



management demand strategies
Tactics production her implement
communication opportunities
convention identify contract ads non-traditional payment million
investigate revenue standards handling JNHE
data program growth MBA build members improve increase
bull software continue cattle videos members market field
Research breed promote bring AHA issues applications
partners creative meetings funding membership profitability
member services electronic HYFA industry junior communicating
media national predictability transfer retail value alliances programs
Develop survey Core collect
Beef support fresh genetics Web progress advertising plan submission explore companies expand
Grow NJHA year promotional quality registry youth option regional branding
CHB recruitment products Create BuyHereford.com services campaign online
breed improvement development sales Objectives cultivate



Strategy...

The American Hereford Association (AHA) has been built on the hard work of thousands of dedicated cattlemen. Its purpose is to provide programs, services, technology and leadership designed to enhance the genetics of the Hereford breed, to broaden its influence within the industry and to expand the market for Hereford beef.

During fiscal year 2010, the 129-year-old member-driven organization continued to achieve those goals, and today, the Hereford breed is growing in demand as commercial producers seek out Hereford genetics to add heterosis, feed efficiency, longevity, fertility and docility to their black cow herds.

Year-end numbers show the Association experienced an increase in registrations and membership as production sale prices increased. The second largest cattle breed in the U.S., Hereford reports 64,907 registrations and 34,767 transfers with 101,677 cows on inventory. The Association has 3,441 active adult members and 2,244 active junior members.

The growth of Hereford demand has hinged on the Association's ability to set strategy and to progress through new technologies, breed improvement and marketing programs. And with a new strategic road map, the Hereford breed is poised to continue to grow and succeed for years to come.



Hereford

Tactics Objectives survey bull data demand market Research breed producers profitability commercial

Fiscal year 2010 can best be summarized as the year the American Hereford Association (AHA) Board of Directors continued the advancement of the breed by reviewing the Association's objectives and updating the strategic plan for continued success and growth of the breed.

The Board met in April and in August adopted a set of strategies, objectives and tactics that will continue to expand the influence of Hereford within the beef industry. The seven new core strategies are:

- 1) Improve the overall quality, consistency, predictability and profitability of Hereford genetics.
- 2) Build strategic alliances.
- 3) Continue to grow the Certified Hereford Beef (CHB®) program.
- 4) Increase investment in member and customer education and service.
- 5) Increase focus of communicating the profitability advantage of Hereford genetics.
- 6) Grow non-traditional revenue.
- 7) Cultivate the growth and development of juniors and young breeders.

As the Board prepared to update the Association's strategic road map, it solicited and reviewed two research surveys — one member based and one commercial-industry focused.

The survey done by *Drovers* and Vance Publishing Research Services indicated that the market share, or at least the market demand, for Hereford bulls being sold to commercial producers could almost double in the next three years.

Between 2001 and 2005, the average market share for the Hereford breed was approximately 15.5%. Or just more than 15 out

of 100 producers were interested in purchasing a Hereford bull — as reported by Vance Research Group. Today 24% of producers indicated that they are interested in purchasing a Hereford bull in the next three years. Hereford has the potential to capture the bull buying interest or market demand of one out of every four commercial cow-calf producers in the country during the next three years.

This is exciting data, but market share will only reach this level if Hereford breeders are able to produce the number of acceptable quality, performance-recorded, registered Hereford bulls to meet the market demand.

The biggest change between the commercial survey conducted in 2005 and the 2010 survey was the heightened interest in the Hereford breed. The Angus breed maintains the dominant market demand presence, capturing 67% of the producers surveyed. However, it appears that the Angus breed may have peaked in growth and flattened in demand over the course of the past five years. All other breeds, for the most part, have also maintained flat demand, while Hereford was the only breed reporting a significant upswing in demand.

Surveyed producers listed, in order, 1) disposition, 2) calving ease, 3) fertility tested and 4) breeder reputation as the top four traits they were most interested in when making bull buying decisions.

The Hereford breed has proven to consistently deliver on all four of these top traits

of interest and also have the bonus of delivering heterosis that can be added to the predominantly (73%) Angus-influenced cow herd. Based on survey data and recent sale results, the Hereford breed has a huge opportunity sitting on its doorstep.

Hereford has the potential to capture the bull buying interest or market demand of one out of every four commercial cow-calf producers in the country during the next three years.

advertising media national
Web site publications **marketing** CHB
online promote focus represent
opportunities breeders
BuyHereford.com



AHA and CHB LLC were co-sponsors of the National Beef Cook-off Journalist Symposium during the National Beef Cook-off in Sonoma, Calif. More than 15 media professionals representing publications with a combined circulation of more than 12.4 million subscribers attended the event Sept. 22, 2009. Publications included *Redbook*, *Woman's Day*, *FIRST* and *Family Circle*.

