

***PERUVIAN AVOCADO COMMISSION
FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH INDEPENDENT AUDITORS' REPORT***



An Independent CPA Firm

PERUVIAN AVOCADO COMMISSION
DECEMBER 31, 2017

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
Independent Auditors' Report.....	1
Basic Financial Statements:	
Statement of Assets, Liabilities, and Net Assets	3
Statement of Operating Revenues, Support, Expenses and Changes in Net Assets	4
Statement of Cash Receipts and Disbursements.....	5
Notes to Financial Statements	6
Supplementary Schedules:	
Supplementary Schedule of Operating Revenues, Support, and Expenses- Budget to Actual	11
Supplementary Schedule – Trial Balance – Budget to Actual	12
Supplementary Schedule – Property and Equipment	13
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14
Schedule of Findings and Questioned Costs.....	17
Schedule of Prior Year Audit Findings.....	18



An Independent CPA Firm

To the Board of Directors of
Peruvian Avocado Commission

Independent Auditors' Report

Report on Financial Statements

We have audited the accompanying financial statements of the Peruvian Avocado Commission (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets-modified cash basis as of December 31, 2017, and the related statements of operating revenues, support, expenses and changes in net assets- modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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 of 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 entity'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 entity'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 assets, liabilities, and net assets of the Peruvian Avocado Commission as of December 31, 2017, and the changes in its operating revenues and support, expenses, and changes in net assets for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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, 2018 on our consideration of Peruvian Avocado Commission'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 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 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 Peruvian Avocado Commission's internal control over financial reporting and compliance.

Gruber and Associates, Inc.

Gruber and Associates, Inc.

Newport Beach, CA

March 13, 2018

PERUVIAN AVOCADO COMMISSION

**STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS-
MODIFIED CASH BASIS**

December 31, 2017

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,105,293
	<u>2,105,293</u>
Total current assets	<u>2,105,293</u>
TOTAL ASSETS	<u><u>\$ 2,105,293</u></u>
LIABILITIES AND NET ASSETS	
TOTAL LIABILITIES	<u>\$ -</u>
NET ASSETS	
Unrestricted	185,864
Restricted (Note 6)	1,919,429
	<u>2,105,293</u>
TOTAL NET ASSETS	<u>2,105,293</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,105,293</u></u>

See accompanying notes to financial statements and independent auditors' report.

PERUVIAN AVOCADO COMMISSION

**STATEMENT OF OPERATING REVENUE, SUPPORT, EXPENSES
AND CHANGES IN NET ASSETS-MODIFIED CASH BASIS**

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE AND OTHER SUPPORT:			
Assessments from HAB (Note 6)	\$ -	2,949,267	2,949,267
Membership dues	109,500	-	109,500
Interest income	-	423	423
TOTAL OPERATING REVENUE AND OTHER SUPPORT	109,500	2,949,690	3,059,190
NET ASSETS RELEASED FROM RESTRICTIONS (Note 6)	1,897,050	(1,897,050)	-
TOTAL REVENUES	2,006,550	1,052,640	3,059,190
EXPENSES:			
Program services:			
New media	233,954	-	233,954
Outdoor media	56,000	-	56,000
Traditional media	403,339	-	403,339
Retail trade expenses	707,475	-	707,475
Trade advertising and events	105,827	-	105,827
Public relation campaigns	129,315	-	129,315
Strategic planning travel	42,464	-	42,464
Strategic planning meetings	18,942	-	18,942
Professional services	180,000	-	180,000
AMS user fees	19,734	-	19,734
Total program services	1,897,050	-	1,897,050
Support services:			
Accounting fees	22,980	-	22,980
Auditing fees	5,950	-	5,950
Bank service charges	1,606	-	1,606
Insurance	2,370	-	2,370
Office expenses	12,385	-	12,385
Other expenses	36,428	-	36,428
Total support services	81,719	-	81,719
TOTAL EXPENSES	1,978,769	-	1,978,769
CHANGE IN NET ASSETS	27,781	1,052,640	1,080,421
NET ASSETS - BEGINNING OF PERIOD	158,083	866,789	1,024,872
NET ASSETS - END OF PERIOD	\$ 185,864	\$ 1,919,429	\$ 2,105,293

See accompanying notes to financial statements and independent auditors' report.

