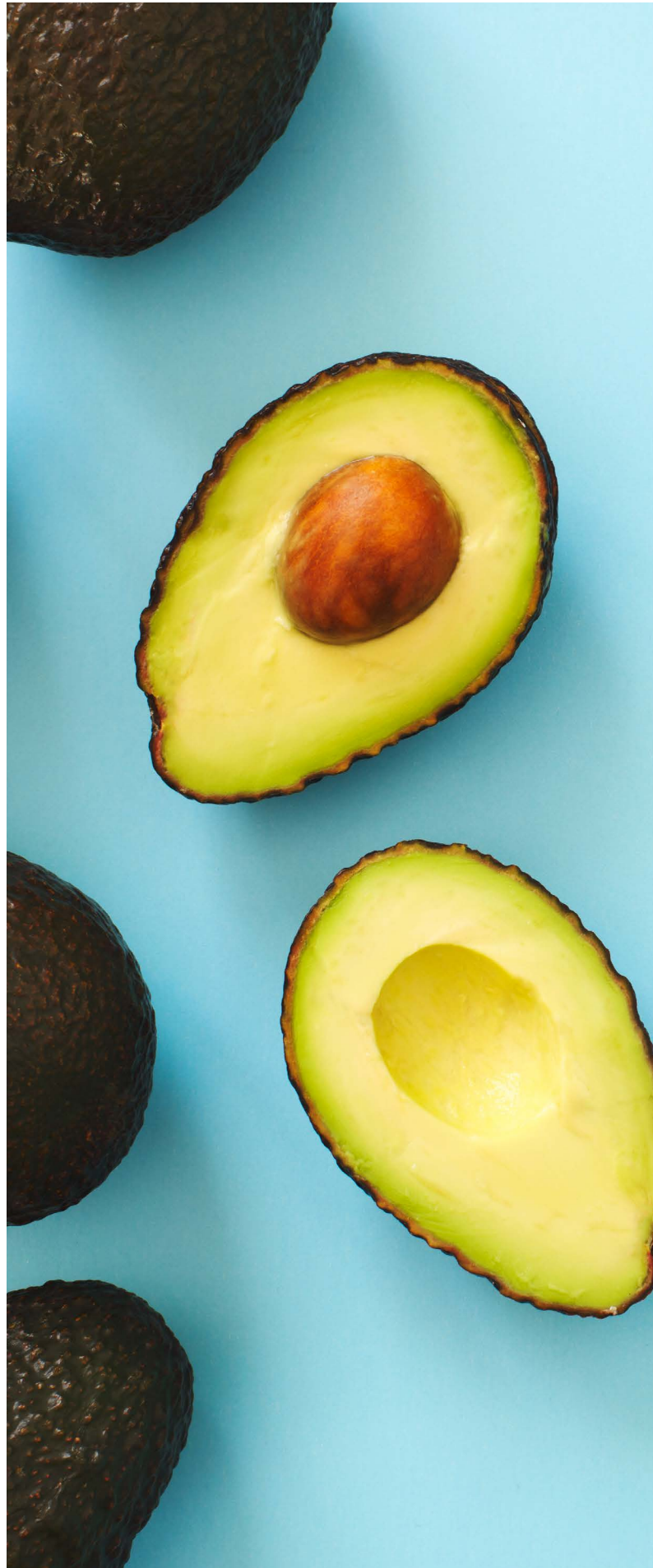
BUILD DEMAND

Annual per capita consumption of fresh avocados will either be

(A) 14 pounds

(B) \$28 by 2021

Demand increased dramatically in 2018 as both consumption and value continued to increase on a large crop year in most geographies. Per capita consumption jumped **over 15% to 7.8 pounds per capita**, up from 6.6 pounds the previous year. In terms of dollars, per capita consumption moved up to **\$18.88**, up from \$18.50 the previous year.





NUTRITION

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

HAB's nutritional research program continued to press forward in 2018, with **10 studies** that are currently in progress. Since the inception of the nutrition program HAB has contracted **27 studies** that have produced **19 published works** from this research. Stay tuned for the results and publications garnered from this important work in giving avocado consumers even more reasons to love their favorite fruit!



SUPPLY AND DEMAND

Goal 1

Research and obtain industry information about where Hass or Hass-like avocados are produced, how much and when.

