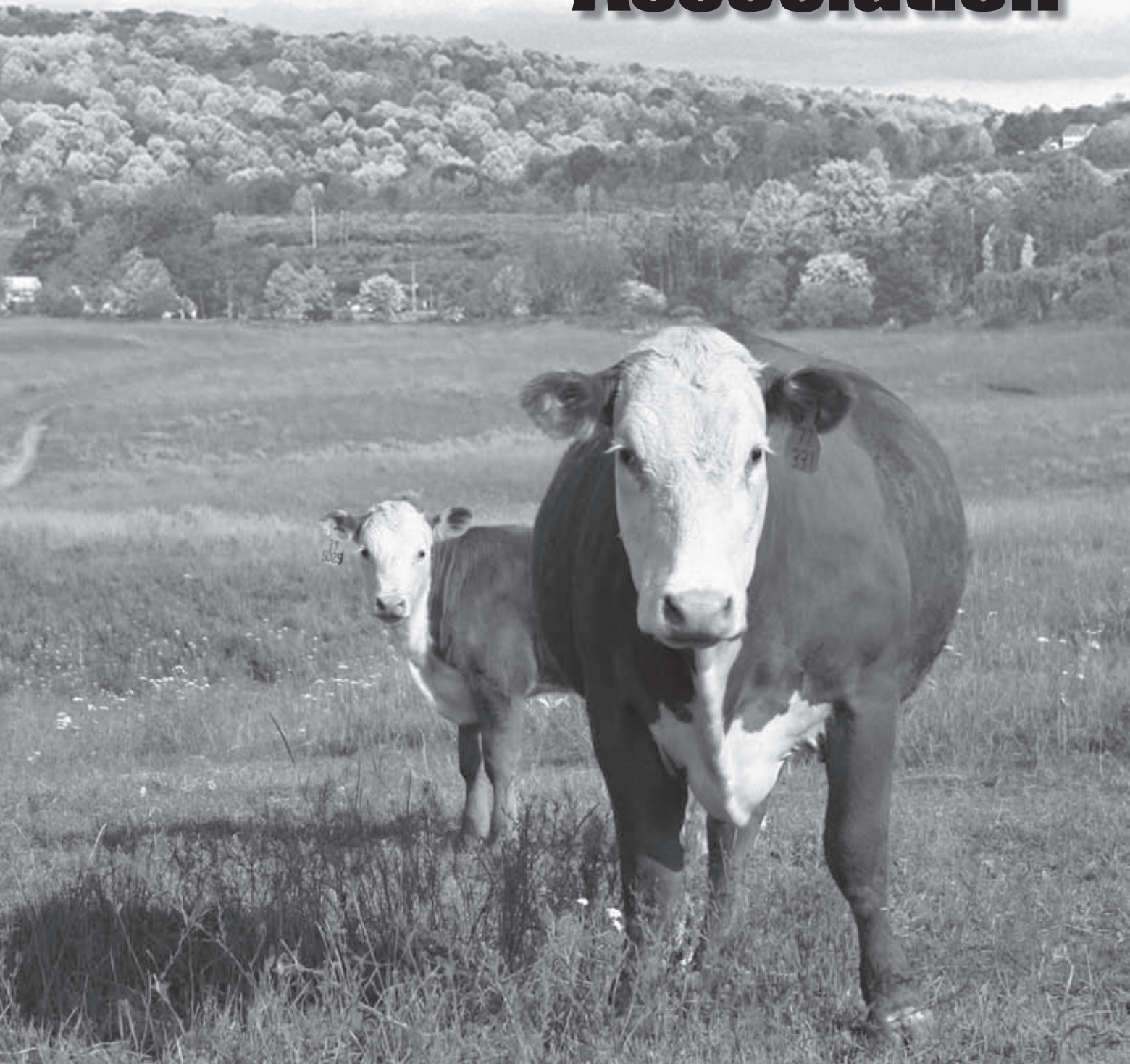


American Hereford Association



2004-05 *Annual Report*



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Chief operating officer
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AHA Fees

