

— MAKING IT HAPPEN —

20

— YEARS —

H A S S A V O C A D O B O A R D

2 0 2 2 A N N U A L R E P O R T

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“The potential for avocados is still growing. HAB is a well-established organization that provides the right information at the right time to benefit all industry stakeholders.”

Jose Antonio Castro
Commercial Manager, AgroKasa



2023 BOARD ROSTER

OFFICERS



Jorge Hernandez
Chairperson



CJ Shade
Vice Chairperson



Sergio Chavez
Treasurer



Susan Pinkerton
Secretary

DIRECTORS

ALTERNATES

25



Elaine Bannatyne
P



Bob Schaar
P



Debbie Willmann
I



Rocco Fiore II
P



Daniel Harte
P



Juan Monsalve
I

24



Jamie Johnson
P



Mark Vawter
P



Aaron Acosta
I



Chris Henry
I



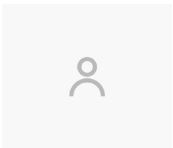
Byron Talley
P



Ivor Van Wingerden
P



Elizabeth Ayala
I



Vacant
I

23



Ben Van Der Kar
P



Susan Pinkerton
P



CJ Shade
P



Sergio Chavez
I



Jorge Hernandez
I



Jeff Dickinson
P



Will Carleton
P



Kimberlin Brown Pelzer
P



Andy Bruno
I



Peter Shore
I

P = PRODUCER | I = IMPORTER

“HAB is a very unique organization and has been a big part of the success of the avocado industry over the last 20 years.”

Luke Sears
President, LGS



2023 STAFF MEMBERS



Monica Acosta
Associate Manager of Finance and Administration



Natalia Arias
Sr. Digital Marketing Strategist



Ella Bauer, PhD
Nutrition Research Associate Manager



Feon Cheng, PhD, RDN
Nutrition Epidemiologist



Emiliano Escobedo
Executive Director



Nikki A. Ford, PhD
Sr. Director of Nutrition



Jason Garthoffner
Web and Graphic Designer



Alejandro Gavito
Sr. Business Insights and Data Services Manager



Ivonne Gomez
Content and Community Manager



Amanda Izquierdo, MPH, RD, LDN
PR & Advertising Manager



John McGuigan
Director of Industry Affairs



Pam Ortega
Executive Assistant of Operations



Robert M. Rumph
Sr. Director of Finance and Administration



Silvia Standke
Sr. Manager of Operations



Gina Widjaja
Sr. Director of Marketing and Communications

“HAB is the single most valuable entity in the avocado industry... and work[s] towards a common goal of raising value within the avocado industry. It brings organization, transparency, and dollars to the table that add VALUE to all sides of the equation. I don’t know where the industry would be without it.”

Scott Bauwens
Former Chair and CEO, Simpatica



EXECUTIVE DIRECTOR'S LETTER



As we reflect on the past season, I would like to begin by acknowledging an important milestone in 2022 - the 20th Anniversary of the Hass Avocado Board's creation. This event prompted us to reflect on our history and trajectory. We are proud to report that despite facing numerous challenges and opportunities over the years, the record shows many more successes than setbacks.

During our anniversary celebration in September, we recognized the hard work and dedication of all those who have contributed to the advancement of our mission over the past two decades. It is with great appreciation that we thank all our volunteer members, staff, allies, and partners again for their continued commitment since our founding.

HAB is vibrant, it is growing, as is our market, and even as we face new and exciting challenges and opportunities, we know that our actions must culminate in the growing demand for avocados in the U.S. marketplace.

Moving on to the review of the 2022 season, we must acknowledge the challenges faced by the industry. While there was an increase in shipments from every source of supply except Mexico, the industry experienced a decrease in the overall amount of fruit directed to the U.S. market. This resulted in a market shortage in the first half of the year, which led to record-high prices and subsequent impacts on retail and foodservice supply chain prices.

Let's get into the numbers:

In the latest crop year, there were notable changes in the volume of avocado shipments from different countries to the U.S. marketplace. California's volume was up by 10%, while Chile's volume increased by a whopping 100% compared to the previous short crop year. Peru had its highest shipment total to the U.S., ever, with a 44% increase to 264 million pounds, and the Dominican Republic's volume was up by 50%. Meanwhile, Colombia emerged as the newest player in the market and showed the largest increase, up by 500% from nearly 7 million to 42 million pounds in 2022. However, Mexico's shipments to the U.S. marketplace decreased by nearly 13% from 2.388 billion pounds to 2.082 billion pounds.

