

# American Hereford Association

*Annual Report*  
**2003-04**







# Executive Summary

by Craig Huffhines, AHA Executive Vice President

## Industry dynamics

Fiscal year 2003-04 marked an incredible economic boom to the cow-calf sector as feeder calves, live cattle, wholesale and retail beef prices set national records. This amazing price upswing, driven by short slaughter cattle supplies and growing beef demand in the top side of the beef cycle, has trickled to the seedstock sector, creating interesting dynamics for Hereford bull demand, replacement female demand, as well as demand for older registered Hereford cows. It is interesting to note that the incredible prices paid for beef came prior to, during and after, one of the scariest times in the U.S. Beef Industry, when on Dec. 23, 2003, the USDA announced the discovery of a dairy cow in the state of Washington infected with Bovine Spongiform Encephalopathy (also known as BSE or "Mad-cow disease"). The ramification of the finding caused an immediate trace-back of origin of the cow to a Canadian dairy operation that triggered the closing of the Canadian border, preventing the influx of Canadian cattle into the United States. Additionally, the majority of U.S. export trade partners slammed the door on U.S. beef and beef by-products, preventing hundreds of millions of dollars of trade volume from moving into those markets.

Ironically, timing for this near catastrophic event could not have been better for the United States, as short cattle and beef supplies offset the trade deficit. Consequently, the industry saw higher heifer marketing in the feedlot, cow-calf operators sold off their older, lower producing cows and bull batteries were culled down as the cull bull and cow market reported record prices going into the ground beef trade.

These dynamics, in conjunction with increased commercial demand for Hereford cattle, have played a significant role in the effect on Hereford business this year. Yes, registrations of younger aged animals were down slightly as breeders took advantage of the tremendous calf market this year. However, registration revenue was actually up this year as breeders began to register their unregistered, older aged females at the higher registration rate. This trend, coupled with the record high production sale averages this year, reflect a growing level of enthusiasm for the Hereford breed and its place in the industry.

## AHA financial success

Combined, all three revenue generating business entities of the American Hereford Association (AHA) including the Association, Hereford Publications, Inc., and Certified Hereford Beef, LLC, reported a net profit of more than \$9,500. Total business revenue for the three entities topped \$4.5 million. The consolidated entities generated a positive cash flow throughout the year allowing for the increase in the AHA investment fund of more than \$112,000.

The financial trend of the AHA reflects a very stable and strong organization with a net worth of \$4,191,163. Furthermore, the outlook of AHA's most valuable asset, the AHA headquarters building, is most certainly appreciating in value as the city government of Kansas City has worked diligently to revitalize downtown Kansas City. There are plans for a convention center expansion, a new performing arts center, a new downtown arena and an up-and-coming entertainment district, all surrounding the AHA headquarters. The question is, will AHA be allowed to remain in its current headquarter location as the city aggressively expands downtown amenities. The AHA board will most certainly be dealing with this issue in the coming months.

## AHA registration and cow herd enrollment trend

While registration revenue was up 3 percent from a year ago, registration numbers dropped slightly (2.8 percent) in fiscal year 2003-2004 to 68,826 head, reflecting the selling off of high-dollar feeder calves and the registering of older over-aged females. However, this slight down turn in Hereford registration numbers was offset by an increase in cows enrolled (109,531 head) into the Whole Herd Total Performance Records (TPR) inventory. The four-year average cow herd enrollment has been approximately 108,000. The stable cow herd enrollment trend during a liquidation phase of the industry is an encouraging fact that indicates Hereford breeders are ready to take advantage of the ongoing market share swing for Hereford genetics as commercial cow-calf operators begin to expand their herds.

## Certified Hereford Beef® growth

Another banner year was reported for Certified Hereford Beef, LLC. The packing and marketing agreement struck with National Beef toward the end of last fiscal year, materialized into a dynamic relationship, driving demand on even more Hereford influenced cattle and beef. CHB reported the movement of 39.5 million lbs. of product, up 18 percent from last year. Cattle numbers

certified through the program broke the 200,000 head mark for the year. While growing the beef business, CHB staff reorganized their customer service team, added a communication specialist, aligned with a mail-order beef company, test marketed value-added pre-cooked products and added several other stores to the growing user list.