PERUVIAN AVOCADO COMMISSION

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ 27,781
Change in temporarily restricted net assets	<u>1,052,640</u>
Total change in net assets	<u>1,080,421</u>
Adjustments to reconcile change in net assets to net cash provided by/ (used for) operating activities:	
Depreciation	-
Changes in other assets and liabilities	<u>-</u>
Total adjustments	<u>-</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>1,080,421</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,080,421
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>1,024,872</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 2,105,293</u></u>

See accompanying notes to financial statements and independent auditors' report.

PERUVIAN AVOCADO COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF BUSINESS

The significant accounting policies of the Peruvian Avocado Commission (PAC) are presented to assist in the understanding of PAC's financial statements. The financial statements and notes are representations of PAC's management, who is responsible for the integrity and objectivity of the financial statements.

Organization

PAC, a not for profit voluntary membership organization, was incorporated in July 2010 in Washington, D.C.

PAC receives 85% of the assessments collected by the Hass Avocado Board (HAB) on hass avocados imported from Peru by PAC members. Such funds are to be used for promotion, research and consumer information purposes set forth in the provisions of the federal Hass Avocado Promotion, Research, and Information Act of 2000 (7 U.S.C. §7801) and the related federal Hass Avocado Promotion Order (7 CFR Part 1219) (Order).

The Commission has three classes of members: Members of Class A shall be exporters of avocados from Peru who shall be members of the National Hass Avocado Association of Peru (ProHASS). Members of Class B shall be importers of avocados from Peru. Members of Class C shall be producers of avocados from Peru who shall be members of ProHASS.

Pursuant to section 1205 (h) (9) (B) of the Act, and upon completion of all implementation procedures by USDA, all importers of Peruvian HASS avocados are members of the commission, provided that such importers have the right to opt out of such membership by notifying the commission and Hass Avocado Board in writing. The term importer shall carry the same meaning as provided in section 1219.14 of the Order as it pertains to HASS avocados from Peru. On matters directly affecting the interests of the members of the Commission, each member shall be entitled to one vote. If any member is an organization, it shall be entitled to one vote exercised by through one of its representatives. The Commission shall establish and maintain a registry list of members of each class and make available such list to USDA upon request.

Basis of Accounting

PAC's financial statements have been prepared on the cash basis of accounting modified for long-lived assets, and accumulated depreciation which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Currently, PAC did not have any long-lived assets as of December 31, 2017.

PERUVIAN AVOCADO COMMISSION

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF BUSINESS – (Continued)

Basis of Accounting (Continued)

This basis differs from accounting principles generally accepted in the United States of America primarily because revenue and expenses are recognized when received and paid rather than when earned and incurred, respectively. Hence, PAC has not recognized accounts receivable and accounts payable, and their related effect on revenues and expenses.

Cash and Cash Equivalents

PAC considers all unrestricted short-term investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consisted of collateralized and FDIC insured deposits with a financial institution of \$2,105,293 at December 31, 2017. The holdings comply with the authorized investment options acceptable under U.S.D.A.'s provisions and guidelines (Note 2).

Financial Statement Presentation

In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 958 Not-For Profit Entities*, PAC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. PAC had no permanently restricted net assets for the year ended December 31, 2017.

Sources of Revenues and Revenue Recognition

In accordance with *ASC 958-605*, all revenues, gains, and other support are categorized as unrestricted or temporarily restricted funds, depending on the designation of the payor. All of the assessments received from HAB, and the related interest income, are specifically restricted for promotion, research, and consumer information relating to Hass avocados.

