



The Brand That Does It All

2015 American Hereford Association Annual Report



The Brand That Does It All

Advancing the Brand



Jack Ward, AHA executive vice president

Jack Ward was named the AHA executive vice president in May. Since joining the AHA team in 2003, he has served as AHA's chief operating officer and director of breed improvement. "After a rigorous search, Jack was an inspired choice by the Board," says Eric Walker, AHA president and a Hereford breeder from Morrison, Tenn. "His knowledge and experience of all aspects of the seedstock industry combined with his commitment and respect for the Hereford breed and its members made him the choice candidate. He cares deeply about organizational development, the people who work at AHA and our Hereford members. We believe he will continue to lead the Association as the breed continues to increase market share in the commercial industry."

Fiscal year 2015 has been a year of continued progress and growth for the Hereford brand. Record sale prices for bulls and females, and increases in registrations (6%), transfers (10%) and membership (7%) prove the continued demand for Hereford genetics.

The stakes have never been higher to create value and efficiency throughout the production system. As a breed we can provide the industry genetics that are efficient, accountable, predictable, profitable and sustainable.

Because of our members' commitment and dedication to data collection, we have developed tools that positively influence cow longevity, including udder quality. Hereford longevity and fertility are important profit drivers that affect ranch sustainability and are key to our commercial customers' success.

This past year has been full of Hereford activity. We kicked off the fiscal year with the Hereford Genetic Summit Sept. 4-5 in Springfield, Mo. The Summit focused on genetics and how the beef industry will be challenged to produce the product that the consumer demands to keep the industry sustainable and to feed a growing population.

To me, the message was clear: we, as an organization, have to be focused on helping our breeders make genetic progress

by concentrating on these four key strategies:

- Keep putting pressure on calving ease.
- Work hard on adding end-product merit.
- Keep working to identify efficient, low-cost cattle.
- Keep doing all of these things, while not losing focus on what has kept the Hereford breed in the game.

Other highlights of the year were the record-breaking Mile High Night Sale in Denver during the National Western Stock Show and the record-breaking Junior National Hereford Expo this summer in Grand Island, Neb.

There is no doubt today's commercial cattleman wants it all (see Hereford.org/TheyWantItAll), and the Hereford breed is poised to be the brand that provides it all.

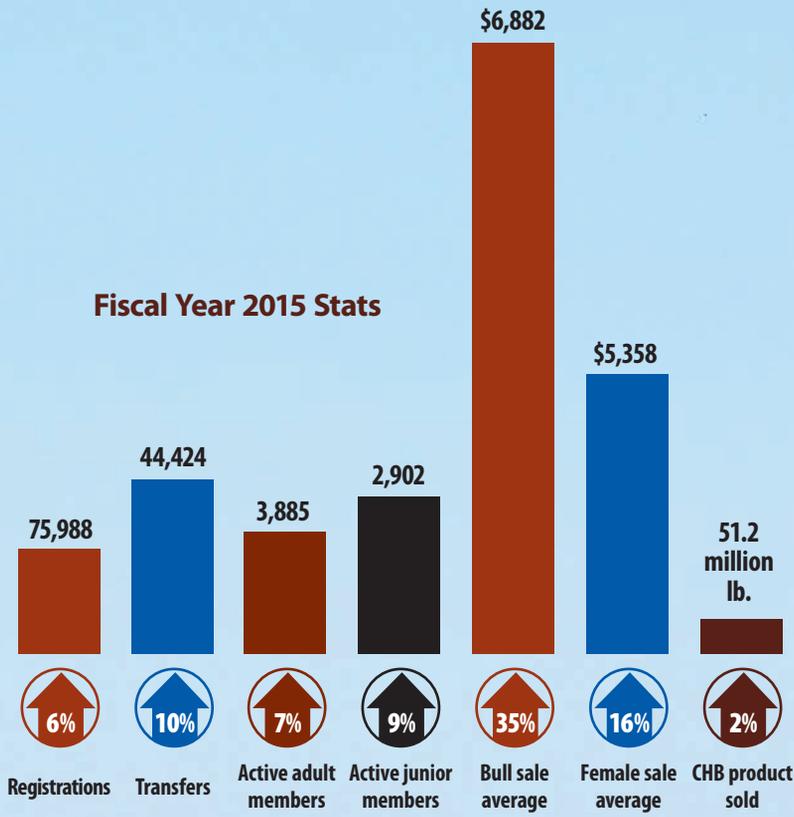
I'm excited to have the opportunity to serve as your executive vice president and to be part of these exciting times as we continue to strengthen the Hereford brand and to meet the needs of our commercial customers and, ultimately, the consumer. As you read the following pages, you'll find there is so much to our Hereford brand story; let's keep focused and "provide it all" for our customers.

— Jack Ward, executive vice president



"He Wants It All" featuring Jess Herbers is the first ad released in the "They Want It All" ad series approved by the American Hereford Association Board in July. The series of ads highlights key industry segments, including the end user — the consumer. The focus of each ad is industry relevance and the positive influence of Hereford genetics in a complex industry that demands efficiency, accountability, predictability, profitability and sustainability. The print ads have digital ads and videos to support and to complement the message. As new ads and videos are released, they will be posted at Hereford.org/TheyWantItAll.

Fiscal Year 2015 Stats



Progress Through Performance

Dedicated to genetic improvement of the breed, the American Hereford Association (AHA) provides its members with programs to document the Hereford advantage.