## New technology explosion

It seems that every year there is something new in the area of technology, particularly electronic technology, that AHA is adopting. This year was no exception. The AHA rolled out its new on-line registry and data submission program around the beginning of 2004. In just four months, the AHA records department reported that upward of 15 percent of the registrations and records department work was coming in on-line reducing labor time in the office. This new technology reduced overtime by nearly \$30,000 and enhanced turn around time from a couple of weeks to just two to three days during the peak months.

The on-line registry system, along with the growing applications of the AHA Web site, are generating more and more opportunities to streamline workflow and generate new affordable advertising venues to compliment the *Hereford World* magazine.

## Bright future, committed breeders, committed staff

The Hereford breed and the AHA have enjoyed a great deal of progress in the marketplace and within the Association. Much of the success of the breed is directly attributed to you, the breeders and the commitment you have made to the commercial industry and your customers. The AHA's strong commitment to performance testing and breed improvement, beef marketing, customer service and new technology has positioned the breed as leaders in the beef industry. The industry needs AHA leadership more than ever with the new challenges before us such as traceability, DNA marker technology, global evaluation, alliance building and growing the Hereford brand. Being the leader in these areas will continue to enhance the Hereford breed's position in the years to come. **HW**



# Leadership Moves AHA Forward in 2004



## 2003-2004 American Hereford Association Board of Directors:

*Back row from left: Wayne Mrnak, Bowman, N.D.; Jack Evans, Winona, Miss.; Steve Folkman, Ixonia, Wis.; Jack Holden, Valier, Mont.; John Loewen, Waukomis, Okla.; LaVette Teeter, Mooresville, N.C.; Leon Langford, Texico, N.M.; and Dale Spencer, Brewster, Neb. Front row from left: Past National Cattlemen's Beef Association President, Eric Davis, Bruneau, Idaho; AHA's Executive Vice President, Craig Huffhines; Richard Hudson, Harrison, Ark.; Bruce Orvis, Farmington, Calif.; AHA Chairman, Dale Venhuizen, Manhattan, Mont.; and Bob Call, Cushing, Okla.*

## Top 10 States in Registrations

- |                 |             |
|-----------------|-------------|
| 1. Texas        | 6. Montana  |
| 2. Nebraska     | 7. Missouri |
| 3. Kansas       | 8. Illinois |
| 4. Oklahoma     | 9. Georgia  |
| 5. South Dakota | 10. Idaho   |

## Top 10 Hereford Breeders

1. Upstream Ranch, Taylor, Neb.....	711
2. Rausch Herefords, Hoven, S.D. ....	596
3. W.T. Bennett, Connell, Wash. ....	455
4. K&B Herefords, Onida, S.D. ....	448
5. Jamison Herefords, Quinter, Kan. ....	402
6. Eulert Ranch, Paradise, Kan. ....	400
7. Langford Herefords, Okmulgee, Okla. ....	384
8. Star Lake Cattle Ranch, Skiatook, Okla. ....	380
9. Dudley Bros., Comanche, Texas ....	374
10. Ochs Bros, Springer, N.M. ....	352

## Certified Hereford Beef LLC Fiscal Year 2004 Results

Certified Hereford Beef LLC enjoyed its third consecutive fiscal year of double-digit growth with 17 percent. The program's 5.5 million pound increase in sales has led to a total of 38 million pounds of beef sold in 2004. Since FY 2000, CHB LLC sales tonnage has climbed at an annual rate of 36 percent as the retail customer base for CHB products expanded to 376 stores locations in 26 states. Foodservice sales, while still just less than 4 percent of

overall program volume, grew 18 percent as Restaurant Depot, a 40-unit chain of foodservice wholesale clubs, added a line of Certified Hereford Beef products in April.

National Beef's Liberal, Kan. plant is now the leading supplier of Certified Hereford Beef carcasses. National Beef weekly average certifications grew 33 percent from an average of 2,710 carcasses per week at the start of the year to 3,614 carcasses per week in

August. As a whole, the program's carcass certification grew by 57 percent in 2004 to 215,061 carcasses with a certification rate of 67 percent.