In late 2018 we completed a contractual agreement with the French agricultural research team at CIRAD to investigate production capacity and expectations on when that production could be delivered to the U.S. marketplace. They will begin their research in Peru in early 2019, with plans to get to Mexico and Colombia before the year is through. This critical information, beneficial to all, will be published on hassavocadoboard.com for all stakeholders to utilize.

Goal 2

Research and obtain industry information about where Hass or Hass-like avocados are sold, how much and when.

We continue to develop and create some of the best category data in all of produce. As a result, associations and marketers alike have a clear picture of our customers, where and how they shop, and the reasons for selecting avocados. This data drives good decision making at every turn of the supply chain – all provided by HAB for the benefit of the entire industry.





QUALITY

HAB's quality-related information pertaining to the proper handling of the fruit in 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.



Our long-awaited **Avocado Quality Manual** is currently in development and will be implemented across the supply chain in late 2019. This manual will undoubtedly improve handling practices and supply chain knowledge, with the hope of leading to an even better quality experience for consumers when buying avocados, **a necessity on our path to becoming America's most popular fruit.**





INDUSTRY ENGAGEMENT

Increase the percentage of Hass avocado producers and importers in the U.S. that are subject to HAB assessments who are

(A) Familiar with HAB from the 2017 baseline of 64% to 90%.

(B) Know what HAB does from the 2017 baseline of 67% to 90%.

(C) Whose overall opinion about the work of the Board is “somewhat satisfied” or “very satisfied” increased from 48% to 75%.

We are now one year into implementing our goal of having more stakeholders know who we are and the work that we perform. New messaging and new channels of communicating are being developed to make stakeholders aware of how we benefit the industry and support the work we are doing across all of HAB’s strategic priorities.





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 and economic impact.

(C) Develop a strategy for positioning avocados within sustainable diets.

We believe that we have a substantial opportunity to bring information to customers and consumers alike through sharing stories and metrics of how we improve lives, the environment and the economic empowerment of people all across the industry. We will pursue this opportunity to tell the avocado industry's positive and sustainable story, including those of the growers and stakeholders who are true stewards of the land on which they operate.





FINANCIAL STATEMENTS



To the Board of Directors
Hass Avocado Board
Mission Viejo, California

We have audited the financial statements of the Hass Avocado Board (the "Board") for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated February 13, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no estimates made by management that we consider particularly sensitive.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements, material or immaterial, noted as a result of our audit testing.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 25, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

A handwritten signature in blue ink that reads "Davis Fan".

Irvine, California
March 25, 2019

HASS AVOCADO BOARD

Basic Financial Statements

Year Ended December 31, 2018

(With Independent Auditors' Report Thereon)

HASS AVOCADO BOARD

Basic Financial Statements

Year Ended December 31, 2018

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Board of Directors
Hass Avocado Board
Mission Viejo, California

INDEPENDENT AUDITOR'S 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, 2018, 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, 2018 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, 2017, and we expressed an unmodified audit opinion on those financial statements in our report dated March 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 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 25, 2019 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

A handwritten signature in blue ink that reads "Davis Fan CP". The signature is written in a cursive, flowing style.

Irvine, California
March 25, 2019

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, 2018. It has been prepared by management and should be read in conjunction with the audited financial statements for the periods ended December 31, 2018.

The Board was 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 2018.

FINANCIAL HIGHLIGHTS

- The assets of the Board exceeded its liabilities as of December 31, 2018 by \$2,129,438 (net position). Of this amount, 99% totaling \$2,106,154, is unrestricted net assets and may be used for Board promotions, research and Information obligations.
- The Board's 2018 total net position of \$2,129,438 increased by \$855,348 from the December 31, 2017 amount of \$1,274,090. Of this amount, net position invested in capital assets, net of related debt, decreased to \$23,285 from the \$52,000 in 2017. Net position unrestricted for promotions, research and information increased from \$1,222,090 to \$2,106,154.

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, 2017 has been presented in the accompanying supplemental schedules to facilitate financial analysis for the current year ended December 31, 2018.

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%) of the Board's total assets were current assets, consisting primarily of cash, investments, and accounts receivable, and prepaid expenses totaling \$7,764,547; up \$2,770,757 from the prior year amount of \$4,993,790. This increase was mainly attributable to a increase in cash and equivalents and accounts receivable from U.S. Customs. Total current assets to liabilities ratio is 1.37 to 1 and indicates adequate liquidity.