For 15 years, AHA's Whole-Herd Total Performance Records (TPR™) program has been helping Hereford breeders make in-herd progress as well as helping the AHA build the largest database in the industry for lifetime cow productivity.

Hereford is leading the industry in genetic technology. In an era when "sustainable agriculture" is the buzzword, the Hereford breed has delivered those traits that will sustain the profitability of the commercial industry.

New udder EPDs released

Thanks to Hereford breeders' commitment to Whole-Herd TPR, the Association released expected progeny differences (EPDs) for udder quality during fiscal year (FY) 2015 and is in the final stages of releasing EPDs for heifer calving rate, sustained cow fertility and feed efficiency.

"These are important traits to analyze because commercial producers demand genetics that are problem-

free," says Jack Ward, AHA executive vice president. "The Association's role is to give our members tools to make improvement in beef production. Udder EPDs are the next phase in breed improvement strategies that will allow our members to continue to improve the genetics they produce."

Research sets the course

The Association's comprehensive National Reference Sire Program (NRSP) is the envy of the seedstock industry. During the program's 16 years, more than 300 bulls have been tested. This year more than 2,000 cows were enrolled in the program.

DNA testing technology continues to evolve, giving Hereford breeders even more predictive power when making genetic decisions. The AHA has taken a very scientific approach by collaborating with some of the brightest animal geneticists in the country to develop Hereford-specific genomic-enhanced EPDs (GE-EPDs) through the national cattle evaluation (NCE).

By blending pedigree, phenotypes and now genetic information, the Association has the ability to predict the breeding value of young unproven

animals with new accuracy levels that equate to an animal having three to eight progeny on record. At the end of the fiscal year, AHA had more than 21,000 genotypes for genetic evaluation.

AHA also continues to participate in the U.S. Department of Agriculture's (USDA) \$4 million national program for genetic improvement of feed efficiency in beef cattle as well as the USDA National Institute of Food and Agriculture-funded study investigating genomic technologies to enhance beef cattle fertility.

FY 2015 marked the fourth calf crop born at Simplot Livestock Co. as part of the multi-year research project documenting the benefits of using calving-ease Hereford sires in a predominately Angus program.

Thanks to all this progress, Hereford semen use in the commercial industry is also increasing. According to the National Association of Animal Breeders (NAAB), domestic Hereford semen sales increased 24% compared to those of last year. Hereford domestic semen sales have steadily increased since 2006 (179%), a testament to the increasing demand for Hereford genetics in the commercial industry.



Hereford breeders were challenged to embrace technology, to focus on the customer, and to concentrate on feed efficiency and end-product merit during the Hereford Genetic Summit Sept. 4-5. Nearly 300 Hereford industry leaders attended the event hosted at the Darr Agricultural Center/Bond Learning Center on the Missouri State University campus in Springfield, Mo. Throughout the day-and-a-half conference, attendees were challenged by industry experts to think about the future of the breed as well as that of their individual operations. For Hereford Genetic Summit highlights, see the October 2014 *Hereford World* or visit the "Summit Proceedings" page at HerefordGeneticSummit.com. On the site you can watch presentations, download slides and listen to audio interviews of speakers.



From 2004 to 2014, AHA genetic trends indicate a 14% reduction in birth weights, 20% improvement in weaning and yearling performance and a 30% improvement in end product merit.

MyHerd Empowers Members

MyHerd stats



28%

Transfers using MyHerd



38%

Registrations using MyHerd



Providing members with programs and tools to do business effectively and efficiently is a priority for the American Hereford Association (AHA).

During fiscal year 2015, AHA rolled out *MyHerd.org* — a real-time online registry data system that provides online access to the majority of AHA record services. MyHerd provides members with a multitude of features including real-time calf registration, electronic animal transfer, online bill paying, herd inventory maintenance, artificial insemination (AI) certificate release, and the capability to view and to download lists of animals and customers, as well as much more.

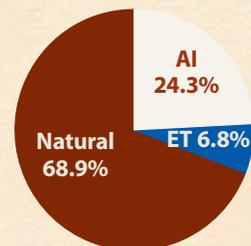
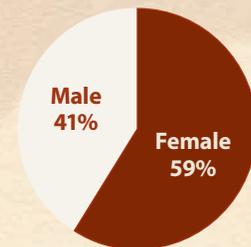


To assist with education of the new system, the MyHerd team hosted the School of MyHerd webinar sessions to provide detailed instruction on all features and tools of MyHerd. The team hosted 25 sessions since Feb. 16, with 423 registered attendees.



By fiscal year end, MyHerd had 3,163 users representing 5,142 accounts. This number represents 76% of all active adult and junior memberships.

Registration stats





Demanding More in the Marketplace

Demand for the Hereford brand continues to strengthen. Hereford breeders continue to experience a dramatic increase in production sale prices while reports of private-treaty sales outpaced the previous year reports.

AHA field representatives reported 195 Hereford production sales during

the fiscal year. Bull sales averaged \$6,882, up nearly \$1,800 per head (35% increase); and females average \$5,358, up more than \$700 per head (16% increase).

As you will notice in the graph, the average Hereford bull price has doubled in the last five years. This statistic is a true testament to

the demand for Herefords in the marketplace today.

Hereford Publications Inc. (HPI) and the *Hereford World* are key partners and tools for producers marketing Hereford genetics.

The *Hereford World* included 1,174 pages of advertising, an increase of 174 pages compared to fiscal year 2014. A total of 15 catalogs were mailed with the *Hereford World*.