A highlight of the day was a tour stop at Kunde Family Estate winery. Hereford breeders Jim and Marcia Mickelson treated attendees to a behind-the-scenes tour of the winery including a stop to look at some fall-calving cows and new babies. Following the tour, a luncheon featuring grilled CHB® Denver cut steaks and Kunde wine was enjoyed at Kunde's beautiful Boot Hill.

After the luncheon, the group returned to the The Lodge at Sonoma for a symposium that included presentations on new cuts from the chuck roll. CHB product was used for the cutting, preparation and tasting demonstrations.



Hereford-sired **Mama:** the one to bank on

A 7% advantage in conception rate
Net income of \$5.1 more per cow per year
A significantly higher selling price for breed females

New data proves it

At this time Hereford-sired females compared to straight Angus females in a recent, verifiable study documenting the advantage of Hereford-sired females. See all the data at www.hereford.org.

Hereford — making black better.

HEREFORD
AMERICAN
HEREFORD
CATTLE ASSOCIATION

100 New Energy
Hansen City, MO 64040
(816) 442-2700
www.hereford.org

The 2009-10 national ad was developed to complement and expand the success of the "The Power of Black. Only Better." campaign. With the continuing goal of touting Hereford efficiency, the themes "There's no mama like a Hereford-sired mama" and "Hereford-sired mama: the one to bank on" were developed. Utilizing data from the Circle A Ranch Heterosis Project, the ads tout the value of Hereford-sired females.

HEREFORD
AMERICAN
HEREFORD
CATTLE ASSOCIATION

Upcoming Events & Sales

Event	Date	Location
2009-2010 National Beef Cook-off	Sept. 22-23, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off Journalist Symposium	Sept. 22, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 23, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 24, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 25, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 26, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 27, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 28, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 29, 2009	Sonoma, Calif.
2009-2010 National Beef Cook-off	Sept. 30, 2009	Sonoma, Calif.

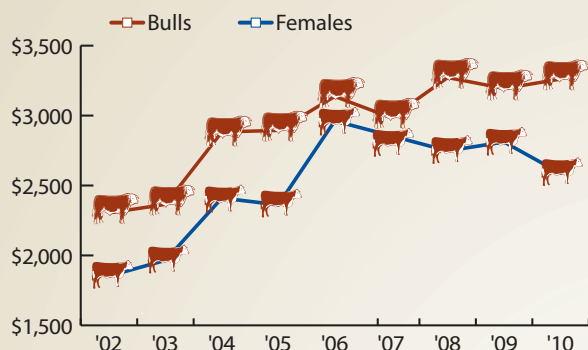
W EASY DEAL
600 ET
BW EPD: 1.0
\$10,000

In early December 2009, redesigned Hereford Web sites were launched, including Hereford.org, JrHereford.org, HerefordWorld.org and HerefordYouthFoundation.org. New features of the sites include: 1) Hereford Marketplace — the "place" to find Hereford genetics, 2) searchable Event Central — listing of all Hereford events and deadlines, 3) complete *Hereford World* — recent issues posted in flip format and an archive of *Hereford World* features and columns, 4) Education Center — Hereford information at your fingertips, 5) Forms Library — a listing of resources needed for adult and junior members and a robust search function to help browsers find the Hereford information they are looking for.

BuyHereford.com

Matching buyers and sellers of Hereford genetics, *BuyHereford.com* is a marketing tool for producers, regardless of size. In November 2009, AHA launched *BuyHereford.com*, which features monthly consignment auctions, much like eBay®. Hereford breeders can participate in the monthly auctions or host their own *BuyHereford.com* sales.

Average prices paid for Hereford bulls and females (as reported to *Hereford World* staff)



A total of 161 Hereford production sales were reported by AHA field representatives this fiscal year. Bull sales averaged \$3,261 and females \$2,587. Across the board, Herefords averaged \$97 more per lot on 9,573 total lots reported.



Spreading the Hereford message and creating more Hereford demand are the focus of Hereford Publications Inc. (HPI) and the AHA communications team. A concentrated effort is spent developing press releases and networking with media to promote the Hereford breed and brand. HPI produces the *Hereford World*, which four times a year is printed in tabloid format and distributed to *Hereford World* subscribers as well as 15,000 commercial producers. Again this year the tabloid earned top newspaper honors in the Livestock Publications Council contest. HPI staff also earned first place sale catalog with the Hoffman-W4-Top Annual Sale Catalog.