Liabilities totaled \$5,658,393 at December 31, 2018, which increased \$1,886,693 from \$3,771,700 from the prior year. The increase is mainly due to increased 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 \$23,284 down from the prior year amount of \$52,000. 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 \$2,106,154, an increase of \$884,064 over the prior year amount of \$1,222,090 mainly due to a increase in revenues due to imported 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 \$61,938,349 in 2018 were \$10,102,061 higher than the \$51,836,288 in 2017. The increase was mainly attributable to higher avocado imported into the U.S. as well as a significant increase in volume of domestically grown avocados. Of the operating revenue, the majority \$54,415,798 (approximately 88%) reflects assessments from imported volume; \$7,517,473 (approximately 12%) is generated from domestic volume and the remainder of \$5,078 is from late fees, and interest.
- Actual operating expenses totaled \$61,083,001 in 2018, which was an increase of \$8,822,169 or approximately 17% from the prior year amount of \$52,260,832. The increase was due to an overall increase in assessable Hass volume resulting in higher assessment rebate expense to the Importer and State Associations and increased business plan expenditures.
- At the end of the 2018 year, the Board reported ending net position of \$2,129,438, which was an increase of \$855,348 from the prior year of \$1,274,090. The increase was primarily due to increased volume in the marketplace, which boosted HAB's revenue. 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 an informal 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 2018 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 approved and passed by the board during 2018. The first amendment lowered revenue by \$4,000,000, decreased rebate expenses by \$3,400,000, and decreased nutritional marketing expense by \$675,000. A second budget amendment increased expenditures in nutrition marketing by \$35,000, increased target audience research and nutrition affairs by \$97,000 and \$38,000 respectively, and also increased supply and demand information and USDA oversight by \$37,500 and \$53,500 respectively. In addition, beginning budgeted reserves were also increased by \$339,583 to \$1,274,090 from the estimated \$934,507 to reflect the actual audited amount from the prior year financial statements. The third and final 2018 budget amendment increased nutritional marketing expenditures by \$10,000, increased professional services and consulting by \$20,000, reduced target audience research by \$97,000, and increased industry engagement by \$135,000.

During the year, the Board was involved in developing, analyzing and implementing current and long-range financial goals. 2019 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, 2018, total \$23,284 (net of accumulated depreciation), which is a \$28,716 decrease from December 31, 2017 year amount of \$52,000 (net of accumulated depreciation). The Board had no debt as of December 31, 2018.

HASS AVOCADO BOARD
Management's Discussion and Analysis

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Board's finances and to show the Board's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robert 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, 2018

(With Comparative Data for December 31, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 1,834,022	1,047,999
Receivables:		
Customs	5,918,053	3,904,623
Other	1,131	24,781
Deposits	6,051	6,051
Prepaid expenses	<u>5,290</u>	<u>10,336</u>
Total current assets	<u>7,764,547</u>	<u>4,993,790</u>
Noncurrent assets:		
Capital assets (note 3):		
Depreciable	350,296	350,296
Accumulated depreciation	<u>(327,012)</u>	<u>(298,296)</u>
Total noncurrent assets	<u>23,284</u>	<u>52,000</u>
Total assets	<u>7,787,831</u>	<u>5,045,790</u>
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	<u>5,658,393</u>	<u>3,771,700</u>
Total current liabilities	<u>5,658,393</u>	<u>3,771,700</u>
Net Position		
Investment in capital assets	23,284	52,000
Unrestricted	<u>2,106,154</u>	<u>1,222,090</u>
Total Net Position	<u>\$ 2,129,438</u>	<u>1,274,090</u>

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2018

(With Comparative Data for December 31, 2017)