This drop in Mexican supply resulted in increased prices at the retail shelf, as retailers had to pass along the increase to their shoppers. Consequently, consumers faced an average increase in fruit prices at retail from \$1.14 in 2021 to \$1.30 in 2022, a 14% increase. In the first half of the year, retail margins shrank, and foodservice operators and distributors struggled to keep pricing to restaurants and pricing on menus stable. The market saw FOB pricing levels more than double the average for months. The industry made its way through the situation, but the market and the increased retail shelf pricing was felt long after the new crops came on in the second half of the year when FOB pricing dropped week after week, but retail prices remained steadily high.

As a result of the lower total supply, per capita consumption of avocados decreased for the year, going from 8.6 pounds per capita in 2021 to 8.0 pounds in 2022. However, in terms of value, per capita consumption increased from \$21.71 in 2021 to \$23.38 in 2022.

In a market that was still recovering from the lingering effects of COVID-19, the whole industry felt the impact of the record inflation that consumers were feeling across the board. While some producers benefited in the short term, it was tough for importers, sellers, and distributors.

The Hass Avocado Board remains committed to our strategic plan for the future. We recognize that we cannot react to short-term market fluctuations and must continue to work towards consistently growing demand to become America's most popular fruit.

We are confident in our ability to navigate the ever-changing market and look forward to a prosperous and productive 2023 and beyond.

Emiliano Escobedo

Executive Director

“HAB is vibrant, it is growing, as is our market, and even as we face new and exciting challenges and opportunities, we know that our actions must culminate in the growing demand for avocados in the U.S. marketplace.”

Emiliano Escobedo

Executive Director, Hass Avocado Board



CHAIRMAN'S LETTER



As we celebrated our 20th Anniversary of the Hass Avocado Board (HAB) in 2022, we felt it appropriate to use this special occasion to reflect on our past, as well as look ahead toward our future. If “what’s past is prologue” is true, taking the time to examine our journey of the last twenty years could help us better see, and imagine what the next twenty could look like as we continue the path of being a purpose driven organization.

The work that the Hass Avocado Board, our member organizations, and our stakeholders around the globe have done over those twenty years has established avocados as a powerhouse in the produce department and the envy of all others who share that space with us. We have played an important catalyst role in making avocados the star of the produce industry by increasing consumption to 8.1 lbs. per capita in 2018 in the U.S., (up from an average of 2.26 lbs. per capita in 2000), an increase of 258%. Compared to the overall fruit category has increased only 9% over those same years. We have turned the conversation about this once thought of high fat, high-calorie fruit into helping people understand the natural health benefits and the life-changing benefits avocados provide to our consumers. If we can accomplish that in the span of twenty years, we will have to set our sights high in the future to continue this frenetic course, and we have.

The board is two years into our new strategic plan, which is our blueprint for action during the 2021-2025 timeframe. We have made commitments in several areas that show our ongoing dedication to the programs we support to make sure we have the resources appropriately directed within each piece of the plan to continue this sustained growth pattern. Let’s review a few of those forward-looking obligations where the board intends to focus its energy and resources.

NUTRITION

HAB has committed to spending at least 15% of our net revenue directly on nutrition research for the next decade. We know we have achieved a lot this past decade, but we feel there is more to learn and uncover about this remarkable fruit we produce. This allocation will continue to develop the new and exciting health benefits of our fruit and give more people an incentive to purchase our fruit it, and more of it over time, for health and nutrition.

BUSINESS SUPPORT TOOLS AND INFORMATION

HAB provides some of the best data, resources, and decision-making tools to the industry at no charge to anyone else in the supply chain. It provides a key service to stakeholders to help manage their avocado business no matter where they are in the supply chain. We are committed to continue to bring actionable data, the AVIS inventory tracking system we have

developed, and best in class business insights and support tools to our industry. The industry utilizes these tools to help fuel the growth we have seen, and we are committed to keeping this important pipeline of data open for the benefit of all.

COMMUNICATIONS

We know that we are a data and communication organization. We also know that if we do not get all the data and information in the right hands, it will not provide the benefits it was intended for. We will continue to target our most important audiences with the communications they need to utilize the research and data we provide to make it easy to find and easy to use. The communication team is dedicated to the healthcare profession audiences, our important industry audience, and of course, our consumer audience that supports us daily at retail and at foodservice. They will utilize whatever platform is necessary to get this information out and into their hands when needed.

INDUSTRY ENGAGEMENT & LEADERSHIP

Communicating the content of our work and the value we create is an integral part of letting people know how we invest the industry’s assessment dollars into the marketplace and needs to be a key pillar of what we do. Helping people understand HAB and investing in the next generation of new avocado leaders, as we do with our BOLD program, is another vital job that helps us create a better future. Our Industry Engagement & Leadership program has grown substantially these past few years and is a reason more people are looking to HAB as both a valuable place to give back through volunteerism and a place to spend your valuable time as your interest and participation can influence the place where decisions are being made.