The program expanded into several value-added product categories. A deli program, frozen patty line and pre-cooked prime rib product were all introduced during the year.

# 2003-2004 Registrations, Transfers and Memberships

State	Registrations	Transfers	Total Members	Active Members <sup>o</sup>	Junior Members <sup>o</sup>	Registration Rank
AK	0	0	3	0	0	49
AL	971	779	145	41	26	25
AR	892	376	177	65	49	26
AZ	271	71	47	12	1	39
CA	1,838	667	393	139	101	12
CO	1,198	358	215	74	15	21
CT	67	63	51	15	22	45
DE	37	36	7	4	2	47
FL	181	84	95	21	9	40
GA	2,238	1,650	230	99	67	9
HI	0	0	2	0	0	50
IA	1,114	407	206	77	69	23
ID	2,168	599	223	73	30	10
IL	2,283	1,003	445	188	188	8
IN	1,396	943	351	154	151	18
KS	4,466	1,428	396	145	71	3
KY	1,240	596	259	88	33	20
LA	405	450	157	49	45	35
MA	125	123	41	11	2	41
MD	289	182	93	40	51	37
ME	66	33	56	12	8	46
MI	691	569	208	78	54	31
MN	1,189	1,265	217	97	34	22
MO	2,975	1,922	480	182	101	7
MS	797	698	145	48	49	29
MT	3,170	918	240	75	24	6
NC	802	406	193	83	28	28
ND	1,468	678	182	59	16	16
NE	4,595	1,321	317	143	62	2
NH	79	32	24	12	6	44
NJ	99	47	42	18	7	43
NM	1,257	348	102	30	11	19
NV	278	45	40	12	7	38
NY	425	164	166	68	34	34
OH	1,014	701	335	134	69	24
OK	4,054	2,133	541	163	108	4
OR	1,609	552	342	105	41	14
PA	560	338	209	71	52	32
RI	17	6	7	1	1	48
SC	459	316	70	32	18	33
SD	3,727	772	215	82	40	5
TN	1,851	1,313	388	118	69	11
TX	9,796	5,517	1,230	448	217	1
UT	832	105	95	29	0	27
VA	731	380	178	71	40	30
VT	108	71	30	9	6	42
WA	1,584	548	298	97	58	15
WI	1,419	861	306	144	75	17
WV	367	272	130	53	7	36
WY	1,626	334	117	41	17	13
International	2	2	35	2	1	
<b>Total</b>	<b>68,826</b>	<b>32,482</b>	<b>10,474</b>	<b>3,812</b>	<b>2,192</b>	

<sup>o</sup> Reflects every membership known, does not account for potential duplicate memberships



**AMERICAN HEREFORD ASSOCIATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, AUGUST 31, 2004 AND 2003**  
**ASSETS**

	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents .....	\$360,180	\$314,950
Short term investments .....	355,438	301,844
Accounts receivable, net of allowance .....	476,325	486,695
Accounts receivable—other .....	21,878	16,616
Prepaid expenses .....	3,383	11,008
Inventories .....	41,338	33,736
Total current assets .....	1,258,542	1,164,849
<b>INVESTMENTS</b> .....		
	1,112,558	1,198,465
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land .....	462,122	462,122
Building .....	2,217,630	2,216,015
Furniture and fixtures .....	315,919	308,261
Autos .....	219,886	227,771
Data processing equipment .....	272,588	242,605
Software .....	181,254	145,344
Total property, plant and equipment .....	3,669,399	3,602,118
Accumulated depreciation .....	(1,263,606)	( 1,109,238)
Net property, plant and equipment .....	2,405,793	2,492,880
<b>OTHER ASSETS</b> .....		
	448	222
<b>TOTAL ASSETS</b> .....	\$4,777,341	\$4,856,416