	2018	2017
Operating revenues:		
Assessments:		
Customs	\$ 54,415,798	46,984,147
California	7,517,473	4,845,629
Other income	5,078	6,512
Total operating revenues	61,938,349	51,836,288
Operating expenses:		
Rebate program:		
Mexican Hass Avocado Import Association	41,266,459	35,141,821
California Avocado Commission	6,390,177	4,118,479
Peruvian Avocado Commission	3,714,623	2,945,079
Chilean Avocado Import Association	1,135,899	1,732,927
Total rebate program	52,507,158	43,938,306
Marketing/Research/Communications program:		
Nutrition marketing	2,691,342	4,384,739
Target audience research	219,464	197,729
Nutrition research	2,628,463	1,218,404
Nutrition affairs	154,150	129,233
Supply and demand information	734,182	763,780
Industry engagement	545,310	258,231
Quality	83,048	88,275
Sustainability	152,762	41,068
Total marketing/research/communications program	7,208,721	7,081,459
Other expenses:		
USDA oversight	208,631	137,705
Depreciation (note 3)	28,716	28,670
Total other expenses	237,347	166,375
Administration:		
Administration expenses	1,129,775	1,074,692
Total administration	1,129,775	1,074,692
Total operating expenses	61,083,001	52,260,832
Operating income (loss)	855,348	(424,544)
Net position, at the beginning of year	1,274,090	1,698,634
Net position, at the end of year	\$ 2,129,438	1,274,090

See accompanying notes to basic financial statements.

HASS AVOCADO BOARD**Statement of Cash Flows**

Year Ended December 31, 2018

(With Comparative Data for December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from producers and importers	\$ 59,940,589	52,169,879
Cash paid to employees	(1,484,404)	(1,310,622)
Cash rebate payments	(50,813,858)	(44,253,570)
Payments to suppliers for goods and services	(6,856,304)	(7,005,555)
Net cash provided by (used for) operating activities	<u>786,023</u>	<u>(399,868)</u>
Cash flows from capital and related financing activities:		
Cash paid for the acquisition of capital assets	-	(14,214)
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(14,214)</u>
Net increase (decrease) in cash and cash equivalents	786,023	(414,082)
Cash and cash equivalents at beginning of year	<u>1,047,999</u>	<u>1,462,081</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,834,022</u></u>	<u><u>1,047,999</u></u>
Reconciliation of operating income to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$ 855,348	(424,544)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	28,716	28,670
(Increase) decrease in receivables	(1,989,780)	325,611
(Increase) decrease in prepaid expenses	5,046	37,663
Increase (decrease) in accounts payable and other liabilities	1,886,693	(367,268)
Net cash provided by (used for) operating activities	<u><u>\$ 786,023</u></u>	<u><u>(399,868)</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, 2018 and 2017.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

Year Ended December 31, 2018

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 and importers 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, 2018 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. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

2. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and cash equivalents	<u>\$ 1,834,022</u>
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Cash and cash equivalents as of December 31, 2018 consist of the following:

Demand deposits	<u>\$ 1,834,022</u>
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3. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Board's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by the state or local governmental units by pledging securities in an undivided collateral pool held by a

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

3. Custodial Credit Risk (Continued)

depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Board deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Board's deposits were collateralized as of December 31, 2018.

4. Capital Assets

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

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2018</u>
Capital assets:				
Office equipment	\$ 59,433	-	-	59,433
Software	82,914	-	-	82,914
Tradeshow booth	154,916	-	-	154,916
Leasehold improvements	53,033	-	-	53,033
Accumulated depreciation:				
Office equipment	(44,730)	(14,705)	-	(59,435)
Software	(73,438)	(4,738)	-	(78,176)
Tradeshow booth	(154,916)	-	-	(154,916)
Leasehold improvements	<u>(25,212)</u>	<u>(9,273)</u>	<u>-</u>	<u>(34,485)</u>
Total capital assets, net	<u>\$ 52,000</u>	<u>(28,716)</u>	<u>-</u>	<u>23,284</u>

Depreciation expense was \$28,716 for the year ended December 31, 2018.

5. Compensated Absences

The following is a summary of changes in compensated absences, included in current liabilities, for the year ended December 31, 2018. All amounts are considered due within one year.

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2018</u>
Compensated absences	\$ 59,845	71,291	(66,850)	64,286

6. Revenue Concentration

Approximately 32% of total operating revenue was derived from assessments collected from four Hass avocado handlers/importers.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

7. 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 \$71,144 for the year ended December 31, 2018. 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 and it expired on June 30, 2018. The Board entered into a new lease agreement on January 1, 2017 for a printer/copier. This lease is for 63 months at a rate of \$532 a month, expiring on March 31, 2022. Equipment lease expense was \$8,670 for the year ended December 31, 2018.

Future lease commitments under these agreements are as follows:

2019	\$ 79,662
2020	80,019
2021	43,202
2022	<u>1,596</u>
Total	<u>\$204,479</u>

8. Contract Commitments

The Board has significant active nutrition research agreements as of December 31, 2018 in the amount of \$10,249,281 these amounts are through 2019. At December 31, 2018, \$5,598,274 of such contract commitments had not yet been incurred.