SUSTAINABILITY

We have proven over the past three years that we are committed to sustainability and becoming a leader in this space to help this industry continue to thrive. We are committed to building the Avocado Sustainability Center as the premier provider of sustainability research, data, and information in the coming years. We are also dedicated to helping the industry find its voice in this space to begin to tell our sustainability story ourselves and not let others speak for us. We believe in the responsibility we hold as stewards of the land and remain steadfast to the concept of Healthy Food, Health People, and Healthy Planet.

May the next twenty years be just as fruitful as the past twenty.

Jorge Hernandez

Chairman

“The work that the Hass Avocado Board, our member organizations, and our stakeholders around the globe have done over those twenty years has established avocados as a powerhouse in the produce department and the envy of all others who share that space with us.”

Jorge Hernandez

Chairman, Hass Avocado Board



FINANCIAL STATEMENTS

“HAB has done a fantastic job with research and promotion of avocados for the benefit of the whole supply chain, including growers, exporters, importers, wholesalers, retailers, and consumers.”

Jorge Restrepo
Executive Director, CorpoHass



HASS AVOCADO BOARD

Basic Financial Statements

Year ended December 31, 2022

(With Independent Auditor's Report Thereon)

HASS AVOCADO BOARD
Basic Financial Statements
Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hass Avocado Board
Mission Viejo, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Hass Avocado Board (the "Board") as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Board, as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described further in note 7 to the financial statements, during the year ended June 30, 2022, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 87. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The Board's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Report on Summarized Comparative Information

We have previously audited the Board's financial statements for the year ended December 31, 2021, and we expressed an unmodified opinion on those financial statements in our report dated April 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, the Schedule of Program Expenditures – Budget and Actual, the Schedule of Administration Expenditures – Budget and Actual, the Schedule of Cash Receipts and Disbursements, and the Schedule of Total Payroll Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, the Schedule of Program Expenditures – Budget and Actual, the Schedule of Administration Expenditures – Budget and Actual, the Schedule of Cash Receipts and Disbursements, and the Schedule of Total Payroll Expenses are 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 Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2023 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Board's internal control over financial reporting and compliance.



Irvine, California
March 13, 2023

HASS AVOCADO BOARD
Management's Discussion and Analysis
Year Ended December 31, 2022

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, 2022. It has been prepared by management and should be read in conjunction with the audited financial statements for the period ended December 31, 2022.

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 the Hass Avocado Promotion, Research, and Information Order (Order), 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.

The board employs an Executive Director who is responsible for employing, contracting, supervision, and discharge of all Board employees, agencies, consultants, and other suppliers. The Board has 15 staff members who implement the various research and promotion programs.

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.

Producers and importers of certified organic Hass avocados can apply for an exemption from paying assessments (§ 1219.202 Exemption for organic Hass avocados). The Board is responsible for the efficient implementation of the process that issues organic exemption certificates and calculates and processes assessment refunds for those certified organic avocados.

FINANCIAL HIGHLIGHTS

- The assets of the Board exceeded its liabilities as of December 31, 2022, by \$2,303,188 (net position). Of this amount, 97% totaling \$2,234,719 is unrestricted net assets and may be used for Board promotions, research, and information obligations.
- The Board's 2022 total net position of \$2,303,188 decreased by \$1,115,505 from the December 31, 2021 amount of \$3,418,693. Of this amount, net position invested in capital assets, net of related debt, increased to \$68,469 from \$21,761 in 2022. Net position unrestricted for promotions, research and information decreased from \$3,418,693 to \$2,303,188.

HASS AVOCADO BOARD
Management's Discussion and Analysis, Continued
Year Ended December 31, 2022

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; and Statement of Cash Flows. These *basic financial statements* are designed to present a broad overview of the financial data for the Board, in a manner similar to a private-sector business.

FUND FINANCIAL STATEMENTS:

The *Statement of Net Position* presents information on all assets and liabilities of the Board using the accrual basis of accounting, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the current financial condition of the Board. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation and amortization.

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, 2021, has been presented in the accompanying supplemental schedules to facilitate financial analysis for the current year ended December 31, 2022.

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 (100%) of the Board's total assets were current assets, consisting primarily of cash, investments, and accounts receivable, and prepaid expenses totaling \$7,225,074; down \$1,046,722 from the prior year amount of \$8,271,796. This decrease was mainly attributable to a decrease in and cash on hand and decreases of accounts receivable from U.S. Customs and avocado handlers. Total current assets to liabilities ratio is 1.4 to 1 and indicates adequate liquidity.

