



125 Years

AHAA

Devoted

2006 American Hereford Association Annual Report



125 Years Devoted

In 1881 early U.S. Hereford breeders gathered in Chicago to establish what we know today as the American Hereford Association (AHA). Called the American Hereford Cattle Breeders Association, its purpose was two-fold: to keep the breed's records and to promote the interests of its breeders.

Today, 125 years later, AHA staff members remain devoted to these responsibilities, building on the ways in which they can best document Hereford genetics and meet the needs of the membership. This continued devotion is only appropriate when considering the breeders who define the Association. Through fad and frenzy, U.S. Hereford breeders have remained devoted to the traits that make the breed a staple in the beef industry: conversion, hardiness, fertility, longevity and disposition.

What's to note is that there are Hereford folks today whose families have remained devoted to the breed about as long as the Association has been in existence. We call them Century Breeders.

Generations of Hereford breeders have created a legacy. Good easy-doin' cattle and good, hard-workin' people – providing the commercial cattle industry with a bull and cow that work just as hard as they do.

We're proud to be Hereford, and confident that the next 125 years will find the breed as instrumental as ever in putting quality beef on tables in not only this great nation, but others as well.

Results of Devotion

by **Craig Huffhines**, AHA executive vice president

This year marks the 125th anniversary of the American Hereford Association (AHA). Throughout the years the Association has continuously demonstrated its devotion to members and to the betterment of the commercial cattle industry. The results of this devotion are paying big dividends, as indicated by the growing demand for both Hereford bulls and females.

Unquestionably the most exciting result for the 2006 fiscal year (FY 2006) was the incredible increase in demand,

or dollars paid, for Hereford genetics. Record prices paid for bulls and females, as reported to *Hereford World* staff, averaged \$3,137 and \$2,962, respectively. Compared to last year, the bulls and females combined brought \$412 more per head on 2,895 more animals. In just one year, the average bull price jumped 8.4% and the female price an incredible 25.4%.

The fact that customers were willing to pay more for Hereford cattle throughout the year — despite soaring feed, fuel and fertilizer costs — is a true testament to the recognition of Hereford value. I believe that this recognition is partly due to well-directed devotion.

Devoted to strategic direction

The AHA Board of Directors provides sound direction, from strategic planning, to drive Association activities and allocate resources. With the 2005 Strategic Plan, the Board made a call for bold business moves. The core strategies therein (see back cover) have served as priority guides for the Board and staff in the year past, and will continue to guide breed direction to 2010.

It's always exciting to see results when reviewing AHA strategy, especially when they surface as dollars in the

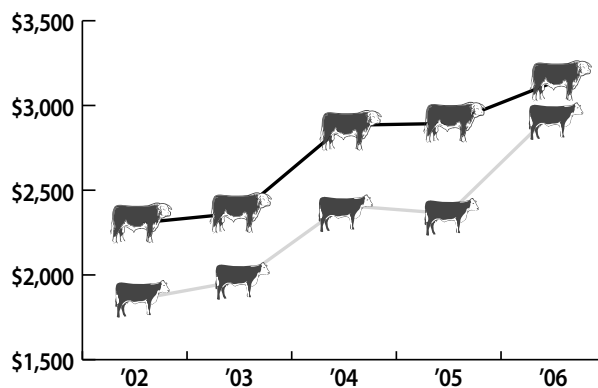
Devoted to the commercial industry

While Hereford Verified is excellent for the Certified Hereford Beef (CHB) program and Hereford breeders because it creates pull demand for Hereford cattle, the direct benefits are received by commercial cattlemen.

Cow-calf producers receive summary reports on their Hereford-influenced calves, which include group feed efficiency and daily gain, as well as individual quality and yield grades. Bonus checks are also awarded, varying in amount based on years of participation.

In excess of \$11,000 in qualification bonuses were distributed in FY 2006. The AHA and CHB LLC expect to significantly add to this number in 2007 and encourage all interested parties to sign up for a free account by visiting www.herefordverified.com.

Average prices paid for Hereford bulls and females in the past five fiscal years (as reported to *Hereford World* staff)



producer's pocket. Following are additional results, so to speak, of our devotion to the strategies developed in 2005.

Grow the CHB program

The AHA and Certified Hereford Beef (CHB) LLC began the Hereford Verified program in August 2005. The program creates an open market, reliable supply of CHB® eligible feeder cattle. The end of FY 2006 marks the end of the first full year of the program.

Producers enrolled 18,671 calves and more than 5,600 went through the system to harvest at National Beef Packing Co. LLC. Feedlot and carcass data were captured on the harvested cattle and reported to producers. Bonus checks were paid to more than 50 cow-calf producers whose cattle went through the system.