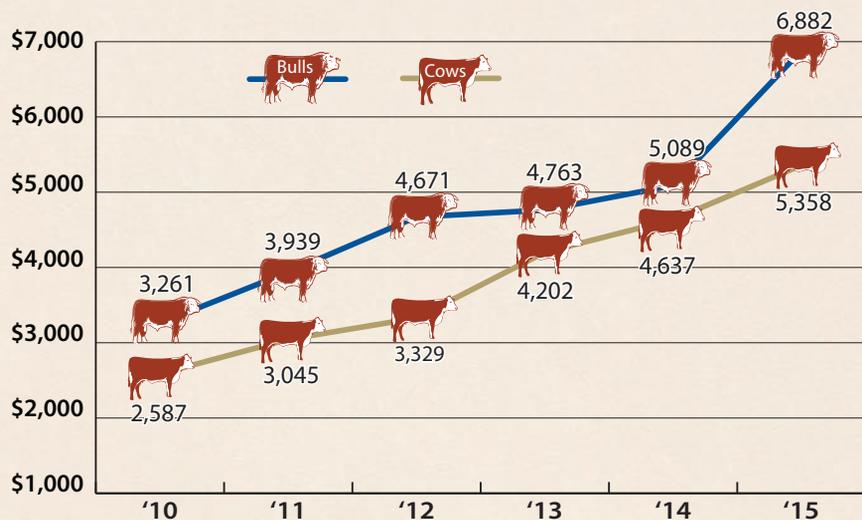
Beyond the magazine, the Creative Services team produced 73 sale catalogs, seven directories, 46 postcards plus numerous other projects such as brochures, stall cards and logo design.

Spreading the Hereford message and creating more Hereford demand is a combined effort of the AHA and HPI communication team.

In addition to the *Hereford World*, the communication team utilizes *Hereford eNews*, *Sales Digest*, *Hereford.org*, Facebook, Twitter and YouTube to promote the Hereford brand along with a concentrated effort in press release distribution and networking with other media outlets.

Average prices paid for Hereford bulls and females

(as reported to *Hereford World* staff)



The spotlight was on Herefords at this year's National Western Stock Show (NWSS) in Denver Jan. 14-17. The Mile High Night Hereford Sale continues to be a highlight of the event, and it once again broke records on the stadium floor. "The 2015 Mile High Night Hereford Sale was one for the NWSS record books," says Marshall Ernst, NWSS livestock operations senior director. "With a record-setting attendance and a bred-female selling for a record \$250,000, this year's event will be one that is long remembered by Hereford enthusiasts as well as others in the beef industry." An estimated 5,000 were in attendance for the sale's first time to be managed by the American Hereford Association (AHA). "It's been an exciting time for the Hereford breed," says Joe Rickabaugh, AHA director of seedstock marketing. "In addition to breaking a record with the high-selling lot, we saw 30 out of 40 lots bring \$10,000 or more. The last lot in the sale brought \$18,000, and there were eight lots over \$30,000."





CHB Volume Surpasses 51 million lb.

Celebrating its 20th year as a brand, the Certified Hereford Beef (CHB) program continues to expand its market share and meet the needs of its customers. During its first 20 years, the CHB® brand has marketed 641 million lb. of product, affecting the marketing of 3.4 million head of Hereford-influenced cattle.

Fiscal year (FY) 2015 was a year of growth for the program with 51.2 million lb. of product sold — a 2% increase compared to the previous year's total. Since 2008, CHB LLC has increased beef sales by 46%.

CHB LLC staff, along with the program's marketing partners, tout the advantages of CHB product in marketing differentiation when compared to other brands, along with the fact that it is consistently tender, juicy and flavorful. These advantages are fueling the brand's advance in both foodservice and retail markets.

Program growth

Foodservice continues to provide the most growth opportunity for CHB LLC. As consumers continue to prepare fewer meals at home, CHB LLC staff members have worked hard to supply a high-quality source of beef to restaurateurs and chefs through distributors around the country.

CHB LLC's foodservice division experienced a 2 million lb. growth during FY 2015. The following new distributors contributed to this increase: Cash-Wa Distribution, Kearney, Neb.; Sysco Virginia, Harrisonburg, Va.; Crystal Creek Cattle Co., Ft Worth, Texas; Golden Gate Meats, Sacramento, Calif.; and Sysco North Dakota, Fargo, N.D.

Currently, more than 46 foodservice distribution centers and 350 retail supermarkets in 36 states offer the CHB brand.

The program also experienced growth in its export sales to the

Caribbean and Central and South America markets. A new opportunity becoming an asset to the program was CHB value-added products.

"Adding value to CHB primal cuts is proving to be a great asset to CHB's bottom line for retail and foodservice," explains Mick Welch, CHB LLC vice president of sales. "As our distributors explore what their customer base is seeking for home or dining out, CHB LLC staff is paying attention and offering CHB value-added products that meets those needs."

The retail and foodservice divisions continue to build brand recognition through programs like the National Grocers Association tradeshow and radio marketing opportunities.