CHB carcass utilization improves; foodservice sales increase 37%

Economic uncertainty affected the food business in 2010, particularly hitting the retail supermarket trade. The value and sales volume of higher-value steak cuts were affected the greatest as consumers traded down to cheaper proteins in order to stretch their food dollars. That being said, a bright side for Certified Hereford Beef (CHB) LLC in 2010 was an increase in carcass utilization of 32 lb. per head due to the increased demand of chuck and round cuts.

Retailers reduced the featuring of CHB beef in favor of lower-priced poultry and pork features that attracted consumers to lower prices. Even though CHB reported an increase of 3.5% in tonnage in 2010 (38.1 million lb. sold), the revenue was down because the marketing royalties for end meats are four times less than the royalties for middle meats.

Foodservice sales were a big winner for the year — up 37.6% totaling 7.54 million lb. The signing of Sysco in Minneapolis along with continued growth with Kohls Wholesale in Illinois, growth in Sysco houses in Baraboo, Wis., Nashville, Tenn., and Norfolk, Va., and continued growth of Merchants Foodservice in the Southeast created additional restaurant trade that brings positive awareness to the brand.

Today, foodservice accounts for 20% of all CHB sales by volume, which is the highest percentage of sales there has been since the inception of the program.

Furthermore, the addition of Diaz Foods in Atlanta helped to replace much of the Superior Warehouse Nuestro Rancho business lost in the previous year. Nuestro Rancho has been a market for Select Hereford beef targeting Hispanic markets that are critical on price point.

2010 could be summarized as a year of research and development within the value-added concepts. CHB LLC realized significant start-up and development costs for value-added concepts developed during the year, including hot dogs, burgers, corned beef, and seasoned and marinated lines. The Nuestro Rancho seasoned, marinated line may post a bright spot in the coming year as slotting fees have been paid in three different large distribution firms and repeat business is imminent.

This year, total slaughter numbers for baldie cattle were even with 2009 numbers at 378,621 head identified while carcass certification was down 14.7% (226,570 carcasses). Despite the decline in certified carcasses, CHB LLC carcass utilization was up 32 lb. per head or 23%.

Pounds used per carcass averaged 168 lb. in the fiscal year compared to 136 lb. in 2009. The shift to end meats that carry a much lower royalty rate (1 cent per lb. compared to 4 to 5 cents per lb. on middle meats) contributed to much of the income decline in 2010.

Research breed^{genetics}improvement^{commercial} system advantage progress predictability quality collect data performance program

Building on progress

Focusing on growing commercial demand is not a new strategy. Since the implementation of the 2005 Strategic Plan, Hereford breeders and the AHA have worked to meet the needs of the commercial cattleman. Helping with progress in the commercial industry has been the AHA's Whole-Herd Total Performance Records (TPR™) program. Now 9 years old, the program has helped the AHA and Hereford breeders build a database that documents the breed's strengths. More and more Hereford breeders continue to go above status quo and submit ultrasound data, body condition scores, udder scores and cow weights, which all add to the integrity and accuracy of the AHA database.

Likewise, the AHA breed improvement committee continues to raise the bar for testing young Hereford sires through the National Reference Sire Program (NRSP). This year approximately 2,000 commercial cows were enrolled in the program while 35 sires have been tested.

To expand data collected for the NRSP program, the AHA Board approved in August 2009 to partner with Olsen Ranch, Harrisburg, Neb., to install the GrowSafe system to collect feed intake data. This will allow AHA to collect intake data on larger groups of progeny through the NRSP program.

Whole-herd data collection and submission are giving Hereford the power to evaluate and develop selection traits to expand upon the basic expected progeny differences (EPDs) used today.



A functioning part of the Hereford Youth Foundation of America

In October 2009 the AHA Board, along with the HYFA board, formed a research foundation committee to raise funds and help support special research projects. The first *BuyHereford.com* online fund-raising auction for the Hereford Research Foundation gathered more than \$20,000 to benefit Hereford research projects July 13. Nineteen items were sold and more than 200 total bids were placed during the online auction.

AHA released its first heifer calving rate (HCR) EPDs in late July. Using whole-herd data submitted, these values show genetic differences in Hereford sires for the likelihood of their daughters to calve as heifers.

HCR evaluation is another step toward providing a comprehensive genetic evaluation of Hereford cattle for as many economically important traits as is practical. Combined with information on calving ease, growth and maternal and carcass traits, HCR EPDs provide even greater opportunity for Hereford breeders to identify and propagate the most profitable genetics for their commercial bull customers.

Real-world research

Since 2005 AHA has sought out and participated in real-world heterosis research projects in order to validate Hereford's role in the commercial industry. These projects include Harris Ranch, Circle A Ranch, Amana and Genglebach Farms.