AHA membership fees
 \$1,000 for lifetime or \$15 annually
AHA member service fee – \$100
Member registration rates
 Up to 4 months \$12; 4-8 months \$18
 8-12 months \$25; more than 12 months \$50

AHA Leaders



Jack Holden



Dale Spencer



Wes Hudson



John Loewen



Bruce Orvis



Wayne Mrnak



Steve Folkman



LaVette Teeter



Jack Evans



Bill Cox



Hank DeShazer



Lee Haygood

2005 Committee Appointments

Executive Committee

Jack Holden, John Loewen, Bruce Orvis,
 Dale Spencer and Wayne Mrnak

Show and Sale Committee

Jack Evans, Dale Spencer, Hank DeShazer,
 Lee Haygood and Wes Hudson

Performance Committee/Beef Improvement

Jack Holden, Wayne Mrnak, Bruce Orvis,
 Lee Haygood, Wes Hudson and Bill Cox

Marketing Committee

Dale Spencer, Jack Evans,
 LaVette Teeter and Steve Folkman

Hereford Publications Inc.

Dale Spencer and LaVette Teeter

Finance Committee

John Loewen, Hank DeShazer,
 Steve Folkman and LaVette Teeter



Executive Summary

A Banner Year

by Craig Huffhines, AHA executive vice president

Congratulations Hereford breeders on another banner year for Hereford marketing. Once again, enthusiasm for the breed has grown across the country as commercial cattlemen have begun rethinking their breeding programs. As the cow herd has migrated to be heavily Angus based, Herefords have become the obvious choice to utilize on black cows for those cattlemen who understand the power of breed complementarity and hybrid vigor.

It seems that cattlemen around the country are rediscovering what a great product the Hereford breed has and how much breed improvement has been made during the last 10 years.

Registrations, inventories increase

Strong attitudes and a strong marketplace have benefited the American Hereford Association (AHA). Once again the Association reported a terrific year. Business trends remain

strong as the AHA experienced a 3.6% increase in registration, with total registrations reaching 71,330 head. Breeders reported 110,380 cows on inventory enrolled in the Whole Herd Total Performance Records (TPR™) program. This number is as impressive as ever as the Association begins its sixth full year of Whole Herd TPR.

Much of the strength in our seedstock marketing can be attributed to the seriousness Hereford breeders take in accurate performance recording. The AHA TPR program is quickly becoming the “gold standard” for performance testing in the U.S. seedstock industry.

The reason the Hereford breed remains popular today is because of its focus on profitability and profitable genetics. This year the Association launched four profit indexes designed to economically weigh relevant traits reported through the TPR program. Animals are ranked based on their ability to deliver profit in terms of dollars per head to a breeding system. Several industry leaders from around the country have commented on the uniqueness of these powerful tools.

Each index — Baldie Maternal Index (BMI\$), Brahman Influence Index (BII\$), Certified Hereford Beef Index (CHB\$) and Calving EZ Index (CEZ\$) — are designed for specific target markets where Hereford genetics are frequently used. We are happy that many Hereford breeders have been incorporating these indexes along with carcass expected progeny differences (EPDs) into their sale books.

CHB continues growth

The AHA's flagship marketing program and wholly owned subsidiary, Certified Hereford Beef (CHB) LLC, reported sterling results in 2004-05 as well. Forty-five million pounds of branded Certified Hereford Beef® product were sold to licensed retailers and food-service distributors, a 20% increase in boxed beef movement from the previous year's sales volume. This represented approximately 1,025 truckloads of product shipped.

More than 443,000 head of Hereford and Hereford-influenced cattle were sold into the program. Of those, 268,000 were certified and sorted into the CHB program.

AHA and CHB unveiled the Hereford Verified program in August. Although still in its infancy, we have great expectations for this marketing program that will help producers benefit from CHB demand by validating the source, age and genetic makeup of CHB-eligible feeder cattle. Hereford Verified provides the market, information and premiums without the risk of owning cattle through harvest.