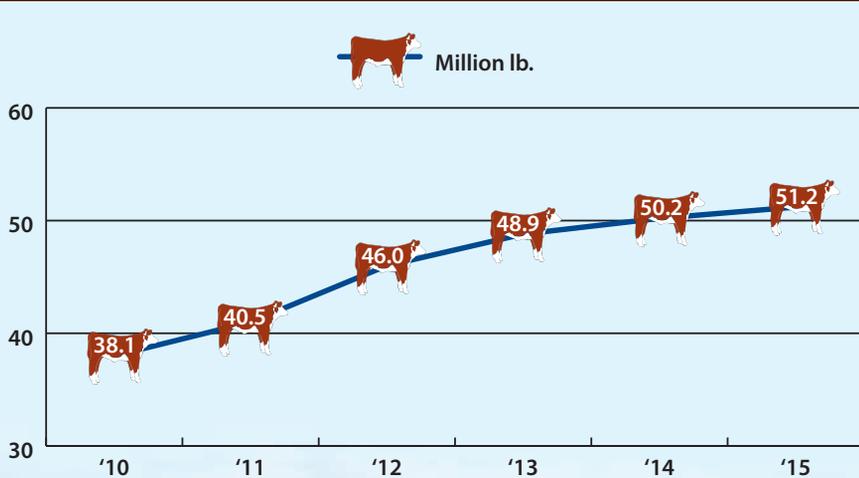
Meeting the demand

As the demand for CHB continues to grow, the supply of high-quality cattle must also continue to increase. CHB LLC staff, along with packing partners, are continually working to increase, not only supply, but also carcass utilization.

In a cattle market that is offering record low cattle numbers, CHB LLC continues to find ways to utilize as much of each carcass as possible to meet the demand for CHB. This past year was a great example of doing just that. During FY 2015, a total of 336,147 cattle were identified through CHB-licensed packing facilities as eligible from a live specification standpoint, while more than 235,650 carcasses were certified for the program — a certification rate of 70%.

"Our consumers have found the CHB-brand product meets their demand for a consistent, quality dining experience with a great value," says David Trowbridge, CHB LLC board president. "Our producers, staff and packer partners work as a team to provide the highest quality product and continue to build the CHB brand. Our legendary story and high-quality product value will continue to provide our CHB team with unlimited potential to provide the pull-through demand for Hereford genetics."

CHB tonnage sold





641 million lb. sold

5.4 million head harvested

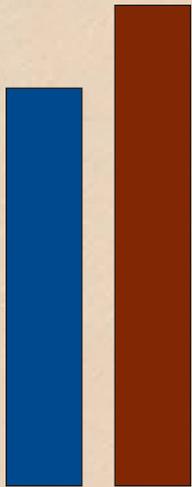
3.4 million head certified





'Hereford Nation,' Youth Break Records

Junior trends 2010-2015



JNHE
entries



NJHA
membership

The National Junior Hereford Association (NJHA) and its programs and activities have created enthusiasm among youth and for the future of the breed. Since 2010, active youth membership has increased by 658 or 29%.

Fostering the excitement for the NJHA is the association's premier event each year — the Junior National Hereford Expo (JNHE). "Hereford Nation" took Grand Island, Neb., by storm June 27 to July 3 as the city hosted the record-setting 2015 VitaFerm® JNHE. During the event, more than 800 youth from 38 states exhibited a record-number 1,441 entries.

Throughout the week, juniors were also awarded nearly \$25,000 in scholarships, plus they participated in 22 contests outside the showing.

Another highlight of the NJHA year is the Program for Reaching Individuals

Determined to Excel (PRIDE) Convention. This year 90 youth attended the "Faces of Leadership" event in Estes Park, Colo.

Key to Hereford's youth program success is the support from the Hereford Youth Foundation of America (HYFA). This year more than \$200,000 was raised to support leadership and education for the next generation of Hereford youth.

The Hereford Research Foundation (HRF) is a division of HYFA that was started in 2009 to support breed improvement projects outside the scope of the American Hereford Association (AHA) budget. Through the years, more than \$300,000 has been raised to support projects such as calving-ease research at Simplot; the GrowSafe system built at Olsen Ranch, Harrisburg, Neb., to collect feed intake data; and the work done to DNA sequence Hereford legacy sires.



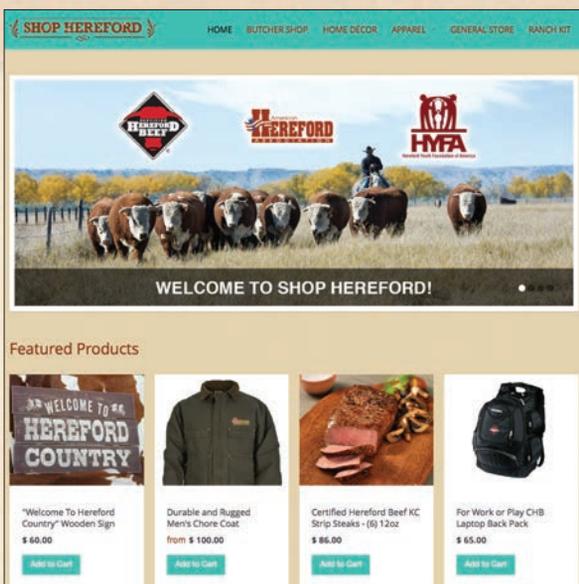
Hereford youth exhibited a record-number 1,441 entries at the 2015 JNHE in Grand Island, Neb. More than 800 youth from 38 states participated in the weeklong event featuring the cattle show plus 22 contests outside the showing.



The Lot 1 Foundation Female raised \$100,000 for Hereford youth during the Mile High Night Sale on Jan 16. Bushy Park Farm, Mitchell, S.D., and Cottonwood Springs Farm, Cedar, Mich., purchased this female. Lot 1 — CCC SR ILR Foundation Lady 437B ET — was donated by Churchill Cattle Co., Manhattan, Mont.; Stuber Ranch, Bowman, N.D.; and Iron Lake Ranch, Athens, Texas.