Producers and importers of Hass avocados pay an assessment to HAB 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 rate of assessment was mandated at 2.5 cents per pound on fresh Hass avocados produced and handled in the United States and on fresh Hass avocados imported into the United States. PAC is eligible to receive an amount of assessment funds equal to 85% of the assessments paid to HAB on Hass avocados imported from Peru. Funds received must be used to finance promotion, research, consumer and/or industry information programs, plans or projects in the U.S.

PERUVIAN AVOCADO COMMISSION

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF BUSINESS – (Continued)

Other Support

PAC also receives dues from its members which are unrestricted and are used to pay for support services expenses incurred. As of December 31, 2017, there were no unpaid membership dues owed to PAC.

Budgetary Practices

The budget is prepared on the cash basis of accounting. Management prepares and submits a proposed budget to the Board of Directors (Board) for approval. After reviewing the budget, the Board shall further consider the proposed budget and make any revisions it may deem necessary. The budget is then legally enacted by means of a budget resolution passed by the Board and approved by the U.S. Department of Agriculture – Agricultural Marketing Services (AMS). Upon final adoption, the budget shall be in effect for the ensuing reporting period.

Salaries and Benefits

PAC contracts out for administrative and marketing expenses and, accordingly, had no employees for the year ended December 31, 2017.

Fair Value of Financial Instruments

The Organization's financial instruments, including cash and cash equivalents, are carried at cost, which approximates fair value because of the short-term nature of these instruments.

Income Taxes

PAC is exempt from federal income tax under Internal Revenue Code Section 501(c)(6) and the District of Columbia Nonprofit Corporation Act. Since PAC is considered a instrumentality of the USDA it is not required to file any state information returns. PAC's Federal Tax Form 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Management 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PERUVIAN AVOCADO COMMISSION

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

NOTE 2 – INVESTMENTS

Under provision of the United States Department of Agriculture (U.S.D.A.) Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotions Programs investment policy, adopted by the Board, authorized investments include the following: U.S. government securities and other obligations; California state and local government securities; commercial paper; bankers' acceptances; non-negotiable certificates of deposit; Money market funds (broker accounts); bonds, debentures, and notes issued by corporations organized and operating within the United States. Such securities shall be within the top three ratings of a nationally recognized rating service. As of December 31, 2017, PAC only held deposits and did not carry any investments.

NOTE 3 – MARKETING AND PROMOTION CONTRACT EXPENSES

PAC's marketing, promotion, and consumer information programs were carried out pursuant to contracts with various vendors. Expenses incurred for services provided by these vendors for the year ended December 31, 2017 were as follows:

<u>Vendor</u>	<u>Expense</u>	<u>%</u>
Evans, Hardy, and Young	\$ 734,441	39%
Federal Strategies Group	380,750	20%
Advantage Solutions LLC	314,183	17%
Other promotion program expenses	<u>467,676</u>	<u>24%</u>
Total program services	\$ <u>1,897,050</u>	<u>100%</u>

NOTE 4 – COMMITMENTS AND CONTINGENCIES

U.S.D.A Agricultural Marketing Services (AMS)

AMS charges PAC fees for administration. During the year ended December 31, 2017, PAC paid AMS approximately \$19,734. Fees may be changed periodically by AMS and will continue as long as assessment revenues are received from HAB.

Other Commitments:

In January 2018, PAC entered into a contract with Federal Strategies Group and Model B in the amount of \$312,000, and \$90,000 respectively, to provide media merchandising, and promotional, marketing and other oversight services in 2018. PAC is also the process of entering into a contract with Evans, Hardy & Young to provide marketing and promotion services for the subsequent year. Although the contract is not yet finalized as of the date of this report, the total commitment pertaining to this contract is expected to be approximately \$1 million for the year ending December 31, 2018.

PERUVIAN AVOCADO COMMISSION

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

NOTE 4 – COMMITMENTS AND CONTINGENCIES (Continued)

Other Commitments (Continued):

PAC is subject to other legal proceedings, claims, and assessments that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect PAC's financial position, changes in net assets and cash flows.