**LIABILITIES AND NET ASSETS**

	<b>2004</b>	<b>2003</b>
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt .....	\$6,640	\$52,933
Prepayments from breeders .....	120,511	109,810
Accounts payable .....	125,147	98,150
Accrued expenses .....	132,234	146,288
Deferred subscription and advertising revenue .....	179,037	163,598
Total current liabilities .....	563,569	570,779
<b>LONG-TERM DEBT</b> .....		
	10,577	92,077
<b>OTHER LIABILITIES</b>		
Customer deposits .....	12,032	12,032
<b>NET ASSETS</b>		
Temporarily restricted net assets .....	22,500	—
Unrestricted net assets .....	4,168, 663	4,181,528
Total Net Assets .....	4,191,163	4,181,528
<b>TOTAL LIABILITIES AND NET ASSETS</b> .....	\$4,777,341	\$4,856,416

**CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS REVENUES AND SUPPORT</b>		
Services .....	\$1,928,258	\$2,046,031
Advertising and subscriptions .....	1,229,582	1,169,772
Program revenues .....	898,228	706,888
Other .....	484,905	444,123
Net assets released from restrictions .....	2,500	—
Total revenues .....	\$4,543,473	\$4,366,814
<b>EXPENSES</b>		
General and administrative .....	\$1,390,108	\$1,393,556
Board of directors' expense .....	44,104	34,499
Building expense .....	140,365	145,949
Market development and information .....	476,653	377,093
Junior activities .....	183,470	150,622
Research and TPR activities .....	177,623	75,527
Program expenses .....	910,787	664,905
Advertising and subscriptions .....	1,051,297	1,143,158
Total expenses .....	4,374,407	3,985,309

See accompanying notes to consolidated financial statements.

	<u>2004</u>	<u>2003</u>
<b>REVENUES OVER EXPENSES BEFORE DEPRECIATION AND OTHER INCOME (EXPENSE)</b> .....	169,066	381,505
<b>DEPRECIATION EXPENSE</b> .....	182,271	166,501
<b>OTHER INCOME (EXPENSES)</b>		
Realized gain (loss) on sale of securities .....	(7,608)	2,572
Net appreciation (depreciation) in fair value of investments .....	4,675	(24,033)
Other income (expenses) .....	1,189	12,184
Gain on sale of property and equipment .....	2,084	1,842
Total other income (expenses) .....	340	(7,435)
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b> .....	(12,865)	207,509
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions .....	25,000	—
Net assets released from restrictions .....	(2,500)	—
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b> .....	22,500	—
<b>INCREASE IN NET ASSETS</b> .....	9,635	207,569
<b>NET ASSETS (DEFICIENCY IN ASSETS) AT BEGINNING OF YEAR</b> .....	4,181,528	3,973,959
<b>NET ASSETS (DEFICIENCY IN ASSETS) AT END OF YEAR</b> .....	\$4,191,163	\$4,181,528

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets .....	\$9,635	\$207,569
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense .....	182,271	166,501
Realized gain (loss) on sale of securities .....	7,608	(2,572)
Net appreciation (depreciation) in fair value of investments .....	(4,675)	24,033
Gain on sale of property and equipment .....	(2,084)	(1,842)
(Increase) decrease in assets:		
Accounts receivable .....	10,370	19,234
Accounts receivable — other .....	(5,262)	9,018
Prepaid expenses .....	7,626	94,523
Inventories .....	(7,602)	(10,403)
Other assets .....	(226)	3,780
Increase (decrease) in liabilities:		
Prepayments from breeders .....	10,701	(6,692)
Accounts payable .....	26,997	(39,603)
Accrued expenses .....	(14,053)	(25,615)
Deferred subscription and advertising revenue .....	15,437	6,459
Customer deposits .....	—	2,141
Net cash provided by (used for) operating activities .....	\$236,743	\$446,531
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment .....	(75,167)	(80,799)
Proceeds from sale of property, plant, and equipment .....	18,351	21,600
Purchase of investments .....	(524,561)	(942,774)
Proceeds from sale and maturity of investments .....	553,941	729,023
Net cash flows provided by (used for) investing activities .....	(27,436)	(272,950)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt .....	(164,077)	(98,079)
Net cash used in financing activities .....	(164,077)	(98,079)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> .....	45,230	75,502
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> .....	314,950	239,448
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b> .....	\$360,180	\$314,950

See accompanying notes to consolidated financial statements.