During the AHA Honorees Reception on Oct. 31, HYFA recognized NJHA members, presenting scholarships totaling more than \$37,000. Since 2000 more than \$450,000 has been dispersed to Hereford youth by HYFA.



SHOP HEREFORD

In April, *ShopHereford.com* — an online store featuring Hereford-branded items — was launched. The site was created to be Hereford enthusiasts' one-stop shop for everything they love about Herefords and to support the American Hereford Association, the National Junior Hereford Association, the Hereford Youth Foundation of America and the Certified Hereford Beef (CHB) brand. A special feature of the site is the "Butcher Shop," where visitors can order great-tasting, flavorful and nutritious CHB products.

HYFA headlines

- ◆ A total of \$86,700 was raised during the Cutting Edge Sale Sept. 5 aboard the Showboat Branson Belle. Fourteen lots generated \$81,600 for the Hereford Research Foundation (HRF), and one lot raised \$5,100 for the Hereford Youth Foundation of America's (HYFA) "Growing a Lasting Legacy" campaign.
- ◆ Doug and Jenny Howe of Deana Jak Farms presented \$85,000 to the "Growing a Lasting Legacy" campaign during the AHA honorees reception in Kansas City, Mo., Oct. 31. The Howes presented \$35,000, which was a surplus of the fundraising from "A Sweet Family Tradition" in Harrisburg, Pa. The Howe family contributed an additional \$50,000 to support the campaign.
- ◆ Hereford enthusiasts once again came together to support youth Jan. 16 during the Mile High Night Hereford Sale in Denver. Kicking off the record-breaking sale was the Lot 1 Foundation Female selling for \$100,000, which was purchased by Bushy Park Farm, Mitchell, S.D., and Cottonwood Springs Farm, Cedar, Mich.
- ◆ The fourth-annual HRF *BuyHereford.com* Auction raised \$38,500 for Hereford research July 23.
- ◆ During this past fiscal year, HYFA awarded more than 30 youth scholarships totaling \$62,000.

American Hereford Association and Subsidiaries
Consolidated Statements of Financial Position
August 31, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash and cash equivalents	\$499,090	\$320,196
Short-term investments	–	175,335
Accounts receivable, net	670,372	679,990
Accounts receivable - other	44,538	22,682
Prepaid expenses	14,693	17,495
Inventories	80,507	30,400
Due from Hereford Youth Foundation of America (HYFA)	2,953	8,639
Due from Junior National Hereford Expo (JNHE)	10,544	17,351
Total Current Assets	<u>1,322,697</u>	<u>1,272,088</u>
Investments	<u>2,080,610</u>	<u>2,123,997</u>
Property and Equipment		
Land	462,122	462,122
Building	2,340,558	2,338,975
Furniture and fixtures	362,984	353,518
Vehicles	219,600	253,270
Data processing equipment	231,156	211,602
Software	301,057	245,007
Less: Accumulated depreciation and amortization	<u>(1,697,154)</u>	<u>(1,634,728)</u>
Total Property and Equipment	<u>2,220,323</u>	<u>2,229,766</u>
Other Assets		
Cash temporarily restricted for the National Western Stock Show (NWSS) award	–	112
Other	90	90
Total Other Assets	<u>90</u>	<u>202</u>
Total Assets	<u>\$5,623,720</u>	<u>\$5,626,053</u>

The accompanying notes are an integral part of these financial statements.

Liabilities and Net Assets	2015	2014
Current Liabilities		
Accounts payable	\$186,212	\$316,586
Accrued expenses	215,954	312,319
Current maturities of long-term obligations	24,106	26,740
Prepayments from breeders	113,650	107,979
Deferred subscription and advertising revenue	155,026	139,777
Total Current Liabilities	<u>694,948</u>	<u>903,401</u>
Long Term Obligations, less current maturities	<u>38,668</u>	<u>15,937</u>
Net Assets		
Unrestricted net assets	4,890,104	4,706,603
Temporarily restricted net assets	–	112
Total Net Assets	<u>4,890,104</u>	<u>4,706,715</u>
Total Liabilities and Net Assets	<u>\$5,623,720</u>	<u>\$5,626,053</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Activities
for the Years Ended August 31, 2015 and 2014

	2015	2014
Changes in Unrestricted Net Assets		
Revenues and Support		
Services	\$3,148,187	\$2,870,984
Advertising and subscriptions	2,046,006	1,892,543
Program revenues	1,027,213	1,072,912
Other revenue	633,817	600,853
Net assets released from restrictions	112	2,500
Total Revenue and Support	<u>6,855,335</u>	<u>6,439,792</u>
Expenses		
General and administrative	2,060,346	1,955,763
Board of directors' expenses	49,608	49,060
Building expenses	161,100	148,239
Market development and information	572,210	530,235
Junior activities	269,183	271,266
Research and TPR activities	231,377	245,988
Program expenses	3,105,572	2,783,374
Depreciation	173,217	178,424
Total Expenses	<u>6,622,613</u>	<u>6,162,349</u>
Other Income (Expense)		
Realized gain (loss) on sale of investments	(3,538)	(26,238)
Gain (loss) on sale of assets	6,231	(6,767)
Net appreciation (depreciation) in fair value of investments	(41,455)	42,600
Other income (expense)	(10,459)	(11,637)
Total Other Income (Expense)	<u>(49,221)</u>	<u>(2,042)</u>
Net Changes in Unrestricted Net Assets	<u>183,501</u>	<u>275,401</u>
Changes in Temporarily Restricted Net Assets		
Contributions	–	27
Net assets released from restrictions	(112)	(2,500)
Net Changes in Temporarily Restricted Net Assets	<u>(112)</u>	<u>(2,473)</u>
Change in Net Assets	<u>183,389</u>	<u>272,928</u>
Net Assets - Beginning Of Year	<u>4,706,715</u>	<u>4,433,787</u>
Net Assets - End Of Year	<u>\$4,890,104</u>	<u>\$4,706,715</u>

The accompanying notes are an integral part of these financial statements.