HPI continues to provide quality services

Hereford Publications Inc. (HPI) reported its second straight year of profitability in 2004-05. We are very fortunate to have such a high-quality communication piece with





Approximately 100 young Hereford enthusiasts attended the second Young Guns Conference Aug. 25-26 in Nebraska. The conference, which was sponsored in part by Gallagher Animal Management Solutions, included individual presentations and a panel discussion by leading industry animal scientists and American Hereford Association (AHA) staff. Thanks to Gallagher, online coverage of the event is available at www.herefordyoungguns.com. The site features synopses, PowerPoint® presentations saved as PDF files and audio and video archives of the presentations.

the *Hereford World* magazine. Furthermore, we are fortunate to have state-of-the-art technology and a strong staff that delivers professional graphic layouts, interesting story lines and timely Association information to members and commercial bull customers.

This year breeders from around the country took advantage of the HPI staff members' talents by allowing

them to produce sale books and mail them along with the monthly magazine to active AHA members. The sale book program is generating terrific sale results for those taking advantage of the service.

Association finances

The AHA recorded another profitable year. Total revenues topped the \$5 million mark and the Association

announced a consolidated net profit of \$70,302. CHB LLC broke the \$1 million dollar mark (\$1,062,750) in revenue, Hereford Publication Inc. reported income of \$1.3 million and the AHA reported income of \$2.72 million.

Building a plan

In April the AHA Board of Directors and a group of breeder advisers developed seven core strategies for the future. Along with the strategies, objectives and initiatives were discussed and approved to assist staff in achieving the strategies. The seven core strategies are listed on the back cover of this year's Annual Report and a full report regarding the Strategic Plan is available in the November *Hereford World*. As a staff, we're excited about this road map that will lead us for the next five to seven years.

The AHA Board is to be commended for the vision and leadership they have provided to ensure a strong future for the organization and its members. When one considers the rapid popularity of the breed and the financial strength of the Association, the future looks promising.

What is the HYFA?

The Hereford Youth Foundation of America (HYFA) was established in 1989 and is a not-for-profit 501(c)(3) corporation dedicated exclusively to scholarship and educational support of youth in the business of raising Hereford cattle. The Foundation is governed by a board of directors, who are heavily involved in the Hereford industry and who have a vested interest in educating youth, developing leadership and encouraging young people to return to production agriculture.

HYFA's mission is to recruit, support, educate, train and identify future leaders who will appreciate and extend our nation's position as the bread and protein basket of the world.

History

HYFA was originally established to support the educational needs

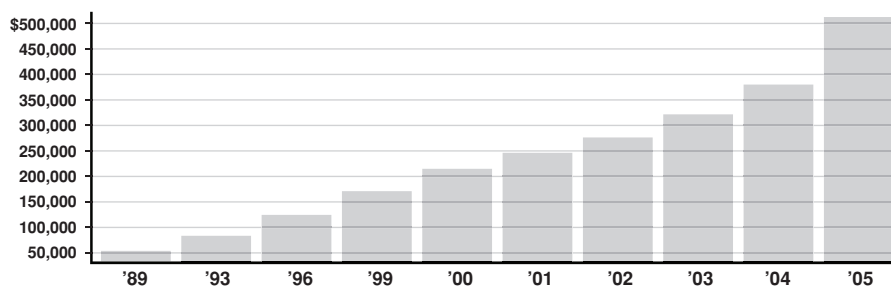
of young members of the National Junior Hereford Association (NJHA), a membership organization that was formally established in 1965 as a young cattlemen arm of the American Hereford Association (AHA). The NJHA is one of the largest, strongest and most active agriculture youth programs in the country.

The Focus

Since the beginning, the focus of

the HYFA has primarily been geared toward supporting youth. Juniors can participate in a wide variety of contests and activities that are supported by the HYFA. Hereford youth have the opportunity to gain invaluable leadership skills that will enable them to become self-directing, educated leaders. In addition, each year the HYFA awards numerous scholarships to deserving Hereford youth.