Liabilities totaled \$5,507,666 December 31, 2022, which increased \$595,587 from \$4,912,080 from the prior year. The increase is mainly attributable to the implementation of GASB 87 and increased amounts owed to avocado importer associations and other vendors and an increase in accrued vacation balances. Liabilities were primarily assessment rebates payable and vendor 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 \$68,469 up from the prior year amount of \$21,761.

HASS AVOCADO BOARD
Management's Discussion and Analysis, Continued
Year Ended December 31, 2022

Unrestricted net position for promotions, research, and information activities are subject to imposed restrictions by federal statute governing their use. Unrestricted net position total \$2,303,188, a decrease of \$1,162,213 over the prior year amount of \$3,396,932 mainly due to a planned increase in expenditures for budgeted and approved research and promotion activities and an unanticipated revenue shortfall. Unrestricted net assets are 97% of total net assets and are subject to restrictions on how they can be used.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Key highlights and financial analysis are as follows:

- Actual operating revenues of \$64,712,397 in 2022 were \$3,976,943 lower than the \$68,689,340 in 2021. The decrease was mainly attributable a decrease in volume of imported avocados offset partially by an increase in domestically grown avocados. Of the operating revenue, the majority \$58,368,437 (approximately 90%) reflects assessments from imported volume; \$6,336,371 (approximately 10%) is generated from domestic volume.
- Actual operating expenses totaled \$65,849,579 in 2022, which was a decrease of \$2,923,380 or approximately 4% from the prior year amount of \$68,772,959. The decrease was mainly due to a decline in imported assessable Hass volume resulting in lower assessment rebate expense offset slightly by higher rebate expense to the domestic avocado association and budgeted and approved business plan expenditures.
- At the end of the 2022 year, the Board reported ending net position of \$2,303,188, which was a decrease of \$1,115,505 from the prior year of \$3,418,693. The decrease was primarily due to increased planned budgeted and approved research and promotion expenditures, compounded by decreased revenue and rebate expenses due to decreased volume in the marketplace. 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 cash reserve. The Board's stakeholders expect funds to be expended responsibly during the year to grow consumer demand and maintain a reserve that supports continued operations through unforeseen potential market and/or government disruptions. The Order limits the Board to an operational reserve that does not exceed one fiscal period's budget (7CFR 1219.54(n)).

BUDGETARY HIGHLIGHTS

The 2022 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. All staff salaries and benefits are allocated to the various departments under research and promotion programs where the work is performed. The departmental allocation percentages for staff costs under research and promotion programs are updated on an annual basis. Two budget amendments were approved and passed by the board during 2022. The first amendment increased expenditures by \$661,113 and recognized the final audited results from 2021 and increased beginning reserves by \$1,168,131 from \$2,250,562 to \$3,418,693. A second budget amendment increased expenditures by another \$17,500.

During the year, the Board was involved in developing, analyzing, and implementing current and long-range financial goals. A 2023 budget and programs were developed, reviewed, and approved by the board and USDA for implementation.

HASS AVOCADO BOARD
Management's Discussion and Analysis, Continued
Year Ended December 31, 2022

CAPITAL ASSET AND DEBT ADMINISTRATION

The Board's investment in capital assets for its business type activities as of December 31, 2022, total \$68,469 (net of accumulated depreciation and amortization), which is a \$46,708 increase from December 31, 2021 year-end amount of \$21,761 (net of accumulated depreciation and amortization). The Board is prohibited from borrowing money and had no debt as of December 31, 2022.

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, Senior Director of Finance and Administration, Hass Avocado Board, 25212 Marguerite Parkway Suite 250, Mission Viejo, California 92692.

HASS AVOCADO BOARD
Statement of Net Position
December 31, 2022
(with comparative information for prior year)

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 2,216,425	3,200,728
Receivables:		
Customs	4,948,837	5,015,782
Other	7	31,001
Deposits	13,217	13,217
Prepaid expenses	46,588	11,068
Total current assets	7,225,074	8,271,796
Noncurrent assets:		
Capital assets (note 4):		
Depreciable	1,115,505	382,938
Non-depreciable	-	37,216
Accumulated depreciation/amortization	(529,725)	(361,177)
Total noncurrent assets	585,780	58,977
Total assets	7,810,854	8,330,773
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	4,837,045	4,780,772
Compensated absences (note 5)	153,310	131,308
Lease liability, current (note 7)	133,250	-
Total current liabilities	5,123,605	4,912,080
Noncurrent liabilities:		
Lease liability, net of current (note 7)	384,061	-
Total noncurrent liabilities	384,061	-
Total liabilities	5,507,666	4,912,080
Net Position		
Net investment in capital assets	68,469	21,761
Unrestricted	2,234,719	3,396,932
Total net position	\$ 2,303,188	3,418,693

See accompanying notes to the basic financial statements.