Consolidated Statements of Cash Flows for the Years Ended August 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$183,389	\$272,928
Adjustments to Reconcile Net Earnings to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	173,217	178,424
Realized (gain) loss on sale of investments	3,538	(26,238)
(Gain) loss on sale of assets	(6,231)	6,767
Net (appreciation) depreciation in fair value of investments	41,455	(42,600)
(Increase) decrease in:		
Accounts receivable – net	9,618	(48,375)
Accounts receivable – other	(21,856)	29,257
Prepaid expenses	2,802	(8,045)
Inventories	(50,107)	4,892
Due from HYFA	5,686	(38,610)
Due from JNHE	6,807	(45,886)
(Increase) decrease in:		
Accounts payable	(130,374)	55,226
Accrued expenses	(96,365)	68,650
Prepayments from breeders	5,671	18,816
Deferred subscription and advertising revenue	15,249	(6,652)
Total Adjustments	(40,890)	198,102
Net Cash Provided By (Used In) Operating Activities	142,499	471,030
Cash Flows From Investing Activities		
Cash temporarily restricted for NWSS award	112	2,473
Purchases of property and equipment	(172,466)	(97,124)
Purchases of investments	(619,971)	(1,107,493)
Proceeds from sale of investments	793,700	913,251
Proceeds from sales of property and equipment	14,923	–
Net Cash Provided By (Used In) Investing Activities	16,298	(288,893)
Cash Flows From Financing Activities		
Net proceeds from long-term obligations	69,888	–
Payments on long-term obligations	(49,791)	(42,352)
Net Cash Provided By (Used In) Financing Activities	20,097	(42,352)
Net Increase (Decrease) in Cash And Cash Equivalents	178,894	139,785
Cash and Cash Equivalents – Beginning of Year	320,196	180,411
Cash and Cash Equivalents – End of Year	\$499,090	\$320,196
Supplemental Disclosures of Cash Flow Information		
Cash Paid (Received) During the Year for:		
Interest	\$3,137	\$2,586

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements August 31, 2015 and 2014

1 — Summary of Significant Accounting Policies

Nature of Operations The American Hereford Association (the Association) is a not-for-profit association that 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 on behalf of Certified Hereford Beef.

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 magazine periodically.

The Association is the sole member of Certified Hereford Beef®, LLC (CHB). CHB is a not-for-profit association. 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 27, 2000. Prior to that date, CHB's activities were performed and accounted for within the Association.

American Beef Records Association (ABRA) is a not-for-profit association that is wholly owned by the Association. ABRA provides computer consultation in herd planning and management, breeding services and marketing for commercial livestock of various breeds.

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

- **Unrestricted Net Assets:** Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets:** Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and or the passage of time. When a restriction expires, 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:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. The Association doesn't have any permanently restricted net assets.

Principles of Consolidation The accompanying consolidated financial statements include the Association and its wholly-owned subsidiaries, HPI, CHB and ABRA, collectively referred to as the Association. All material intercompany transactions have been eliminated in consolidation.

Basis of Accounting The accrual method of accounting is used, which recognizes income in the period earned and expenses in the period incurred.

Cash and Cash Equivalents For purposes of the statements of cash flows, the Association considers all money market investments and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Investments amounting to \$222,824 and \$45,740 were considered to be cash equivalents at August 31, 2015 and 2014, respectively.

Accounts Receivable Receivables are presented at face value, net of the allowance for doubtful accounts and consist of amounts billed for magazine advertising, subscriptions and member services, but not received by year-end. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on historical experience. The Association's receivables are considered past due based upon contractual terms and are automatically charged off after three years. 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 \$28,554 and \$6,417 as of August 31, 2015 and 2014, respectively.

Inventories Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

Investments The Association's investment portfolio is subject to the investment policy set forth by the Board of Directors. Investments are comprised of debt and equity 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, 2015 and 2014. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on yearend market values and reported in the consolidated statement of activities as increases or decreases in net assets.

Fair Value Measurement The accounting standards define a fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

The Association determines the fair value of investments using three broad levels of input as defined by related accounting standards.

- Level 1: Observable inputs – unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2: Observable inputs – other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data; and
- Level 3: Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the years ended August 31, 2015 and 2014.

Equity Securities: Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

Fixed Income Securities: Corporate, government, and municipal bonds and fixed income securities are generally valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value.

Acquisition of Fixed Assets The Association capitalizes all expenditures for property and equipment in excess of \$1,000. Purchases of fixed assets are recorded at cost.

Depreciation and Amortization Depreciation of property and equipment is determined using the straight-line method over the estimated useful life of each asset. The estimated useful life of assets ranges from 3 to 30 years.

During 2014, \$665,437 of fixed assets and \$658,670 of related accumulated depreciation were retired and removed from the August 31, 2014, consolidated statement of financial position. These retired assets included computer equipment and software, office furniture and equipment, and certain building improvements.