HYFA Asset Growth 1989-2005



Departmental updates

Registration department year-end figures

- 3.6% increase in registrations
- 7.7% increase in transfers
- 424 new adult members
- 1,536 AHA Internet account holders (44% of adult membership)
- 706 online registry users (18.5% of adult membership)

Fiscal year electronic data submission

Animal recordings/registrations

18,996 records or 17.6%

Weaning performance

17,714 records or 22.7%

Yearling performance

6,966 records or 23%

Inventory updates

33,822 records or 26.9%

Performance department update

- Introduced profit indexes (\$)
- Continued educational Hereford 101 meetings and Young Guns Conference
- More than 80% of Hereford cattle registered came through the Total Performance Records (TPR) program
- Initiated research to evaluate stayability and fertility
- Implemented 60-day age slicing for BW and WW
- Pilot projects started to test Hereford genetics in commercial herds
- Continued genetic marker research with the University of Illinois
- More than 60% of the cattle turned in with YW also had ultrasound data collected
- Introduced the Gold TPR Breeder program

Youth program continues to grow

- The National Junior Hereford Association (NJHA) includes more than 2,000 junior members
- 450 new members during fiscal year 2005

- More than 90 individuals participated in the PRIDE “Program for Reaching Individuals Determined to Excel” Convention at Kansas State University, July 28–31
- Mr. and Mrs. Jack Vanier, CK Ranch, Brookville, Kan., were honored as NJHA honorary members during PRIDE
- Hereford youth programs received more than \$20,000 thanks to the Hereford Youth Foundation of America (HYFA) and its supporters

Highlights of the 2005 Junior National Hereford Expo (JNHE) in Milwaukee, Wis.

- More than 1,100 head of cattle were shown by more than 600 exhibitors from 36 states
- More than 3,000 Hereford exhibitors, family members and spectators from across the nation and Europe were in attendance
- 450 juniors and adults participated in 20 contests and activities

HPI 2004-05 statistics

- The *Hereford World* included 1,059.5 pages of advertising (a 2% increase)
- Creative Services had a 35% increase in business
- The *AI Book* was a new supplement to the March issue and included 64 pages
- The *Hereford Register* was a new feature of the July Herd Book and included 20 pages
- AHA field representatives attended 158 sales
- HPI received a first, second and honorable mention in the LPC Critique Contest
- Angie Stump Denton was hired as editor of the *Hereford World*
- Kelly Hale was promoted to advertising coordinator
- Jay Elfeldt named north central region field representative

Top 10 States in Registrations

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

Top 10 Hereford Breeders by Registration

Member	Registrations
Rausch Herefords, Hoven, S.D.	609
W.T. Bennett, Connell, Wash.	548
W4 Ranch, Morgan, Texas	529
Mrnak Herefords, Bowman, N.D.	517
Harper Cattle LLC, Arlington, Texas	496
Upstream Ranch, Taylor, Neb.	438
Dudley Bros, Comanche, Texas	400
Shaw Cattle Co Inc., Caldwell, Idaho	343
Star Lake Cattle Ranch, Skiatook, Okla.	332
Imig Herefords, Lakeside, Neb.	322