The Harris Ranch project was a three-year project with the third set of steers harvested last summer. Overall net return for the Hereford-sired calves was approximately \$30 per head in a vertically coordinated beef marketing system.

Because of the length of the project, researchers were only able to collect limited data on reproductive performance. Pregnancy rates on yearling heifers identified back to Hereford or Angus sires were collected in years two and three of the study. In both instances, there was a 7% advantage in pregnancy to the Hereford-sired cattle.

The Harris Ranch data was similar to that of the Circle A Ranch Heterosis Project. Scientists agree the long-term implications of higher pregnancy in yearling heifers are dramatic. In addition, there is the documented effect of increased calf livability, increased rebreeding rates and, most notably, a dramatic increase in longevity.

When the Circle A data were analyzed by Vern Pierce, University of Missouri, for economic emphasis, the results showed an advantage of \$514 net per cow over a 10-year period or \$51 difference per cow per year.

With a focused strategy and a product that can fit the needs of commercial cattlemen, Hereford is set to continue its industry resurgence and success for years to come.

A large brown and white cow stands prominently in the foreground of a grassy field, looking directly at the camera. It has a white face and chest with brown patches on its body. In the background, several people are standing near other cows, and the landscape is open with hills in the distance under a clear sky.

A photograph of a woman in a white t-shirt and blue jeans leading two Hereford cattle in a show ring. The cattle are brown with white faces and legs. In the background, a large sign reads "WELCOME TO THE VitaFenn JUNIOR NATIONAL HEREFORD COPS" and "VITA FENNS IS PROUD SUPPORTER OF HEREFORD YOUTH". Another sign partially visible says "Cup Champions".

A large group of people, including children and adults, are gathered in an indoor arena. In the center, a brown and white cow stands on a red carpet. To the left of the cow, a young girl in a purple shirt and blue pants holds a sign that reads "2010 HMFA FOUNDATION RAFFLE WINNER". To the right of the cow, a woman in a red jacket and tan pants holds a sign that reads "2010 HMFA FOUNDATION RAFFLE WINNER". The crowd is diverse, with many people wearing cowboy hats. The background shows a large audience seated in bleachers.

During the year nearly \$50,000 was distributed to Hereford youth in scholarship monies provided through HYFA.



2010 AHA Annual Report 5

**American Hereford Association and Subsidiaries
Consolidated Statements of Financial Position
August 31, 2010 and 2009**

Assets	2010	2009
Current Assets		
Cash and cash equivalents	\$267,703	\$767,058
Short-term investments	–	102,969
Accounts receivable, net	624,600	612,766
Accounts receivable - other	24,029	27,849
Prepaid expenses	35,830	10,114
Due from Hereford Youth Foundation of America (HYFA)	6,821	–
Inventories	27,746	47,927
Total current assets	986,729	1,568,683
Investments	1,558,196	921,879
Property and Equipment		
Land	462,122	462,122
Building	2,271,981	2,255,117
Furniture and fixtures	347,311	347,311
Vehicles	237,916	237,916
Data processing equipment	422,018	396,567
Software	331,085	286,103
Accumulated depreciation/amortization	(1,903,917)	(1,745,146)
Total Property and equipment, net	2,168,516	2,239,990
Other Assets		
Collections	–	–
Cash temporarily restricted for the National Western Stock Show (NWSS) award	7,500	10,000
Other	90	261,889
Total Other Assets	7,590	271,889
Total Assets	<u>\$4,721,031</u>	<u>\$5,002,441</u>

Liabilities and Net Assets	2010	2009
Current Liabilities		
Accounts payable	\$165,805	\$181,473
Accrued expenses	232,802	189,720
Current maturities of long-term debt	31,749	30,064
Prepayments from breeders	91,340	92,499
Deferred subscription and advertising revenue	248,960	248,084
Due to HYFA	–	77,681
Due to Junior National Hereford Expo (JNHE)	58,858	–
Total current liabilities	829,514	819,521
Long Term Debt, net of current maturities	38,645	70,191
Net Assets		
Temporarily restricted net assets	7,500	10,000
Unrestricted net assets	3,845,372	4,102,729
Total net assets	3,852,872	4,112,729
Total Liabilities and Net Assets	<u>\$4,721,031</u>	<u>\$5,002,441</u>