Compensated Absences Employees are entitled to one week of paid time off each year. Unused paid time off cannot be carried over from one year to the next and is not paid out upon termination. Accordingly, no liability for accrued paid time off has been recorded. The Association's policy is to recognize the costs of compensated absences when actually used by employees.

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.

Advertising Costs Advertising costs are charged to expense when incurred. The amount expensed during the years ended August 31, 2015 and 2014, was \$246,323 and \$415,238, respectively.

Income Taxes AHA, ABRA, and CHB are exempt from Federal income tax under section 501(c)(5) of the Internal Revenue Code, and therefore have made no provision for federal or state income taxes in the accompanying consolidated 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 under Section 509(a)(2).

HPI is a taxable entity and is, therefore, subject to federal income 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, 2015 and 2014, 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.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

2 — Fair Value Measurements

The following tables, set forth by level, within the fair value hierarchy, list the Association's assets at fair value:

August 31, 2015	Level 1
Equity Securities	\$ 66,437
Municipal Bonds	24,856
Government agency bonds	916,601
Corporate bonds	842,365
Fixed Income Securities	230,351
Total	<u>\$2,080,610</u>
August 31, 2014	
Equity Securities	\$ 88,203
Municipal Bonds	24,695
Government agency bonds	1,029,033
Corporate bonds	839,822
Fixed Income Securities	317,579
Total	<u>\$2,299,332</u>

3 — Retirement Plan

The Association provides eligible employees with a 401(k) Qualified Retirement plan. The Association also established a profit sharing plan for all eligible employees. The plan provides for employer and employee contributions based upon a percentage of annual compensation. Employer contributions for the years ended August 31, 2015 and 2014, were \$95,862 and \$86,395, respectively.

4 — Long-Term Obligations

Long-term obligations consists of the following at August 31:	2015	2014
Notes - vehicles, collateralized by related vehicles, interest from 2.74% to 6.74%, maturing from January 2015 through November 2019.	\$62,774	\$42,677
Less: Current portion	24,106	26,740
Total Long-Term Obligations	<u>\$38,668</u>	<u>\$15,937</u>

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

Year	Amount	Year	Amount
FYE 2016	\$24,106	FYE 2019	\$4,961
FYE 2017	\$20,605	FYE 2020	\$857
FYE 2018	\$12,245	Thereafter	-
			<u>\$62,774</u>

Interest expense was \$3,137 and \$2,586 for the years ended August 31, 2015 and 2014, respectively.

5 — Leases

The Association has long-term and short-term operating leases for certain equipment, copiers and plants. Amounts recorded as equipment lease expense were \$12,138 and \$14,138, respectively, for the years ended August 31, 2015 and 2014.

The future long-term minimum rental payments for the above-mentioned leases are as follows for the years ended August 31:

Year	Amount	Year	Amount
FYE 2016	\$9,337	FYE 2019	\$5,151
FYE 2017	\$9,337	FYE 2020	\$3,130
FYE 2018	\$9,337	Thereafter	-
			<u>\$36,292</u>

6 — Income Taxes

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

	2015	2014
Current	\$ -	\$ -
Deferred:		
Temporary differences	(932)	36,388
Change in valuation allowance	932	(36,388)
	<u>\$ -</u>	<u>\$ -</u>

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 carryforward, resulting in deferred tax assets.

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.

The components of the deferred tax assets are as follows at:

Deferred Tax Assets	August 31, 2015	August 31, 2014
Net operating loss carryforwards	\$115,747	\$114,815
Less: Valuation Allowance	(115,747)	(114,815)
Total Deferred Tax Assets	<u>\$ -</u>	<u>\$ -</u>

HPI utilized a net operating loss of approximately \$0 and \$107,025 for the years ended August 31, 2015 and 2014, respectively.

HPI has a net operating loss carryforward of \$340,432 available to offset future federal and state taxable income that begin to expire in 2019, as follows:

Year	Amount	Year	Amount
2019	\$77,407	2022	\$29,681
2020	\$95,052	Thereafter	\$21,998
2021	\$116,294		<u>\$ 340,432</u>

The Association files income tax returns in the U.S. Federal jurisdiction, various U.S. state jurisdictions, and U.S. city jurisdictions. The Association is subject to U.S. federal or state income tax examinations by tax authorities generally for a period of three years after filing of the tax returns.

7 — Temporarily Restricted Net Assets

Temporarily restricted net assets are funds donated for the purpose of funding prizes and awards at the National Western Stock Show. The balance of temporarily restricted net assets was \$0 and \$112 as of August 31, 2015 and 2014, respectively.

8 — Collections of Artwork

The Association has a collection of artwork, appraised at approximately \$639,200, at August 31, 2015 and \$610,500 at August 31, 2014, that is on public display at the Association's headquarters. The most recent appraisal is as of April 2015 for new pieces added in the current year and August 2011 for the rest of the collection. 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 are charged to expenses in the period when purchased. There were four pieces added to the collection during the year ended August 31, 2015, and none added during the year ended August 31, 2014.

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

9 — Concentration of Credit Risk

The Association maintains cash accounts that are secured by the Federal Deposit Insurance Corporation (FDIC) to the insured limits of the FDIC. The Association's bank balances may exceed this limit from time to time.

10 — Subsequent Events

The City of Kansas City, Missouri, has announced that, in its efforts to continue the revitalization of the downtown Kansas City area, plans have been approved to build a new hotel and convention center to be built on the block of property that includes the current location of the Association's headquarters. This new hotel would be managed by Hyatt Hotels and will be funded mostly by private investors with some support from the City.