HASS AVOCADO BOARD
Statement of Revenues, Expenses and Changes in Net Position
Year ended December 31, 2022
(with comparative information for prior year)

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Assessments:		
Customs	\$ 58,368,437	62,930,284
California	6,336,371	5,759,001
Other income	<u>7,589</u>	<u>55</u>
Total operating revenues	<u>64,712,397</u>	<u>68,689,340</u>
Operating expenses:		
Rebate program:		
Mexican Hass Avocado Import Association	42,755,937	49,259,872
California Avocado Commission	5,385,572	4,895,151
Peruvian Avocado Commission	5,430,566	3,778,070
Colombia Avocado Board	888,444	139,487
Chilean Avocado Import Association	<u>339,025</u>	<u>186,833</u>
Total rebate program	<u>54,799,544</u>	<u>58,259,413</u>
Promotion, Research, and Information program:		
Communications	4,560,663	4,729,025
Nutrition	2,681,472	2,520,286
Supply and demand information	879,737	832,458
Industry engagement	869,862	801,319
Sustainability	<u>303,592</u>	<u>337,987</u>
Total promotion, research, and information program	<u>9,295,326</u>	<u>9,221,075</u>
Other expenses:		
USDA oversight	149,189	167,292
Depreciation/amortization (note 4)	<u>168,548</u>	<u>10,880</u>
Total other expenses	<u>317,737</u>	<u>178,172</u>
Administration:		
Administration expenses	<u>1,436,972</u>	<u>1,114,299</u>
Total administration	<u>1,436,972</u>	<u>1,114,299</u>
Total operating expenses	<u>65,849,579</u>	<u>68,772,959</u>
Operating income (loss)	(1,137,182)	(83,619)
Non-operating revenues:		
Investment income	<u>21,677</u>	<u>-</u>
Total non-operating revenues	<u>21,677</u>	<u>-</u>
Increase (decrease) in net position	(1,115,505)	(83,619)
Net position, at the beginning of year	<u>3,418,693</u>	<u>3,502,312</u>
Net position, at the end of year	<u>\$ 2,303,188</u>	<u>3,418,693</u>

See accompanying notes to the basic financial statements.

HASS AVOCADO BOARD
Statement of Cash Flows
Year ended December 31, 2022
(with comparative information for prior year)

	2022	2021
Cash flows from operating activities:		
Cash received from producers and importers	\$ 64,810,336	69,322,225
Cash paid to employees	(2,534,133)	(2,107,000)
Cash rebate payments	(54,971,366)	(59,088,406)
Payments to suppliers for goods and services	(8,115,426)	(8,371,505)
Net cash provided by (used for) operating activities	(810,589)	(244,686)
Cash flows from capital and related financing activities:		
Principal paid on lease	(95,979)	-
Interest paid on lease	(17,351)	-
Net cash provided by (used for) financing activities	(113,330)	-
Cash flows from investing activities:		
Interest income	21,677	-
Purchase of capital assets	(82,061)	(69,858)
Net cash provided by (used for) investing activities	(60,384)	(69,858)
Net increase (decrease) in cash and cash equivalents	(984,303)	(314,544)
Cash and cash equivalents at beginning of year	3,200,728	3,515,272
Cash and cash equivalents at end of year	\$ 2,216,425	3,200,728
Reconciliation of operating income (loss) to net cash provided by (used for) for operating activities:		
Operating income (loss)	\$ (1,137,182)	(83,619)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation/amortization	168,548	10,881
(Increase) decrease in receivables	97,940	632,885
(Increase) decrease in prepaid expenses	(35,521)	(2,243)
Increase (decrease) in accounts payable and other liabilities	95,626	(802,590)
Net cash provided by (used for) operating activities	\$ (810,589)	(244,686)

Non-cash investing, capital and financing activities:

There were no significant non-cash investing, capital or financing activities during the years ended December 31, 2022 and 2021.

See accompanying notes to the basic financial statements.

HASS AVOCADO BOARD

Notes to the Basic Financial Statements

Year ended December 31, 2022

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 objective 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 the Basic Financial Statements

Year ended December 31, 2022

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
Tradeshaw booth	3-5 years
Leasehold improvements	6-7 years
Right to use asset	Estimated life of the leased asset or the contracted term, whichever is shorter

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.

Leases

For the year ended December 31, 2022, the financial statements include the adoption of GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

HASS AVOCADO BOARD

Notes to the Basic Financial Statements

Year ended December 31, 2022

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

Leases

Key estimates and judgments include how the Board determines the discount rate it uses to discount the expected lease receipts to present value, lease term and lease receipts.

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.

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, 2022 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	<u>\$ 2,216,425</u>
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Cash and cash equivalents as of December 31, 2022 consist of the following:

Demand deposits	<u>\$ 2,216,425</u>
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HASS AVOCADO BOARD

Notes to the Basic Financial Statements

Year ended December 31, 2022

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 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, 2022.