2005 Certified Hereford Beef LLC Fiscal Year Results

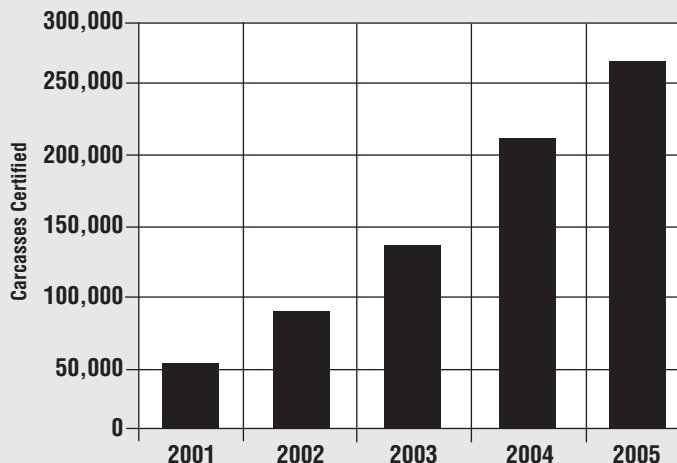
2005 was a transition year for Certified Hereford Beef (CHB) LLC. The program added a Choice option for its customers and committed significant resources to Hereford Verified, a closed-loop supply network that connects seedstock and cow-calf producers to the downstream performance and marketing of their cattle. CHB LLC grew stores and tonnage, adding Russ's Markets, two private-label retail accounts and nine new food-service distributors. However, there was a sizeable setback, the loss of Big Y World Class Markets, a major east coast customer.

In all, Certified Hereford Beef continued its four consecutive years of double-digit growth and has now averaged 27% annualized growth since 1997. With the addition of the Choice program, CHB required more than 400,000 head of white-faced cattle to supply its three packing sites.

Highlights of the year

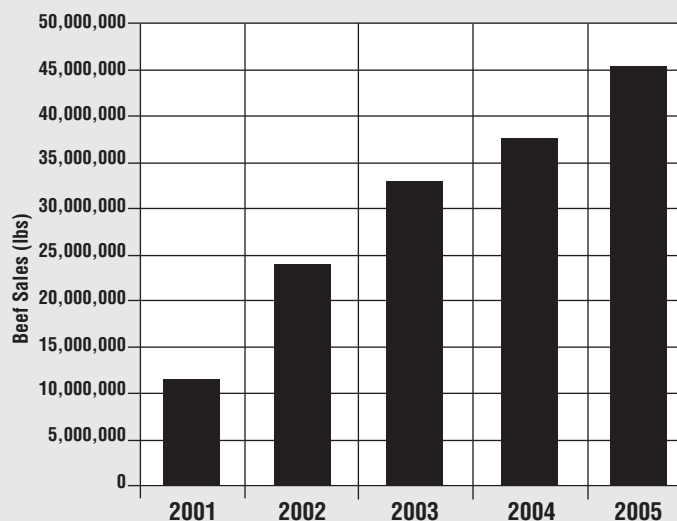
- Doug Miller named vice president of sales in November
- CHB Choice launched at National Beef's Dodge City plant in December
- Russ's Markets, Lincoln, Neb., joins Certified Hereford Beef in January
- Connie Couch is named business information specialist
- CHB Marketing Library and Exclusive Food Photography debuts in May
- Big Y ends its two-year relationship with CHB LLC in favor of Choice and natural beef. Big Y is the first retailer to quit Certified Hereford Beef in four years
- CHB LLC and the American Hereford Association launched Hereford Verified in August to source verify CHB-eligible cattle
- CHB Boot Camp trained 50 Hereford breeders to utilize CHB marketing tools

Fiscal Year Certified Hereford Beef Cattle Certifications



Year	Carcasses Certified	Cattle Harvested	Certification Rate	Growth from Previous Year
2001	53,561	87,018	62%	59%
2002	87,752	125,948	70%	64%
2003	137,089	226,185	61%	56%
2004	215,061	322,407	67%	57%
2005	268,824	443,411	61%	25%

Fiscal Year Certified Hereford Beef Sales Growth



Year	Pounds of Beef Sold	Sales Growth
2001	11,941,467	8%
2002	23,932,161	100%
2003	32,528,871	36%
2004	37,982,284	17%
2005	45,485,071	20%