9. 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, 2018 were \$149,877.

HASS AVOCADO BOARD

Notes to Basic Financial Statements

(Continued)

9. Pension Plan (Continued)

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, 2018, 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, 2018
(With Comparative Data for December 31, 2017)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2017
Operating revenues:				
Assessment revenues	\$ 60,000,000	61,933,271	1,933,271	51,829,776
Other income	-	5,078	5,078	6,512
Total operating revenues	<u>60,000,000</u>	<u>61,938,349</u>	<u>1,938,349</u>	<u>51,836,288</u>
Operating expenses:				
Rebate program:				
Rebates	<u>51,000,000</u>	<u>52,507,158</u>	<u>(1,507,158)</u>	<u>43,938,306</u>
Marketing/Research/Communications program:				
Nutrition marketing	2,933,455	2,691,342	242,113	4,384,739
Target audience research	217,100	219,464	(2,364)	197,729
Nutrition research	2,676,881	2,628,463	48,418	1,218,404
Nutrition affairs	159,500	154,150	5,350	129,233
Supply and demand information	834,219	734,182	100,037	763,780
Industry engagement	722,498	545,310	177,188	258,231
Quality	117,475	83,048	34,427	88,275
Sustainability	<u>185,928</u>	<u>152,762</u>	<u>33,166</u>	<u>41,068</u>
Total marketing/research/ communications program	<u>7,847,056</u>	<u>7,208,721</u>	<u>638,335</u>	<u>7,081,459</u>
Other expenses:				
USDA oversight	236,000	208,631	27,369	137,705
Depreciation	18,207	28,716	(10,509)	28,670
Program implementation fee	<u>1,000</u>	<u>-</u>	<u>1,000</u>	<u>-</u>
Total other expenses	<u>255,207</u>	<u>237,347</u>	<u>17,860</u>	<u>166,375</u>
Administration:				
Administration expenses	<u>1,198,420</u>	<u>1,129,775</u>	<u>68,645</u>	<u>1,074,692</u>
Total administration	<u>1,198,420</u>	<u>1,129,775</u>	<u>68,645</u>	<u>1,074,692</u>
Total operating expenses	<u>60,300,683</u>	<u>61,083,001</u>	<u>(782,318)</u>	<u>52,260,832</u>
Operating income (loss)	(300,683)	855,348	1,156,031	(424,544)
Net Position, at beginning of year	<u>1,274,090</u>	<u>1,274,090</u>	<u>-</u>	<u>1,698,634</u>
Net Position, at the end of year	<u>\$ 973,407</u>	<u>2,129,438</u>	<u>1,156,031</u>	<u>1,274,090</u>

HASS AVOCADO BOARD

Schedule of Program Expenditures - Budget and Actual

Year Ended December 31, 2018
(With Comparative Data for December 31, 2017)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2017
Nutrition marketing				
Program management	546,222	567,490	(21,268)	582,201
Message testing and approval	45,600	25,640	19,960	34,112
Creative content	223,225	208,478	14,747	306,918
Events	307,550	271,236	36,314	360,080
Online/website/social media	336,423	299,560	36,863	400,682
Research publication announcements/promotions	1,125,352	998,218	127,134	1,080,851
Strategic partnerships	24,800	22,913	1,887	1,277,201
Strategy/issues radar and reporting	324,283	297,807	26,476	342,694
Total nutrition marketing	2,933,455	2,691,342	242,113	4,384,739
Target audience research				
Research insights and tracking	217,100	219,464	(2,364)	197,729
Total target audience research	217,100	219,464	(2,364)	197,729
Nutrition research				
Program management	294,031	302,408	(8,377)	291,973
Science pipeline	2,382,850	2,326,055	56,795	926,431
Total nutrition research	2,676,881	2,628,463	48,418	1,218,404
Nutrition affairs				
Events	30,000	52,107	(22,107)	5,403
Strategy/issues radar and reporting	121,500	102,043	19,457	113,936
Thought leader education	8,000	-	8,000	9,894
Total nutrition affairs	159,500	154,150	5,350	129,233
Supply and demand information				
Program management	306,119	305,900	219	287,634
Communications	196,000	178,336	17,664	168,348
Data services	138,600	117,578	21,022	131,694
Cyclical research	17,500	17,500	-	39,561
Avis	75,000	44,239	30,761	60,697
Track and Monitor	81,000	70,629	10,371	75,846
Research and information	20,000	-	20,000	-
Total supply and demand information	834,219	734,182	100,037	763,780
Industry engagement				
Program management	283,498	257,616	25,882	136,187
Annual report	6,000	5,675	325	7,736
HAB promotional materials	11,000	2,905	8,095	5,532
Industry meetings and events	80,000	51,193	28,807	11,329
Industry website	241,000	162,488	78,512	39,625
Outreach	15,000	-	15,000	217
Communications	86,000	65,433	20,567	57,605
Total industry engagement	722,498	545,310	177,188	258,231
Quality				
Program management	72,475	69,048	3,427	67,275
Research and information	45,000	14,000	31,000	21,000
Total quality	117,475	83,048	34,427	88,275
Sustainability				
Program management	145,928	136,949	8,979	41,068
Research and information	40,000	15,813	24,187	-
Total sustainability	185,928	152,762	33,166	41,068
Total marketing/research/communications	\$ 7,847,056	7,208,721	638,335	7,081,459