4. Capital Assets

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

	January 1, 2022*	Additions	Deletions	December 31, 2022
Capital assets:				
Construction in progress	\$ 37,216	-	(37,216)	-
Office equipment	92,075	-	-	92,075
Software	82,914	-	-	82,914
Tradeshow booth	154,916	-	-	154,916
Leasehold improvements	53,033	119,277	-	172,310
Right-to-use asset - office space	613,290	-	-	613,290
Total capital assets	<u>1,033,444</u>	<u>119,277</u>	<u>(37,216)</u>	<u>1,115,505</u>
Accumulated depreciation and amortization:				
Office equipment	(70,313)	(10,880)	-	(81,193)
Software	(82,915)	-	-	(82,915)
Tradeshow booth	(154,916)	-	-	(154,916)
Leasehold improvements	(53,033)	(23,856)	-	(76,889)
Right-to-use asset - office space	-	(133,812)	-	(133,812)
Total accumulated depreciation and amortization	<u>(361,177)</u>	<u>(168,548)</u>	<u>-</u>	<u>(529,725)</u>
Total capital assets, net	<u>\$ 672,267</u>	<u>(49,271)</u>	<u>(37,216)</u>	<u>585,780</u>

*Beginning balances have been restated to reflect the implementation of GASB Statement No. 87.

HASS AVOCADO BOARD

Notes to the Basic Financial Statements

Year ended December 31, 2022

4. Capital Assets (Continued)

Depreciation and amortization expense was \$168,548 for the year ended December 31, 2022.

5. Compensated Absences

The following is a summary of changes in compensated absences, included in current liabilities, for the year ended December 31, 2022. All amounts are considered due within one year.

	January 1, 2022	Additions	Deletions	December 31, 2022
Compensated absences	\$ 131,308	164,995	(142,993)	153,310

6. Revenue Concentration

Approximately 53% of total operating revenue was derived from assessments collected from seven Hass avocado handlers/importers.

7. Lease Liability

The changes in long-term liabilities for the year ended December 31, 2022, were as follows:

	Balance at January 1, 2022*	Additions	Reductions	Balance at December 31, 2022	Due Within One Year
Office Space Lease	\$ 613,290	-	(95,979)	517,311	133,250

**Beginning balance has been restated to reflect the implementation of GASB Statement No. 87.*

On November 9, 2014, the Hass Avocado Board entered into a lease for office space located in Mission Viejo, California. On August 23, 2021 the Board amended their lease contract to extend their original lease term and include additional office space. The Board's lease expires on September 30, 2026 with monthly payments starting at \$8,808 and increasing to \$11,745 when the Board took possession of the additional office space in May 2022. Monthly rent increases by 3% each year on anniversary of amendment. The lease liability is calculated using a discount rate of 3%.

Future lease payable requirements as of December 31, 2022, are as follows:

Year Ending June 30,	Principal	Interest	Total
2023	\$ 133,250	13,712	146,962
2024	141,771	9,600	151,371
2025	150,687	5,225	155,912
2026	91,603	918	92,521
	\$ 517,311	29,455	546,766

HASS AVOCADO BOARD

Notes to the Basic Financial Statements

Year ended December 31, 2022

8. Contract Commitments

The Board has significant active nutrition research agreements as of December 31, 2022 in the amount of \$5,599,137. At December 31, 2022, \$990,921 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, 2022 was \$264,409.

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, 2022, forfeitures reduced the Board's pension expense by \$0.