This type of program is greatly sought after and unprecedented in the industry. U.S. Agriculture Secretary Mike Johanns has aggressively directed the production livestock industry to adopt a national animal identification plan. Hereford Verified meets the objectives of the Secretary's request and provides marketing and informational benefits as well. (See "Devoted to the commercial industry.")

Boost Hereford perception

This year the AHA doubled its investment in communication and advertising. Teresa Oe, a North Dakota State University graduate, was hired as the AHA communication coordinator, with the goal of tripling the number of positive Hereford impressions within the industry.

The Association also hired AdFarm, an agricultural-focused communications agency. The agency has helped the AHA communication team develop a breed advertising and public relations plan. A new national ad campaign was established and the new ad has been placed in a variety of publications, including leading information providers such as *BEEF*, *Drovers* and *Progressive Farmer*. The



This national ad is part of a campaign developed in FY 2006 to promote Hereford efficiency to commercial cattlemen by capitalizing on the power of the baldie.

ad in different sizes will also be made available to state Hereford organizations.

While dedicated professionals are critical to communicating Hereford value, they are still only part of the perception equation. It's one thing for our staff to anecdotally say that Hereford cattle can do this and that for a commercial producer's bottom line, and quite another to be able to tell it true with scientific evidence. The AHA has set out to give the industry something to talk about by launching two major research projects.

Harris Ranch project — AHA staff is working with Harris Ranch Beef Co. and Lacey Livestock, a premier integrated beef alliance located in California, to utilize Hereford bulls in head-to-head, gate-to-plate comparisons with Angus bulls. The purpose is to demonstrate the economic effect of using Hereford bulls on predominantly Angus-based cow herds.

The project is jointly funded by an AHA research grant and the California State University (CSU), Chico Research Foundation.

Twelve Hereford bulls were purchased along with 12 Angus bulls, of the same breeding age, and were turned out with 600 commercial Angus cows in the mountainous-range country of central California. Each resulting calf has been DNA tested to a sire, and Hereford-sired calves will be compared to Angus-sired calves from weaning through the feedlot phase and all the way to the rail.

John and Mark Lacey of Lacey Livestock, owners of the commercial cow herd, have committed to three years of the study, which will also follow the replacement females through their first calving.

Dave Daley, CSU, Chico animal scientist, is the project's lead researcher. He says that the study has the potential to change the Western states' crossbreeding philosophy. The first steers will be harvested in late spring 2007.

Amana Farms project — Amana Farms represents one of the largest integrated farming and ranching operations in the Midwest. Located in Amana, Iowa, the 2,200-head cow-calf operation has committed its cow herd to a study examining the economic effect of using Hereford bulls on Angus-cross cows. This year 11 bulls were delivered to Amana Farms by breeders participating in the National Reference Sire Program (NRSP). The young sires and two proven artificial insemination (AI) sires (for comparison) were used to breed Amana heifers. Birth, weaning, yearling and carcass data will be collected on the resulting calves.

Steers will be fed at the University of Missouri-Columbia, where researchers will collect feed efficiency data in an attempt to develop genetic or metabolic indicators related to the feed efficiency trait.

The females will be retained at Amana Farms, as the managers want to improve disposition, longevity and efficiency in the cow herd.

The Amana Farms and Harris Ranch projects will generate unbiased information with the potential to change Hereford perception in those producers who have not yet realized the breed's advantages.

Strive for genetic progress

Jack Ward, AHA chief operating officer and director of breed improvement, has been telling folks for quite some time that increasing the use of AI may well cause the biggest

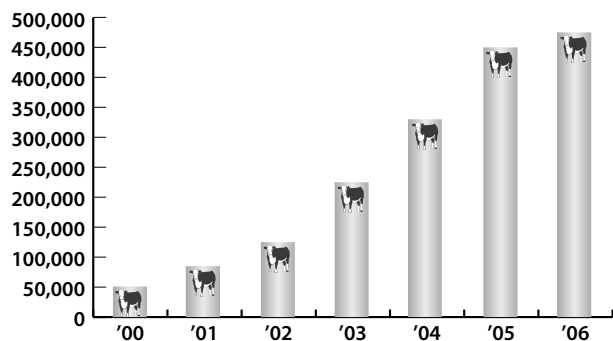
Devoted to selling Hereford product

More than 37.9 million lb. of Certified Hereford Beef® (CHB) product were sold in FY 2006. With beef prices as they are, this adds up to a whole lot more than pocket change. Not to mention the fact that the program created pull demand for 465,261 head of commercial Hereford cattle.