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS AUGUST 31, 2004 AND 2003**  
**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** The American Hereford Association (Association) conducts research and experiments in the breeding of Hereford cattle, compiles and preserves pedigree records for owners and breeders, participates and promotes the arrangement of fairs, exhibitions, and cattle shows to encourage the breeding of Hereford cattle, and assists with the promotion of the end product produced from Hereford cattle.

Members and subscribers of the Association, Hereford Publication, Inc. (HPI) and American Beef Records Association (ABRA) are primarily owners and breeders of Hereford cattle. The members and subscribers are located world-wide, however the largest concentration is within the United States. HPI provides publication services to Hereford cattle ranches and publishes a monthly magazine.

ABRA is established to provide computer consultation in herd planning and management, breeding services and marketing for commercial livestock.

**Certified Hereford Beef® , L.L.C.** The Association is the sole member of Certified Hereford Beef® , L.L.C. (CHB). CHB strives to increase demand for Hereford cattle by promoting Hereford beef as a premium beef product under the Certified Hereford Beef® trademark. CHB was formed as a limited liability company on September 1, 2001. Prior to that date, CHB's activities were performed and accounted for within the Association.

**Basis of Consolidation** The consolidating financial statements include the Association and its wholly owned subsidiaries, Hereford Publications, Inc. (HPI), Certified Hereford Beef® , L.L.C. (CHB) and American Beef Records Association (ABRA). All material intercompany transactions have been eliminated in the consolidation.

**Management Estimates** Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Basis of Financial Statement Presentation** The Association reports information regarding its financial position and activities according to three classes of net assets. Net assets are reported as follows:

- Unrestricted net assets, which are funds available for any purpose.
- Temporarily restricted net assets represent contributions whose use by the Association is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. When a stipulated restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets - At August 31, 2004 and 2003 the organization had no permanently restricted net assets

**Accounts Receivable** Accounts receivable consist of amounts billed for magazine advertising, subscriptions and member services, but not received by year-end. Bad debts are provided on the allowance method based on management's evaluation of outstanding accounts receivable at the end of each year. HPI's policy states that accounts with outstanding balances beyond 60 days will accrue interest at 1.5% per month, balances beyond 90 days will no longer be provided with services and balances beyond 120 days will be turned over to a collection agency. The allowance for doubtful accounts was \$26,861 and \$26,477 as of August 31, 2004 and 2003, respectively.

**Inventories** Inventories are valued at the lower of cost (first-in, first out) or market.

**Property, Plant and Equipment** Property, plant and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Additions and betterments of \$1,000 or more are capitalized, while maintenance and repairs which do not improve or extend the life of the asset are expensed in the year incurred.

**Investments** Investments are comprised of debt securities and are carried at fair market value. The fair market value of investments is based on quoted market prices for those investments or similar investments as of August 31, 2004 and 2003.

**Income Taxes** The Association, ABRA and CHB are exempt from federal income taxes on their primary operations under paragraph 501(c)(5) of the Internal Revenue Code. They are, however, subject to income taxes on any net income from unrelated business activities. Such activities resulted in net losses for the years ended August 31, 2004 and 2003. The Association and ABRA have been classified by the Internal Revenue Service as organizations that are not private foundations.

HPI is not exempt from federal income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

**Cash and Cash Equivalents** For purposes of the statement of cash flows, the Association considers all money market investments and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. For the years ended August 31, 2004 and 2003, investments amounting to \$156,725 and \$12,134, respectively, were considered to be cash equivalents.

**NOTE 2 - CONCENTRATION OF CREDIT RISK** The Association had cash deposits that potentially subject the company to concentrations of credit risk. Funds in excess of FDIC insured limits, before considering reconciling items, were \$60,856 and \$240,798 on August 31, 2004 and 2003, respectively.