SUPPLEMENTARY INFORMATION

HASS AVOCADO BOARD

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

Year ended December 31, 2022

(with comparative information for prior year)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2021
Operating revenues:				
Assessment revenues	\$ 75,000,000	64,704,808	(10,295,192)	68,689,285
Other income	-	7,589	7,589	55
Total operating revenues	<u>75,000,000</u>	<u>64,712,397</u>	<u>(10,287,603)</u>	<u>68,689,340</u>
Operating expenses:				
Rebate program:				
Rebates	63,750,000	54,799,544	8,950,456	58,259,413
Total rebate program	<u>63,750,000</u>	<u>54,799,544</u>	<u>8,950,456</u>	<u>58,259,413</u>
Promotion, Research, and Information program:				
Communications	4,669,090	4,560,663	108,427	4,729,025
Nutrition	3,163,624	2,681,472	482,152	2,520,286
Supply and demand information	887,417	879,737	7,680	832,458
Industry engagement	923,977	869,862	54,115	801,319
Sustainability	651,654	303,592	348,062	337,987
Total promotion, research, and information program	<u>10,295,762</u>	<u>9,295,326</u>	<u>1,000,436</u>	<u>9,221,075</u>
Other expenses:				
USDA oversight	237,600	149,189	88,411	167,292
Depreciation/amortization	-	168,548	(168,548)	10,880
Total other expenses	<u>237,600</u>	<u>317,737</u>	<u>(80,137)</u>	<u>178,172</u>
Administration:				
Administration expenses	1,597,588	1,436,972	160,616	1,114,299
Total administration	<u>1,597,588</u>	<u>1,436,972</u>	<u>160,616</u>	<u>1,114,299</u>
Total operating expenses	<u>75,880,950</u>	<u>65,849,579</u>	<u>10,031,371</u>	<u>68,772,959</u>
Net operating income (loss)	(880,950)	(1,137,182)	(256,232)	(83,619)
Non-operating revenues:				
Investment income	-	21,677	21,677	-
Total non-operating revenues	<u>-</u>	<u>21,677</u>	<u>21,677</u>	<u>-</u>
Operating income (loss)	(880,950)	(1,115,505)	(234,555)	(83,619)
Net position, at beginning of year	<u>3,418,693</u>	<u>3,418,693</u>	<u>-</u>	<u>3,502,312</u>
Net position, at the end of year	<u>\$ 2,537,743</u>	<u>2,303,188</u>	<u>(234,555)</u>	<u>3,418,693</u>

HASS AVOCADO BOARD
Schedule of Program Expenditures - Budget and Actual
Year ended December 31, 2022
(with comparative information for prior year)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2021
Communications				
Program management	\$ 898,590	\$ 910,367	\$ (11,777)	770,073
Creative content	244,500	267,535	(23,035)	384,820
Events	10,000	10,083	(83)	11,101
Online/website/social media	550,000	541,539	8,461	481,695
Nutrition and research promotion	2,226,000	2,134,841	91,159	2,673,000
Strategic partnerships	510,500	456,411	54,089	184,983
Strategy, issues radar and reporting	229,500	239,887	(10,387)	223,353
Total communications	<u>4,669,090</u>	<u>4,560,663</u>	<u>108,427</u>	<u>4,729,025</u>
Nutrition				
Program management	645,511	655,701	(10,190)	523,346
Science pipeline	2,339,408	1,835,559	503,849	1,734,194
Events	40,000	7,746	32,254	-
Strategy/issues radar and reporting	138,705	182,466	(43,761)	262,746
Total nutrition	<u>3,163,624</u>	<u>2,681,472</u>	<u>482,152</u>	<u>2,520,286</u>
Business support tools and information				
Program management	306,937	312,454	(5,517)	293,552
Communications	54,500	55,411	(911)	34,211
Data services	117,480	123,411	(5,931)	108,738
Avis	70,000	49,286	20,714	41,952
Track and monitor	108,000	114,724	(6,724)	89,772
Research and information	25,000	15,446	9,554	-
Consumer insights and tracking studies	205,500	209,005	(3,505)	264,233
Total business support tools and information	<u>887,417</u>	<u>879,737</u>	<u>7,680</u>	<u>832,458</u>
Industry engagement and leadership:				
Program management	533,977	525,208	8,769	453,140
Annual report	8,000	-	8,000	6,000
HAB promotional materials	8,000	7,918	82	5,516
Industry meetings and events	15,000	15,456	(456)	12,875
Industry website	32,000	40,275	(8,275)	135,492
Outreach	15,000	-	15,000	-
Communications	272,000	242,442	29,558	166,764
Board leadership development	40,000	38,563	1,437	21,532
Total industry engagement and leadership	<u>923,977</u>	<u>869,862</u>	<u>54,115</u>	<u>801,319</u>
Sustainability:				
Program management	176,654	195,592	(18,938)	169,987
Strategy	250,000	108,000	142,000	108,000
Research	225,000	-	225,000	60,000
Total sustainability	<u>651,654</u>	<u>303,592</u>	<u>348,062</u>	<u>337,987</u>
Total marketing/research/communications	<u>\$ 10,295,762</u>	<u>9,295,326</u>	<u>1,000,436</u>	<u>9,221,075</u>

HASS AVOCADO BOARD
Schedule of Administration Expenditures - Budget and Actual
Year ended December 31, 2022
(with comparative information for prior year)