NOTE 5 – COMPLIANCE WITH LAWS AND REGULATIONS

By accepting assessments from HAB, PAC is required to comply with certain laws and regulations provided for 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 (U.S.D.A.) and as interpreted in the *Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotion Programs*, issued by the U.S.D.A. Management believes that it has complied with such laws and regulations.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

During the year ended December 31, 2017, \$1,897,050 of temporarily restricted net assets, were released to unrestricted net assets as a result of the satisfaction of imposed restrictions and there were no permanently restricted net assets.

	Temporarily Restricted Net Assets- Beginning of Year	Temporarily Restricted Revenues	Released From Restriction	Temporarily Restricted Net Assets- End of Year
Restricted for:				
Marketing and promotion	\$ 866,789	2,949,690	(1,897,050)	1,919,429

NOTE 7 – CONCENTRATION

Assessments received from imports of Peruvian Hass avocados collected by Customs and Border Protection (CBP) and paid by HAB represent 96% of PAC's revenues. If the Hass Avocado Promotion, Research, and Information Act of 2000 (7 U.S.C. §7801) and the related federal Hass Avocado Promotion Order (7 CFR Part 1219) (Order) were to change and assessments paid to PAC were to be significantly reduced, such changes could have an adverse material impact on PAC. Management is not aware of any changes in assessment policies.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 13, 2018, the date the financial statements were available to be issued.

SUPPLEMENTARY SCHEDULES

PERUVIAN AVOCADO COMMISSION

**SCHEDULE OF OPERATING REVENUE, SUPPORT , EXPENSES
AND CHANGES IN NET ASSETS (BUDGET vs. ACTUAL)-MODIFIED CASH BASIS**

For the Year Ended December 31, 2017

	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative) (Unaudited)
UNRESTRICTED NET ASSETS			
OPERATING REVENUE AND OTHER SUPPORT			
Assessments from HAB	\$ 2,125,000	2,949,267	824,267
Membership dues	110,500	109,500	(1,000)
Interest income	220	423	203
TOTAL UNRESTRICTED OPERATING REVENUE AND OTHER SUPPORT	<u>2,235,720</u>	<u>3,059,190</u>	<u>823,470</u>
EXPENSES			
Program services:			
Public relations	200,000	129,315	70,685
New media	200,000	233,954	(33,954)
Traditional media	600,000	403,339	196,661
Outdoor media	50,000	56,000	(6,000)
Trade advertising and events	160,000	105,827	54,173
Retail trade expenses	600,000	707,475	(107,475)
Strategic planning travel	80,000	42,464	37,536
Strategic planning meetings	25,000	18,942	6,058
Professional services	180,000	180,000	-
AMS user fees	20,000	19,734	266
Total program services	<u>2,115,000</u>	<u>1,897,050</u>	<u>217,950</u>
Support services:			
Accounting fees	22,000	22,980	(980)
Auditing fees	5,700	5,950	(250)
Bank service charges	1,700	1,606	94
Insurance	2,500	2,370	130
Office expenses	12,000	12,385	(385)
Other expenses	40,000	36,428	3,572
Total support services	<u>83,900</u>	<u>81,719</u>	<u>2,181</u>
TOTAL EXPENSES	<u>2,198,900</u>	<u>1,978,769</u>	<u>220,131</u>
CHANGE IN NET ASSETS	36,820	1,080,421	1,043,601
NET ASSETS - BEGINNING OF PERIOD	<u>1,024,872</u>	<u>1,024,872</u>	<u>-</u>
NET ASSETS - END OF PERIOD	<u>\$ 1,061,692</u>	<u>\$ 2,105,293</u>	<u>\$ 1,043,601</u>