**NOTE 3 - INVESTMENTS** Investments at August 31, 2004 and 2003 are summarized as follows:

	Amortized	
	Cost	Fair Value
August 31, 2004		
Government bonds and notes	\$1,351,650	\$1,363,625
Corporate bonds and notes	<u>100,196</u>	<u>104,371</u>
	<u>\$1,451,846</u>	<u>\$1,467,996</u>
August 31, 2003		
Government bonds and notes	\$1,384,081	\$1,393,530
Corporate bonds and notes	<u>100,352</u>	<u>106,779</u>
	<u>\$1,484,433</u>	<u>\$1,500,309</u>

**NOTE 4 - RETIREMENT PLAN** The Association established a defined contribution employee retirement plan for all eligible employees of the Association, HPI and CHB. The plan provides for employer and employee contributions based upon a percentage of annual compensation. Employer contributions for the years ended August 31, 2004 and 2003 were \$58,490 and \$72,948, respectively.



**NOTE 5 - LONG-TERM DEBT** Installment notes for automobiles, interest rates vary from 5.00% to 9%, maturing August 2005 through February 2007, collateralized by related vehicles. Long-term debt consists of the following at August 31:

	<u>2004</u>	<u>2003</u>
	\$17,217	\$145,010
Current portion	<u>(6,640)</u>	<u>(52,933)</u>
Long-term debt	<u>\$10,577</u>	<u>\$92,077</u>

Future maturities of long-term debt for the years ending August 31 are as follows:

2005	\$6,640
2006	6,980
2007	3,597
	<u>\$17,217</u>

At August 31, 2004 and 2003, the company had an unused line of credit of \$200,000 and \$100,000, respectively.

**NOTE 6 - INCOME TAXES** The components of the deferred tax assets at August 31 are as follows:

	<u>2004</u>	<u>2003</u>
Deferred tax assets:		
Net operating loss carryforwards	\$427,000	\$433,000
Investment tax credit carryforwards	<u>—</u>	<u>—</u>
	427,000	433,000
Less valuation allowance	<u>(427,000)</u>	<u>(433,000)</u>
	<u>\$—</u>	<u>\$—</u>

HPI has net operating loss carryforwards of \$1,254,585 available to offset future federal and state taxable income through 2023. The net operating loss carryforwards will expire in the years ending August 31 as follows:

2004	\$ 5,364
2005	108,671
2006	83,909
2007	25,389
2008	72,964
2009	4,660
2010	179,332
2011	114,044
2018	93,429
2019	168,100
2020	157,696
2021	95,052
2022	116,294
2023	<u>29,681</u>
Total	<u>\$1,254,585</u>

**NOTE 7 - RELATED PARTY TRANSACTIONS** HPI and CHB rent office space from AHA for \$1,375 and \$200 a month, respectively. HPI pays the Association \$300 a month for the use of computer and accounting resources. These amounts have been eliminated in the August 31, 2004 and 2003, consolidated financial statements.

**NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION** Interest paid during the years ended August 31, 2004 and 2003, was \$2,515 and \$6,208, respectively.

Noncash investing and financing transactions during the years ended August 31 were as follows:

	<u>2004</u>	<u>2003</u>
Purchase of equipment	\$111,451	\$232,164
Equipment financed by long-term debt	<u>(36,284)</u>	<u>(148,715)</u>
Cash paid for equipment	<u>\$75,167</u>	<u>\$83,449</u>

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS** Temporarily restricted net assets are funds donated for the purpose of awarding the Supreme Champion Hereford of the Denver show \$2,500 yearly.

#### INDEPENDENT AUDITOR'S REPORT

Board of Directors/American Hereford Association/Kansas City, Missouri

We have audited the accompanying consolidating statements of financial position of American Hereford Association and Subsidiaries as of August 31, 2004 and 2003, and the related consolidating statements of activities and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidating financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the financial position of American Hereford Association and Subsidiaries as of August 31, 2004 and 2003, and the changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

September 21, 2004

Pursuant to its bylaws, the American Hereford Association submits the above financial information for its members as of the close of this fiscal year ended August 31, 2004.

AMERICAN HEREFORD ASSOCIATION, CRAIG HUFFHINES, EXECUTIVE VICE PRESIDENT