	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual 2021
Other expenses:				
USDA oversight	\$ 237,600	149,189	88,411	167,292
Depreciation/amortization	-	168,548	(168,548)	10,880
Total other expenses	<u>\$ 237,600</u>	<u>317,737</u>	<u>(80,137)</u>	<u>178,172</u>
Administration expenses:				
Financial oversight - audit	50,000	34,576	15,424	28,993
Board travel/meetings/elections	247,500	212,203	35,297	38,411
Office related	306,216	199,342	106,874	260,859
Professional services and consulting	40,300	41,686	(1,386)	36,747
Legal services	40,000	31,507	8,493	37,260
Corporate insurance	62,000	58,709	3,291	51,579
Salaries/wages/benefits	773,572	781,409	(7,837)	591,754
Education/training/conferences/seminars	48,000	46,440	1,560	48,000
Corporate governance	30,000	31,100	(1,100)	20,696
Total administration expenses	<u>\$ 1,597,588</u>	<u>1,436,972</u>	<u>160,616</u>	<u>1,114,299</u>

HASS AVOCADO BOARD
Schedule of Cash Receipts and Disbursements
Year ended December 31, 2022
(with comparative information for prior year)

	<u>2022</u>	<u>2021</u>
Cash receipts:		
California assessments	\$ 6,337,308	5,863,284
Customs assessments	58,473,028	63,458,941
Interest income	21,677	-
Total cash receipts	<u>64,832,013</u>	<u>69,322,225</u>
Cash disbursements:		
Rebates	54,971,366	59,088,406
Communications	4,887,068	4,784,709
Nutrition	2,767,827	2,556,779
Business support tools and information	859,259	778,667
Industry engagement	838,593	821,594
Sustainability	303,592	351,041
USDA oversight	146,345	170,948
Administration	<u>1,042,266</u>	<u>1,084,625</u>
Total cash disbursements	<u>65,816,316</u>	<u>69,636,769</u>
Excess of receipts over disbursements	(984,303)	(314,544)
Cash and cash equivalents, at beginning of year	<u>3,200,728</u>	<u>3,515,272</u>
Cash and cash equivalents, at end of year	<u>\$ 2,216,425</u>	<u>3,200,728</u>

HASS AVOCADO BOARD
Schedule of Total Payroll Expenses
Year ended December 31, 2022
(with comparative information for prior year)

	<u>2022</u>	<u>2021</u>
Salaries and wages	\$ 2,552,835	2,107,104
Payroll taxes	148,015	121,837
Pension expenses	264,409	218,810
Benefits (health, life, dental and vision)	<u>312,516</u>	<u>273,997</u>
Total payroll expenses	<u>\$ 3,277,775</u>	<u>2,721,748</u>

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

Board of Directors
Hass Avocado Board
Mission Viejo, California

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 business-type activities of Hass Avocado Board (the "Board"), as of and for the year ended December 31, 2022, 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 13, 2023.

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) as a basis for designing 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 financial statements. 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 Lane" followed by a stylized flourish.

Irvine, California
March 13, 2023

**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**

Board of Directors
Hass Avocado Board
Mission Viejo, California

Independent Auditor's Report

Report on 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, 2022. 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, 2022.

- 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.

Report on 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 Hass Avocado Promotion, Research and Information Act of 2000 and Order 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 Hass Avocado Promotion, Research and Information Act of 2000 and Order 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 Hass Avocado Promotion, Research and Information Act of 2000 and Order that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

Irvine, California
March 13, 2023

Board of Directors
Hass Avocado Board
Mission Viejo, California

We have audited the financial statements of the Hass Avocado Board (Board) as of and for the year ended December 31, 2022 and have issued our report thereon dated March 13, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 13, 2021 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Board solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the *Code of Professional Conduct*.

We identified independence threats related to the preparation of the financial statements. We have applied certain safeguards to reduce the threats to an acceptable level, including using an independent party within the firm to perform a quality control review of the financial statements, and obtaining confirmation from the Board's management that their

review of the financial statements included comparing the financial statements and footnotes to the underlying accounting records.

Significant Risks Identified

We have identified the following significant risks:

Compliance with the Hass Avocado Promotion, Research and Information Act of 2000 and Order.

The implementation of Governmental Accounting Standards Board No. 87 – Leases due to the complexity of the standard and the being the first year of implementation. As a result, we compared the terms of the agreements to the information included in the calculation of the lease liability and right to use asset.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Board is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and the board changed the accounting policies related to leases by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 87, Leases, in the fiscal year ended December 31, 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on 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 markedly from management’s current judgments.

The most sensitive accounting estimate affecting the financial statements is Management’s estimate of the depreciation expense and accumulated depreciation is based on management’s determination of the asset’s useful life. We independently reviewed the fixed asset listing, including useful life and annual depreciation expense per each asset listed and considered it to be reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. We noted no disclosures made by management that we consider to be particularly sensitive.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We noted no transactions made by management that we consider to be unusual.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material misstatements noted as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Board's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated March 13, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Board, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material

misstatement. None of the matters discussed resulted in a condition to our retention as the Board's auditors.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the Board of Directors, the USDA and management of the 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" followed by a stylized flourish.

Irvine, California
March 13, 2023