**Consolidated Statements of Activities
for the Years Ended August 31, 2010 and 2009**

	2010	2009
Changes in Unrestricted Net Assets		
Revenues and Support		
Services	\$2,334,556	\$2,337,782
Advertising and subscriptions	1,425,544	1,516,726
Program revenues	910,593	954,305
Other	571,272	557,662
Net assets released from restrictions	2,500	2,500
Total revenues and support	5,244,465	5,368,975
Expenses		
General and administrative	1,487,433	1,501,270
Board of Directors' expenses	32,431	34,161
Building expenses	114,350	116,173
Market development and information	515,120	474,143
Junior activities	221,940	146,717
Research and TPR activities	227,516	264,618
Program expenses	2,723,332	2,717,149
Depreciation expense	159,694	137,699
Total expenses	5,481,816	5,391,930
Other Income (Expense)		
Realized gain (loss) on sale of investments	593	(10,995)
Loss on non-refundable portion of deposit	(50,000)	–
Net appreciation (depreciation) in fair value of investments	27,913	19,742
Other income (expenses)	1,949	1,543
Gain (loss) on sale of property and equipment	(461)	7,784
Total other income (expense)	(20,006)	18,074
Increase (Decrease) in Unrestricted Net Assets	(257,357)	(4,881)
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	(2,500)	(2,500)
Increase (Decrease) in Net Assets	(259,857)	(7,381)
Net Assets - Beginning of Year	4,112,729	4,120,110
Net Assets - End of Year	<u>\$3,852,872</u>	<u>\$4,112,729</u>

See the accompanying independent auditor's report and notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the Years Ended August 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$(259,857)	\$(7,381)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	159,694	137,699
Realized (gain) loss on sale of investments	(593)	10,995
Net (appreciation) depreciation in fair value of investments	(27,913)	(19,742)
(Gain) loss on disposal of property and equipment	461	(7,784)
Loss on non-refundable portion of deposit	50,000	—
Interest received from investment of other asset	(457)	—
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(11,838)	16,598
(Increase) decrease in accounts receivable — other	3,826	40,933
(Increase) decrease in prepaid expenses	(25,717)	30,854
(Increase) decrease in inventories	20,181	(19,344)
(Increase) decrease in other assets	—	29,211
(Increase) decrease in prepayments from breeders	(1,160)	(16,614)
(Increase) decrease in accounts payable	(15,668)	56,547
(Increase) decrease in accrued expenses	43,083	(16,199)
(Increase) decrease in deferred subscription and advertising revenue	874	(10,857)
(Increase) decrease in due to HYFA	(84,502)	39,297
(Increase) decrease in due to JNHE	58,858	—
Total adjustments	169,129	271,594
Net Cash Provided by (used in) Operating Activities	(90,728)	264,213
Cash Flows from Investing Activities		
Cash temporarily restricted for NWSS award	2,500	2,500
Purchases of property and equipment	(88,680)	(28,223)
Proceeds from sale of property and equipment	—	2,500
Proceeds from refund of deposit	212,255	—
Purchases of investments	(748,978)	(831,059)
Proceeds from sale and maturity of investments	244,136	1,165,275
Net Cash Provided by (used in) Investing Activities	(378,767)	310,993
Cash Flows Used In Financing Activities		
Increase (decrease) in line of credit	—	(27,449)
Net proceeds (payments) UMB car loan	(29,860)	(18,120)
	(29,860)	(45,569)
Net Increase (Decrease) in Cash and Cash Equivalents	(499,355)	529,637
Cash and Cash Equivalents, Beginning of Year	767,058	237,421
Cash and Cash Equivalents, End of Year	\$267,703	\$767,058
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$4,492	\$1,320
Vehicles purchased with bank debt financing	—	\$118,375

Notes to Consolidated Financial Statements August 31, 2010 and 2009

1 — Summary of Significant Accounting Policies

Nature of Operations The American Hereford Association (AHA) conducts research and experiments in the breeding of Hereford cattle, compiles and preserves pedigree records for owners and breeders, participates in 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 are primarily owners and breeders of Hereford cattle. The members and subscribers are located worldwide; however, the largest concentration is within the United States.

Hereford Publications Inc. (HPI) provides publication services to Hereford cattle ranches and publishes a monthly magazine.

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.

American Beef Records Association (ABRA) provides computer consultation in herd planning and management, breeding services and marketing for commercial livestock.

Basis of Consolidation The consolidated financial statements include AHA and its wholly owned subsidiaries, Hereford Publications Inc. (HPI), Certified Hereford Beef® LLC (CHB) and American Beef Records Association (ABRA) collectively referred to as the Association. All material intercompany transactions have been eliminated in 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 reported revenues and expenses. Actual results could vary from the estimates that were used.

Advertising Costs The Association expenses advertising costs as they are incurred. Advertising expense was \$473,273 and \$434,495 as of August 31, 2010 and 2009.

Basis of Financial Statement Presentation The Association reports information regarding its financial position and activities according to three classes of net assets.

- Unrestricted net assets 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, 2010 and 2009, the Association had no permanently restricted net assets.