2004-05 REGISTRATIONS, TRANSFERS AND MEMBERSHIPS

State	Registrations	Transfers	Cow Inventory	Active Members	Juniors	Registration Rank
Alabama	900	739	1,532	32	20	25
Arkansas	903	239	1,221	58	39	24
Arizona	325	46	503	9	0	39
California	1,774	779	2,902	120	74	13
Colorado	1,290	368	1,901	66	12	19
Connecticut	70	51	188	13	19	44
Delaware	38	28	46	6	2	46
Florida	217	33	226	12	1	40
Georgia	2,137	1,791	3,577	87	50	10
Iowa	1,132	371	2,226	82	53	22
Idaho	2,118	1,014	2,424	72	21	11
Illinois	2,538	1,088	4,432	175	173	8
Indiana	1,453	1,000	2,455	142	118	17
Kansas	4,166	2,204	7,001	137	69	4
Kentucky	1,288	840	2,512	84	29	20
Louisiana	552	337	683	44	34	33
Massachusetts	17	17	69	4	1	47
Maryland	395	233	760	38	39	36
Maine	39	59	127	8	5	45
Michigan	717	524	1,083	62	47	31
Minnesota	1,183	619	2,613	96	36	21
Missouri	3,156	1,521	4,793	173	77	6
Mississippi	780	591	859	43	30	28
Montana	2,973	1,050	4,334	69	19	7
North Carolina	826	664	1,408	75	18	26
North Dakota	2,143	604	3,405	59	22	9
Nebraska	4,582	1,474	7,321	138	54	2
New Hampshire	73	22	91	8	5	43
New Jersey	115	36	139	14	8	41
New Mexico	789	1,320	1,247	33	8	27
Nevada	358	49	566	12	9	38
New York	392	261	530	53	29	37
Ohio	1,063	691	2,208	108	55	23
Oklahoma	4,298	2,851	4,829	153	82	3
Oregon	1,695	557	2,636	89	35	16
Pennsylvania	711	312	1,001	61	42	32
Rhode Island	12	0	29	1	1	48
South Carolina	492	293	1,148	29	11	35
South Dakota	4,014	1,148	6,972	85	40	5
Tennessee	1,740	1,081	2,392	95	57	14
Texas	10,756	5,413	15,063	411	156	1
Utah	734	155	1,084	26	0	30
Virginia	760	566	1,238	60	26	29
Vermont	111	58	181	7	5	42
Washington	1,737	467	2,558	89	57	15
Wisconsin	1,401	890	2,391	131	74	18
West Virginia	537	256	819	48	7	34
Wyoming	1,830	269	2,657	36	13	12
Total	71,330	34,979	110,380	3,453	1,782	

AMERICAN HEREFORD ASSOCIATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, AUGUST 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$392,801	\$360,180
Short term investments	100,578	355,438
Accounts receivable, net of allowance	509,729	476,325
Accounts receivable — other	39,945	21,878
Prepaid expenses	8,135	3,383
Inventories	<u>41,247</u>	<u>41,338</u>
Total current assets	<u>1,092,435</u>	<u>1,258,542</u>
INVESTMENTS	<u>1,595,322</u>	<u>1,112,558</u>
PROPERTY, PLANT AND EQUIPMENT		
Land	462,122	462,122
Building	2,218,203	2,217,630
Furniture and fixtures	326,009	315,919
Autos	217,904	219,886
Data processing equipment	310,642	272,588
Software	<u>238,637</u>	<u>181,254</u>
Total property, plant and equipment	3,773,517	3,669,399
Accumulated depreciation	<u>(1,374,190)</u>	<u>(1,263,606)</u>
Net property, plant and equipment	<u>2,399,327</u>	<u>2,405,793</u>
OTHER ASSETS	<u>90</u>	<u>448</u>
TOTAL ASSETS	<u>\$5,087,174</u>	<u>\$4,777,341</u>