HASS AVOCADO BOARD

Schedule of Administration Expenditures - Budget and Actual

Year Ended December 31, 2018
(With Comparative Data for December 31, 2017)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2017
Other expenses:				
USDA oversight	\$ 236,000	208,631	27,369	137,705
Depreciation	18,207	28,716	(10,509)	28,670
Program implementation fee	1,000	-	1,000	-
Total other expenses	<u>255,207</u>	<u>237,347</u>	<u>17,860</u>	<u>166,375</u>
Administration expenses:				
Financial oversight - audit	40,000	34,116	5,884	29,773
Board travel/meetings/elections	258,173	240,335	17,838	185,822
Office related	200,208	217,681	(17,473)	207,850
Professional services and consulting	129,800	82,145	47,655	89,307
Corporate insurance	46,000	56,231	(10,231)	45,127
Salaries/wages/benefits	480,239	472,567	7,672	499,515
Education/training/conferences/seminars	24,000	10,001	13,999	12,948
Corporate governance	20,000	16,699	3,301	4,350
Total administration expenses	<u>\$ 1,198,420</u>	<u>1,129,775</u>	<u>68,645</u>	<u>1,074,692</u>

HASS AVOCADO BOARD**Schedule of Cash Receipts and Disbursements**

Year Ended December 31, 2018

(With Comparative Data for December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash receipts:		
California assessments	\$ 7,533,143	4,844,503
Customs assessments	<u>52,407,446</u>	<u>47,325,376</u>
Total cash receipts	<u>59,940,589</u>	<u>52,169,879</u>
Cash disbursements:		
Rebates	50,813,858	44,232,534
Nutrition marketing	2,672,211	4,442,548
Target audience research	187,282	163,221
Nutrition research	2,617,089	1,222,401
Nutrition affairs	128,030	152,342
Supply and demand information	739,879	761,131
Industry engagement	449,762	259,152
Quality	75,548	88,275
Sustainability	147,762	41,068
USDA oversight	208,631	137,705
Administration	1,114,514	1,069,370
Acquisition of capital assets	<u>-</u>	<u>14,214</u>
Total cash disbursements	<u>59,154,566</u>	<u>52,583,961</u>
Excess of receipts over disbursements	786,023	(414,082)
Cash and investments at beginning of year	<u>1,047,999</u>	<u>1,462,081</u>
Cash and investments at end of year	<u>\$ 1,834,022</u>	<u>1,047,999</u>

HASS AVOCADO BOARD

Schedule of Total Payroll Disbursements

Year Ended December 31, 2018
(With Comparative Data for December 31, 2017)

	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 1,484,404	1,310,622
Payroll taxes	82,365	77,434
Pension expenses	149,877	127,200
Benefits (health, life, dental and vision)	<u>217,734</u>	<u>199,103</u>
Total payroll disbursements	<u>\$ 1,934,380</u>	<u>1,714,359</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, 2018, 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 25, 2019.

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, appearing to read "Davis L. L. L.", is positioned above the typed name and date.

Irvine, California
March 25, 2019

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, 2018. 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, 2018.

- 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, appearing to read "Davis Farnsworth".

Irvine, California
March 25, 2019