Cash and Cash Equivalents 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. Investments amounting to \$124,356 and \$564,429 were considered to be cash equivalents as of August 31, 2010 and 2009, respectively.

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 \$31,364 and \$31,364 as of August 31, 2010 and 2009, respectively.

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

Investments Investments are comprised of debt securities and are carried at fair value. The fair value of investments is based on quoted fair prices for those investments or similar investments as of August 31, 2010 and 2009. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market values.

Property and Equipment Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The assets are depreciated and amortized over periods ranging from 5 to 30 years. Additions and improvements 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. Depreciation charged against income amounted to \$159,694 and \$137,699 in 2010 and 2009, respectively.

Revenue Recognition The Association recognizes service fee revenue over the applicable accounting period to which the services relate. Unearned revenues related to Association services and publication subscriptions and advertising of HPI are reflected as deferred revenue on the Consolidated Statement of Financial Position.

Functional Allocation of Expenses The costs of providing the various programs and activities have been summarized on a functional basis in the Consolidated Statement of Activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Income Taxes AHA, ABRA, and CHB are exempt from federal income taxes on their primary operations under paragraph 501(c)(5) of the Internal Revenue Code, and therefore have made no provision for federal or state income taxes in the accompanying financial statements. They are, however, subject to income taxes on any net income from unrelated business activities. AHA, ABRA, and CHB have been classified by the Internal Revenue Service as organizations that are not private foundations. HPI is a taxable entity and is, therefore, subject to federal income

See the accompanying independent auditor's report and notes to consolidated financial statements.

taxes. It is HPI's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At August 31, 2010, HPI believes it has appropriately accounted for any unrecognized tax benefits. To the extent HPI prevails in matters for which a liability for unrecognized tax benefit is established or is required to pay amounts in excess of the liability, HPI's effective tax rate in a given financial statement period may be affected.

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) limits. The FDIC insured limits were \$250,000 at August 31, 2010 and 2009. The Association's uninsured cash balances totaled \$76,394 and \$96,206 at August 31, 2010 and 2009, respectively.

3 — Fair Value Measurements

Fair values of assets measured on a recurring basis at August 31, 2010 and 2009 are:

August 31, 2010	Fair Value	Quoted prices in active markets for identical assets (Level 1)
Government bonds and notes	\$971,704	\$971,704
Corporate bonds	\$586,492	\$586,492
Total	<u>\$1,558,196</u>	<u>\$1,558,196</u>
August 31, 2009		
Government bonds and notes	\$947,632	\$947,632
Corporate bonds	\$77,216	\$77,216
Total	<u>\$1,024,848</u>	<u>\$1,024,848</u>

Investments consist of money market funds as well as government and corporate bonds and notes which are carried at fair value using quoted prices in active markets for identical assets (Level 1), in accordance with generally accepted accounting standards. There were no significant other observable inputs (Level 2) or significant unobservable inputs (Level 3). Unrealized gains in the amount of \$27,913 and \$19,742 were recorded to adjust investments to fair value for the years ended August 31, 2010 and 2009, respectively.

These investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

4 — Retirement Plan

The Association established a defined contribution employee retirement plan for all eligible employees. The plan provides for employer and employee contributions based on a percentage of annual compensation. Employer contributions for the years ended August 31, 2010 and 2009 were \$86,692 and \$81,289, respectively.

5 — Long-Term Debt

Long-term debt consists of the following at August 31:	2010	2009
Notes - vehicles, collateralized by related vehicles, interest fixed at 4.99%, maturing from July 2012 through April 2013	\$ 70,394	\$100,255
Current portion	<u>31,749</u>	<u>30,064</u>
Total Long-Term Debt	<u>\$38,645</u>	<u>\$70,191</u>

Scheduled maturities of principal payments on the liabilities are as follows:

Year	Amount	Year	Amount
2011	\$31,749	2014	—
2012	32,609	2015	—
2013	6,036	Thereafter	—
			<u>\$70,394</u>

Interest expense was \$4,492 and \$1,320 for the years ended August 31, 2010 and 2009, respectively.

6 — Income Taxes

The provisions for income taxes consist of the following components for the years ended August 31:

	2010	2009
Current	\$ —	\$ —
Deferred		
Temporary differences	10,212	5,906
Change in valuation allowance	<u>(10,212)</u>	<u>(5,906)</u>
	<u>\$ —</u>	<u>\$ —</u>

The tax provision differs from the expense that would result from applying statutory rates to income before income taxes because of the valuation allowance applied against the deferred income tax assets.