The Association's Board of Directors has taken steps to protect the interests of the Association and its membership. The current headquarters building has served the Association for many years and could continue to do so for the foreseeable future; however, the Association also recognizes the importance of the project to the City, and the inevitability of their ultimate decision. The Board has formed a building committee and is working with the Association's legal counsel through the proper due diligence for the potential sale and relocation of the Association's headquarters.

As of the date of issuance of these consolidated financial statements, there is not an agreement in place or in negotiation with the City or Hyatt Hotels.

The Association has evaluated subsequent events through October 7, 2015, the date which the consolidated financial statements were available for issue. There have been no additional events which require disclosure.

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of American Hereford Association (the Association), a nonprofit organization and its subsidiaries, which comprise the consolidated statements of financial position as of August 31, 2015 and 2014; and the related consolidated statements of activities and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association and subsidiaries as of August 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

— Respectfully submitted, K. Coe Isom, LLP, October 7, 2015

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2015 and 2014.

— American Hereford Association, Jack Ward, executive vice president

2014-15 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow		Members		Registration Rank
			Inventory	Active	Juniors		
Alabama	1,130	910	1,471	44	27	22	
Arizona	159	39	414	13	4	40	
Arkansas	1,069	921	1,084	86	70	23	
California	1,202	480	2,224	92	78	21	
Colorado	1,367	625	1,949	75	20	20	
Connecticut	96	64	177	15	14	41	
Delaware	8	6	11	3	3	47	
Florida	226	154	414	24	9	39	
Georgia	1,977	1,487	2,951	84	40	13	
Idaho	2,051	961	2,438	56	39	11	
Illinois	2,811	2,255	4,475	188	242	8	
Indiana	1,933	1,281	3,199	168	181	14	
Iowa	2,013	1,224	2,369	156	164	12	
Kansas	4,588	2,043	6,975	146	114	5	
Kentucky	1,440	887	1,798	89	61	18	
Louisiana	609	622	384	41	47	33	
Maine	68	47	60	18	6	42	
Maryland	395	453	538	55	73	38	
Massachusetts	43	47	67	7	12	45	
Michigan	547	502	892	71	39	34	
Minnesota	1,741	950	2,198	106	71	15	
Mississippi	830	761	762	60	50	28	
Missouri	4,186	2,458	5,798	198	147	6	
Montana	2,830	1,080	3,387	67	23	7	
Nebraska	5,864	2,078	8,035	152	130	2	
Nevada	400	199	638	19	6	37	
New Hampshire	62	58	41	10	4	44	
New Jersey	64	49	50	11	12	43	
New Mexico	939	307	1,237	32	10	25	
New York	474	351	564	60	44	36	
North Carolina	820	787	1,385	65	41	29	
North Dakota	2,463	1,308	3,556	66	21	9	
Ohio	954	921	1,410	141	88	24	
Oklahoma	5,310	3,167	5,904	180	181	3	
Oregon	1,433	1,195	2,170	68	62	19	
Pennsylvania	787	599	1,066	80	75	31	
Rhode Island	4	1	14	1	0	48	
South Carolina	503	194	770	33	11	35	
South Dakota	4,619	1,969	7,983	94	69	4	
Tennessee	2,219	1,520	3,319	144	68	10	
Texas	9,303	5,940	10,944	462	311	1	
Utah	621	193	818	24	1	32	
Vermont	42	21	38	7	1	46	
Virginia	916	464	979	70	44	26	
Washington	899	636	1,171	68	37	27	
West Virginia	790	508	1,046	55	24	30	
Wisconsin	1,625	1,016	2,514	143	103	16	
Wyoming	1,558	686	2,529	38	25	17	
TOTAL	75,988	44,424	104,216	3,885	2,902		

Top 10 Registrations

Top 10 States

Texas	9,303
Nebraska	5,864
Oklahoma	5,310
South Dakota	4,619
Kansas	4,588
Missouri	4,186
Montana	2,830
Illinois	2,811
North Dakota	2,463
Tennessee	2,219

Top 10 Breeders

Rausch Herefords, Hoven, S.D.	917
Upstream Ranch, Taylor, Neb.	721
Shaw Cattle Co. Inc., Caldwell, Idaho	598
W4 Ranch, Morgan, Texas	553
Van Newkirk Herefords, Oshkosh, Neb.	499
M-M Ranch, Chanute, Kan.	462
Holden Herefords, Valier, Mont.	412
Fawcetts Elm Creek Ranch, Ree Heights, S.D.	381
Dudley Bros., Comanche, Texas	357
Mrnak Herefords, Bowman, N.D.	353





Pictured is the 2015 American Hereford Association (AHA) Board of Directors. Seated (l to r) are: **Eric Walker**, Morrison, Tenn., president; **Sam Shaw**, Caldwell, Idaho, vice president; **Fred Larson**, Spring Valley, Wis.; **David Trowbridge**, Tabor, Iowa; and **Craig Huffhines**, former executive vice president. Directors standing (l to r) are: **Bob Thompson**, Rolla, Mo.; **Joe Van Newkirk**, Oshkosh, Neb.; **Jim Mickelson**, Santa Rosa, Calif.; **David Bielema**, Grand Rapids, Mich.; **Kevin Schultz**, Haviland, Kan.; **Curtis Curry**, McAlester, Okla.; **Jonny Harris**, Screven, Ga.; and **Terri Barber**, Austin, Texas. Not pictured: **Jack Ward**, AHA executive vice president.

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.

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.



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