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Current portion of long-term debt	\$10,685	\$6,640
Prepayments from breeders	129,174	120,511
Accounts payable	197,847	125,147
Accrued expenses	274,320	132,234
Deferred subscription and advertising revenue	<u>183,034</u>	<u>179,037</u>
Total current liabilities	<u>795,060</u>	<u>563,569</u>
LONG-TERM DEBT	<u>21,117</u>	<u>10,577</u>
OTHER LIABILITIES		
Customer deposits	<u>12,032</u>	<u>12,032</u>
NET ASSETS		
Temporarily restricted net assets	20,000	22,500
Unrestricted net assets	<u>4,238,965</u>	<u>4,168,663</u>
Total net assets	<u>4,258,965</u>	<u>4,191,163</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,087,174</u>	<u>\$4,777,341</u>

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CHANGES IN UNRESTRICTED NET ASSETS, REVENUES AND SUPPORT		
Services	\$2,082,181	\$1,928,258
Advertising and subscriptions	1,303,974	1,229,582
Program revenues	1,062,750	898,228
Other	509,214	484,905
Net assets released from restrictions	<u>2,500</u>	<u>2,500</u>
Total revenues	<u>\$4,960,619</u>	<u>\$4,543,473</u>
EXPENSES		
General and administrative	1,510,690	\$1,390,108
Board of Directors' expense	42,990	44,104
Building expense	149,516	140,365
Market development and information	416,371	476,653
Junior activities	195,957	183,470
Research and TPR activities	202,306	177,623
Program expenses	1,027,076	910,787
Advertising and subscriptions	<u>1,165,134</u>	<u>1,051,297</u>
Total expenses	<u>4,710,040</u>	<u>4,374,407</u>

See accompanying notes to consolidating financial statements.

	<u>2005</u>	<u>2004</u>
REVENUES OVER EXPENSES BEFORE DEPRECIATION		
AND OTHER INCOME (EXPENSE)	\$250,579	\$169,066
DEPRECIATION EXPENSE	165,176	182,271
OTHER INCOME (EXPENSES)		
Realized gain (loss) on sale of securities	(5,266)	(7,608)
Net appreciation (depreciation) in fair value of investments	(22,279)	4,675
Other income (expenses)	(6,768)	1,189
Gain on sale of property and equipment	19,212	2,084
Total other income (expenses)	(15,101)	340
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	70,302	(12,865)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	25,000
Net assets released from restrictions	(2,500)	(2,500)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(2,500)	22,500
INCREASE IN NET ASSETS	67,802	9,635
NET ASSETS (DEFICIENCY IN ASSETS) AT BEGINNING OF YEAR		
.....	4,191,163	4,181,528
NET ASSETS (DEFICIENCY IN ASSETS) AT END OF YEAR		
.....	<u>\$4,258,965</u>	<u>\$4,191,163</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$67,802	\$9,635
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	165,176	182,271
Realized gain (loss) on sale of securities	5,266	7,608
Net appreciation (depreciation) in fair value of investments	22,279	(4,675)
Gain on sale of property and equipment	(19,212)	(2,084)
(Increase) decrease in assets:		
Accounts receivable	(33,404)	10,370
Accounts receivable — other	(18,067)	(5,262)
Prepaid expenses	(4,752)	7,626
Inventories	91	(7,602)
Other assets	358	(226)
Increase (decrease) in liabilities:		
Prepayments from breeders	8,663	10,701
Accounts payable	72,700	26,997
Accrued expenses	142,088	(14,053)
Deferred subscription and advertising revenue	3,996	15,437
Net cash provided by (used for) operating activities	<u>\$412,984</u>	<u>\$236,743</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(132,111)	(75,167)
Proceeds from sale of property, plant and equipment	26,197	18,351
Purchase of investments	(799,668)	(524,561)
Proceeds from sale and maturity of investments	544,219	553,941
Net cash flows used in investing activities	<u>(361,363)</u>	<u>(27,436)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(19,000)	(164,077)
Net cash used in financing activities	<u>(19,000)</u>	<u>(164,077)</u>
NET INCREASE (DECREASE) IN CASH		
AND CASH EQUIVALENTS	32,621	45,230
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	360,180	314,950
CASH AND CASH EQUIVALENTS,		
END OF YEAR	<u>\$392,801</u>	<u>\$360,180</u>

See accompanying notes to consolidating financial statements.

NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS AUGUST 31, 2005 AND 2004

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 in and promotes 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 worldwide, 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, LLC The Association is the sole member of Certified Hereford Beef LLC (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 LLC (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. These 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, 2005 and 2004 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 \$27,059 and \$26,861 as of August 31, 2005 and 2004, 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, 2005 and 2004.

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 a net loss for the year ended August 31, 2004. 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, 2005 and 2004, investments amounting to \$68,168 and \$156,725, respectively, were considered to be cash equivalents.

NOTE 2 - CONCENTRATION OF CREDIT RISK The Association maintains cash accounts at a bank located in the Kansas City metropolitan area. The balances in the bank periodically exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of 100,000. Funds in excess of FDIC insured limits, before considering reconciling items, were \$124,190 and \$60,856 on August 31, 2005 and 2004, respectively.

NOTE 3 - INVESTMENTS Investments at August 31, 2005 and 2004 are summarized as follows:

	Amortized Cost	Fair Value
August 31, 2005		
Government bonds and notes	\$1,605,037	\$1,595,322
Corporate bonds and notes	100,071	100,578
	\$1,705,108	\$1,695,900
August 31, 2004		
Government bonds and notes	\$1,351,650	\$1,363,625
Corporate bonds and notes	100,196	104,371
	\$1,451,846	\$1,467,996

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 on a percentage of annual compensation. Employer contributions for the years ended August 31, 2005 and 2004 were \$75,119 and \$58,490, respectively.

NOTE 5 - LONG-TERM DEBT Installment notes for automobiles, interest rates vary from 5.00% to 5.85%, maturing February 2007 through July 2008, collateralized by related vehicles. Long-term debt consists of the following at August 31:

	2005	2004
	\$31,802	\$17,217
Current portion	<u>(10,685)</u>	<u>(6,640)</u>
Long-term debt	<u>\$21,117</u>	<u>\$10,577</u>

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

2006	\$10,685
2007	11,281
2008	<u>9,836</u>
	<u>\$31,802</u>

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

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

	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	\$402,341	\$427,000
Less valuation allowance	<u>(402,341)</u>	<u>(427,000)</u>
	<u>\$ —</u>	<u>\$ —</u>

HPI has net operating loss carryforwards of \$1,183,355 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:

2005	\$42,805
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>\$1,183,355</u>

NOTE 7 - RELATED PARTY TRANSACTIONS HPI and CHB rent office space from AHA for \$1,875 and \$625 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 consolidated financial statements.

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION Interest paid during the years ended August 31, 2005 and 2004, was \$396 and \$2,515, respectively.

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

	2005	2004
Purchase of equipment	\$165,696	\$111,451
Equipment financed by long-term debt	<u>(33,585)</u>	<u>(36,284)</u>
Cash paid for equipment	<u>\$132,111</u>	<u>\$75,167</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, 2005 and 2004, 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, 2005 and 2004, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

September 26, 2005

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, 2005.

AMERICAN HEREFORD ASSOCIATION, CRAIG HUFFHINES, EXECUTIVE VICE PRESIDENT

AHA Core Business Strategies

- I. Continue to grow the Certified Hereford Beef program
- II. Develop a more aggressive and targeted industry marketing plan to positively influence the perceptions and value of Hereford cattle
- III. Increase the quality, consistency and reliability of Hereford genetics
- IV. Continue to grow AHA net revenue through current/new products, programs, services or partnerships
- V. Increase the educational opportunities for our members, prospective members and customers
- VI. Continue to grow and emphasize our youth development programs and create a young breeder development program
- VII. Invest in developing global markets for our Hereford genetics

Vision Statement

To be the preferred beef breed for producers and consumers.

Mission Statement

American Hereford Association will provide the leadership to record, protect, promote and facilitate the production and consumption of Hereford beef.



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