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of HPI's assets and liabilities. Differences are primarily attributable to the net operating loss carryforwards, resulting in deferred tax assets. The components of the deferred tax assets are as follows:

Deferred Tax Assets	2010	2009
Net operating loss carryforwards	\$189,386	\$199,598
Less: Valuation Allowance	<u>189,386</u>	<u>199,598</u>
	<u>\$ —</u>	<u>\$ —</u>

HPI utilized net operating losses of approximately \$32,319 and \$17,371 for the years ended August 31, 2010 and 2009, respectively.

HPI has net operating loss carryforwards of \$557,017 available to offset future federal and state taxable income that expire through 2023 as follows:

Year	Amount	Year	Amount
2011	\$—	2014	157,696
2012	2,283	2015	95,052
2013	156,011	Thereafter	<u>145,975</u>
			<u>\$557,017</u>

The Association adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 740-10 on September 1, 2009, which covers uncertainty in income taxes. The cumulative effect of adopting FASB ASC Section 740-10 had no effect on the Association's financial position or results of operations.

The Association files income tax returns in the U.S. Federal jurisdiction. The Association is no longer subject to U.S. Federal income tax examinations by tax authorities for fiscal years ended prior to August 31, 2007.

7 — Temporarily Restricted Net Assets

Temporarily restricted net assets are funds donated for the purpose of awarding \$2,500 annually to the champion of the National Western Stock Show in Denver. The balance of temporarily restricted net assets was \$7,500 and \$10,000 as of August 31, 2010 and 2009, respectively.

8 — Collections

The Association has a collection of artwork, appraised at approximately \$308,600, at August 31, 2010 and 2009, that is on public display at the Association's headquarters. The Association has adopted a policy of not capitalizing the collection of artwork in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. No items were purchased for or removed from the collection during the years ended August 31, 2010 or 2009.

The Association insures these collections with a policy that has a face value consistent with the appraised values.

9 — Other Assets

On October 4, 2006, AHA entered into an agreement with Seabiscuit Park, LLC to purchase approximately 10 acres of land for a purchase price of \$1,306,800. In 2007, AHA made a deposit of \$250,000 of earnest money which was classified as an other asset on the consolidated financial statements.

Interest earned on the escrow account totaled \$468 and \$1,082 for the years ended August 31, 2010 and 2009, respectively, and had accumulated earnings of \$12,255 from its inception.

During the fiscal year ended August 31, 2010, the members and lenders of Seabiscuit Park, LLC decided to not move forward with the planned development. After the cancellation of the development, AHA petitioned to have its deposit refunded. The balance of the deposit plus earnings was repaid to the Association less \$50,000 which was deemed non-refundable and resulted in a \$50,000 loss recorded on AHA's books for the year ended August 31, 2010.

10 — Accumulated Deficit and Management Plan for Certified Hereford Beef (CHB)

CHB showed a decrease in net assets of \$308,640 and \$185,746 during the years ended August 31, 2010 and 2009, respectively. The deficit equity balance amounted to \$1,143,308 and \$834,668 as of August 31, 2010 and 2009. CHB has experienced difficulty in generating sufficient program revenues to offset rising program expenses. Management is developing plans to generate additional unrestricted revenues and to significantly reduce operating costs. These plans call for increased oversight and management from the Association, resulting in no further decrease in net assets in the upcoming fiscal year ending August 31, 2011. The Association will continue to evaluate the success of these efforts in determining the future of CHB.

11 — Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

12 — Subsequent Events

Management has evaluated subsequent events through September 30, 2010, the date which the financial statements were available for issue. There have been no events which require disclosure.

Independent Auditor's Report

Board of Directors/American Hereford Association/Kansas City, Mo.:

We have audited the accompanying consolidated statements of financial position of American Hereford Association and subsidiaries as of August 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of American Hereford Association and subsidiaries as of August 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

— Respectfully submitted, Kennedy and Coe, LLC, September 30, 2010

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2010 and 2009.

— American Hereford Association, Craig Huffhines, executive vice president



2009-10 AHA Board of Directors

Pictured seated (l to r) are: Bob Harrell Jr., Baker City, Ore., president; John Woolfolk, Jackson, Tenn., vice president; Marshall Ernst, Windsor, Colo., CHB LLC president; Denny Hoffman, McArthur, Calif.; and Craig Huffhines, Kansas City, Mo., executive vice president. Directors standing (l to r) are: James Milligan, Kings, Ill.; Jerry Huth, Oakfield, Wis.; Paul Funk, Copperas Cove, Texas; David Breiner, Alma, Kan.; Jimmie Johnson, Clinton, Okla.; Marty Lueck, Mountain Grove, Mo.; Cliff Copeland, Nara Visa, N.M.; and Dale Micheli, Ft. Bridger, Wyo.