PERUVIAN AVOCADO COMMISSION

TRIAL BALANCE - BUDGET TO ACTUAL

For the Year Ended December 31, 2017

	Jan - Dec 17	Budget	\$ Over Budget	% of Budget
Income				
103 - Interest Income	422.78	220.00	202.78	192.17%
101 - Assessment Revenue	2,949,267.33	2,125,000.00	824,267.33	138.79%
102 - Membership Dues	109,500.00	110,500.00	-1,000.00	99.1%
Total Income	3,059,190.11	2,235,720.00	823,470.11	136.83%
Gross Profit	3,059,190.11	2,235,720.00	823,470.11	136.83%
Expense				
Promotional Expenses				
211 - Retail Trade Expenses	707,474.95	600,000.00	107,474.95	117.91%
201 - Public Relations	129,314.71	200,000.00	-70,685.29	64.66%
202 - New Media	233,953.80	200,000.00	33,953.80	116.98%
203 - Traditional Media	403,339.12	600,000.00	-196,660.88	67.22%
204 - Outdoor Media	56,000.00	50,000.00	6,000.00	112.0%
205 - Trade Advertising	105,827.00	160,000.00	-54,173.00	66.14%
206 - Strategic Planning Travel	42,464.28	80,000.00	-37,535.72	53.08%
207 - Strategic Planning Meetings	18,942.47	25,000.00	-6,057.53	75.77%
208 - Professional Services	180,000.00	180,000.00	0.00	100.0%
209 - AMS User Fees	19,733.66	20,000.00	-266.34	98.67%
Total Promotional Expenses	1,897,049.99	2,115,000.00	-217,950.01	89.7%
Administrative Expenses				
301 - Accounting	22,980.00	22,000.00	980.00	104.46%
302 - Auditing	5,950.00	5,700.00	250.00	104.39%
304 - Bank Fees	1,605.67	1,700.00	-94.33	94.45%
306 - Insurance	2,370.00	2,500.00	-130.00	94.8%
307 - Office Expenses	12,385.00	12,000.00	385.00	103.21%
308 - Other Expenses	36,428.39	40,000.00	-3,571.61	91.07%
Total Administrative Expenses	81,719.06	83,900.00	-2,180.94	97.4%
Total Expense	1,978,769.05	2,198,900.00	-220,130.95	89.99%
Net Income	1,080,421.06	36,820.00	1,043,601.06	2,934.33%

PERUVIAN AVOCADO COMMISSION

**SUPPLEMENTARY SCHEDULE OF
PROPERTY AND EQUIPMENT**

December 31, 2017

PAC has no property and equipment as of December 31, 2017.

Independent Auditors' 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*

To the Board of Directors of
Peruvian Avocado Commission

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 Peruvian Avocado Commission (PAC), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise PAC's basic financial statements, and have issued our report thereon dated March 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAC'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 PAC's internal control. Accordingly, we do not express an opinion on the effectiveness of PAC'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 PAC'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. 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 and the Hass Avocado Promotion, Research, and Information Act of 2000 (7 U.S.C. §7801)*, issued by the United States Department of Agriculture (U.S.D.A.) and as interpreted in the *Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotion Programs (AMS Guidelines)*, issued by the U.S.D.A., including whether the Peruvian Avocado Commission: (1) has complied with applicable laws and regulations and the provisions of the Order and AMS Guidelines; (2) 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; (3) Expended assessment funds for purposes authorized by the Hass Avocado Promotion, Research and Consumer Information Act and Order; (4) 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; (5) Funds were used only for projects and other expenses in a budget approved by the USDA; (6) Obtained a written contact or agreement with any person or entity providing goods or services to the Board; (7) Complied with the Agriculture Marketing Service (AMS) investment policy as interpreted by Direction 2210.2; and (8) 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 and attendance and travel. 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 were required to be reported under *Government Auditing Standards*.

To the Board of Directors of
Peruvian Avocado Commission
Page Three

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.

Gruber and Associates, Inc.

Gruber and Associates, Inc.

Newport Beach, CA
March 13, 2018

PERUVIAN AVOCADO COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

There were no significant findings or questioned costs during the fiscal year December 31, 2017.

PERUVIAN AVOCADO COMMISSION
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2017

There were no significant findings or questioned costs during the prior fiscal year December 31, 2016.