2009-10 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	778	663	1,288	23	20	25
Arizona	295	54	852	13	6	39
Arkansas	875	618	1,149	65	57	24
California	1,385	466	2,380	100	88	15
Colorado	1,318	397	2,149	67	19	18
Connecticut	85	52	193	19	15	41
Delaware	20	46	23	4	5	47
Florida	140	109	434	15	3	40
Georgia	1,623	1,199	3,764	77	41	12
Idaho	1,837	722	2,647	64	40	10
Illinois	2,383	1,378	4,101	173	191	8
Indiana	1,597	886	1,984	151	171	13
Iowa	1,359	515	2,342	114	100	17
Kansas	3,853	1,664	6,091	130	66	4
Kentucky	1,022	667	1,700	67	53	22
Louisiana	521	644	487	43	38	33
Maine	39	21	34	10	5	45
Maryland	320	192	660	47	41	37
Massachusetts	35	26	53	7	5	46
Michigan	666	554	957	69	60	29
Minnesota	1,244	514	2,332	89	31	20
Mississippi	719	1,044	1,107	41	43	27
Missouri	3,148	2,118	4,991	179	125	6
Montana	2,980	888	3,790	72	30	7
Nebraska	5,288	2,300	7,272	131	58	2
Nevada	451	97	771	15	10	35
New Hampshire	42	21	55	7	6	44
New Jersey	47	20	97	11	15	43
New Mexico	512	138	837	29	3	34
New York	405	198	512	57	35	36
North Carolina	653	369	1,170	66	30	30
North Dakota	2,022	903	3,497	49	14	9
Ohio	925	675	1,884	123	57	23
Oklahoma	3,709	2,328	4,345	150	105	5
Oregon	1,431	505	2,511	92	45	14
Pennsylvania	596	499	1,099	64	74	31
Rhode Island	19	2	0	2	1	48
South Carolina	302	247	873	30	9	38
South Dakota	4,765	1,596	7,566	87	46	3
Tennessee	1,815	1,548	3,259	117	55	11
Texas	7,858	4,783	10,247	371	215	1
Utah	691	275	1,151	28	1	28
Vermont	64	44	170	8	7	42
Virginia	756	429	1,389	60	30	26
Washington	1,126	409	1,787	83	52	21
West Virginia	555	368	1,069	52	17	32
Wisconsin	1,264	795	2,245	135	86	19
Wyoming	1,369	781	2,363	35	20	16
TOTAL	64,907	34,767	101,677	3,441	2,244	

TOP 10

REGISTRATIONS

Top 10 States

Texas	7,858
Nebraska	5,288
South Dakota	4,765
Kansas	3,853
Oklahoma	3,709
Missouri	3,148
Montana	2,980
Illinois	2,383
North Dakota	2,022
Idaho	1,837

Top 10 Breeders

Rausch Herefords	798
<i>Hoven, S.D.</i>	
Upstream Ranch	700
<i>Taylor, Neb.</i>	
Imig Herefords	502
<i>Lakeside, Neb.</i>	
Alexander Mih	474
<i>Chanute, Kan.</i>	
Colin Hoffman	396
<i>Leola, S.D.</i>	
Dudley Bros.	378
<i>Comanche, Texas</i>	
Van Newkirk Herefords	368
<i>Oshkosh, Neb.</i>	
Star Lake Cattle Ranch	338
<i>Skiatook, Okla.</i>	
Jamison Herefords	338
<i>Quinter, Kan.</i>	
Mrnak Herefords	309
<i>Bowman, N.D.</i>	

American Hereford Association

Vision Statement

To be the preferred beef breed for producers and consumers.

Mission Statement

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

Strategic Intent Statement

The American Hereford Association will grow its herd book cow numbers by 1% a year, registrations 3-5% per year and its commercial bull market share to 22% by 2015. This will be achieved by delivering practical tools, trusted documentation, targeted education, innovative marketing and member services to progressive, profit-oriented seedstock producers, commercial cow-calf producers, feeders and packers who value increased efficiency, predictability and differentiation.

Core Strategies

- I. Improve the overall quality, consistency, predictability and profitability of Hereford genetics.
- II. Build strategic alliances.
- III. Continue to grow the Certified Hereford Beef (CHB®) program.
- IV. Increase investment in member and customer education and service.
- V. Increase focus of communicating the profitability advantage of Hereford genetics.
- VI. Grow non-traditional revenue.
- VII. Cultivate the growth and development of juniors and young breeders.



1501 Wyandotte St. • P.O. Box 014059
Kansas City, MO 64101
(zip code for street address is 64108)
816-842-3757 • 816-842-6931 fax
www.hereford.org