These numbers demonstrate the importance and success of the CHB program. Still, it was a challenging year. New retailers were recruited and some customers did expand, but many reported flat or declining sales. Supermarket chains across the country reduced their beef advertising features this year, which at times account for 50% of total store volume, in favor of less expensive proteins. Others switched from branded beef to cheaper commodity beef. Overall CHB retail sales fell 17%. The CHB LLC board, staff and licensed packers have worked hard in recent months to develop marketing strategies to combat this trend and reenergize the brand.

From the recommendations of consumer focus groups and outside consultants, new point-of-sale and wellness programs were developed, accompanied by a new color scheme and updated logo. CHB leaders are hopeful that these marketing changes will help boost sales in the coming year.

Cattle harvested meeting CHB live-animal specs



Certain sectors of the CHB program did thrive in FY 2006. Growth in food service and deli sales was 27% and 48%, respectively.

A summary of other CHB highlights are included below:

- Total cattle harvested meeting CHB live-animal specs increased 5% to 465,261.
- Sales for the year were 37.9 million lb. from 258,626 certified carcasses.
- The retail point-of-sale program was overhauled.
- The CHB wellness program, highlighting the positive nutritional and environmental qualities of CHB, was created.
- Valerie Bailes was retained as staff dietician.
- Jared Long joined CHB LLC as an account manager.



Dietician Valerie Bailes, R.D., L.D., has developed nine nutritional messages for promotional use in CHB advertisements. On each ad is the new CHB logo featuring Herefords' unique trademark, the whiteface.

advance in Hereford genetics. Recognizing that certificate costs are one of the reasons that producers don't use AI, the AHA staff and Board began the Non-Certificate AI Sire program in April of this year. Hereford breeders can enter any sire in the program for \$250, and his calves can then be registered without an AI certificate. By reducing the cost of AI, the Board hopes that more breeders will use proven AI sires, thus increasing the quality, consistency and reliability of Hereford genetics.

Also to prompt breed improvement, AHA staff continuously calls on breeders to collect and submit more data. I'm proud to announce that Hereford breeders have made tremendous strides in this respect. In FY 2006 more than 106,000 registered Hereford cows were enrolled in the Whole Herd Total Performance Records (TPR™) program. Close to 80,000 birth weights, 78,000 weaning weights, 32,000 yearling weights and 15,000 ultrasound scans were submitted during the course of the year.

It's exciting to see that the volume of ultrasound scans has increased by 87% in the last five years. However, the challenge to collect more data is still in front of the breed, as the AHA Board calls for a doubling of scans (30,000 annually) in the next four years.

Create new revenue

The AHA Board has directed Association staff to be a leader within the industry in developing mutually beneficial business relationships with other organizations of similar interest. In June 2006 the AHA announced a service agreement established with five American Breed associations: the American Brahman Breeders Association, Santa Gertrudis Breeders International, Beefmaster Breeders United, the American Red Brangus Association and United Brador Breeders. The American Beef Records Association (ABRA), a wholly owned subsidiary of the AHA, will be providing registry and performance recording services to these organizations beginning in the fall of 2007. Leveraging the Association's expertise and technology will boost long-term financial opportunities.

Increase educational offerings

AHA staff presented informational sessions to Hereford breeders throughout FY 2006 in locations ranging from South Dakota to Argentina. These "Hereford 101" sessions are a way for AHA staff to teach producers about Association programs and tools, and other important industry information. To make these educational opportunities available to more people, the AHA this



Lee Haygood (left), AHA director, and Jack Ward (right), AHA chief operating officer and director of breed improvement, present an educational online Hereford 101 on April 6, 2006. This particular Webinar was devoted to explaining the new Non-Certificate AI Sire program.

Devoted to communication

Hereford Publications Inc. (HPI) and the AHA communication team are devoted to using the power of communication to educate producers, sell Hereford cattle and promote the value of the breed. 2006 highlights in the communication arena follow:

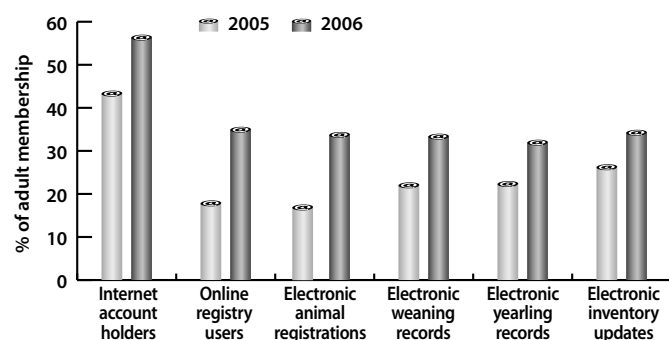
HPI

- *Hereford World* included 846.97 pages of advertising — a 13.7% increase. Also included more production-based editorial.
- In July a *Hereford World* redesign was introduced, featuring a cleaner, easier-to-read format.
- Creative Services produced 73 projects — a 10.87% increase. Among these projects were two specialty magazines, two state association newsletters, six state directories, 42 sale books and seven brochures. Hereford breeders are finding Creative Services' ability to develop targeted mailing lists an added bonus.
- AHA field representatives attended 162 sales.
- New hires
 - Christy Benigno – editorial designer/assistant
 - Sean Jersett – graphic designer
 - Michelle Clogston – Creative Services coordinator
 - Teresa Oe – assistant editor
- Dustin Layton assumed the Southwest region field staff position and continued to cover the Eastern region.

AHA communication team

- With the help of AdFarm, a new ad campaign was developed, featuring the baldie and slogan, "Herefords — The Efficiency Experts."
- A media kit was developed to assist in building corporate partnerships and to grow AHA revenue.
- Hereford news releases were distributed to national, regional and local press, including releases on the FY 2006 national shows, which featured 1,500 head of Hereford cattle.
- A four-page quarterly newsletter, *The Whiteface*, was started to communicate with non-member users and potential users of Hereford genetics.
- *Hereford eNews* expanded to feature three sections: Hereford Highlights, Market Update and Industry Insight. The e-newsletter was also redesigned to include banner ads.
- Hereford Photo Shop was started as an online show photo store for the public.
- A media site was developed as part of the Hereford Photo Shop to make photos and news releases available to media outlets.
- On average, the AHA home page, *Hereford.org*, received 26,883 page views each month (unique page views – 14,795).
- Banner ads on the home page averaged 7,254 views per month and 101 click thrus.

Internet use up significantly in 2006



year started online Hereford 101s, where through *LiveAuctions.tv*, producers can watch the educational Webinars on their computers.

Emphasize youth development

The Junior National Hereford Expo (JNHE) and Program for Reaching Individuals Determined to Excel (PRIDE) Convention again proved to be exceptional opportunities for developing the future leaders of our industry. The JNHE has grown to be the largest Hereford show in the world, indicating the health of the junior program, as well as the support of the adult membership, AHA Board and staff. PRIDE Convention has really taken off as well. Chris Stephens, AHA director of youth activities, reported that this year was by far the most educational event to date.

Facilitate global relationships

AHA President Jack Holden is leading the charge for global cooperation. With AHA staff he attended three international trade missions to stimulate Hereford trade dialog and to push for global genetic research. One of these was a science meeting on global genetic evaluation at the University of New England in Armidale, New South Wales, Australia. In August and September he traveled to both Argentina's and Uruguay's national shows, as did Ward. While there the two continued to encourage widespread genetic analysis.

During the 2007 fall genetic evaluation, the American and Canadian Hereford associations plan to conduct a research-run EPD analysis with Argentina and Uruguay, called the Pan-American Evaluation. By consistently evaluating North and South American Hereford genetics, Hereford breeders and their customers in each country will be able to fairly compare data. This is a step in the right direction to eventually facilitating a global genetic evaluation.

Devoted to breed improvement

The AHA performance department is devoted to the research, technology and education that make breed improvement possible. In FY 2006 the department:

- Continued work with Whole Herd Total Performance Records (TPR™) data to find ways to measure fertility, longevity and survivability in Hereford cattle.
- Implemented genetic analysis changes, reflecting new age of dam adjustments, correlations and parameters.
- Continued preparation for Pan-American Evaluation, anticipated to be in effect next fall and ultimately expected to develop into a global evaluation.
- Started online Hereford 101s to increase the number of opportunities for breeders to learn and ask questions about Hereford programs and industry issues.
- Implemented the new Non-Certificate AI Sire program, which allows breeders to register calves without the expense of an artificial insemination (AI) certificate.
- Expanded the National Reference Sire Program (NRSP) to Missouri, the second largest cow state in the U.S., and Iowa.
- Continued to support the U.S. Department of Agriculture (USDA) genome mapping project.
- Implemented multiple research projects in the U.S. to look at the economical effect of Hereford genetics in commercial herds.
- Continued work with DNA companies and third-party entities to validate new DNA markers for various economically important traits in Hereford cattle.
- Noted an average 13.5 square inch ribeye area (REA) on more than 100,000 Hereford-influenced cattle (average 808-lb. carcass weight), up more than 1 square inch (.03 inch per 100 lb.) since 1996 study.

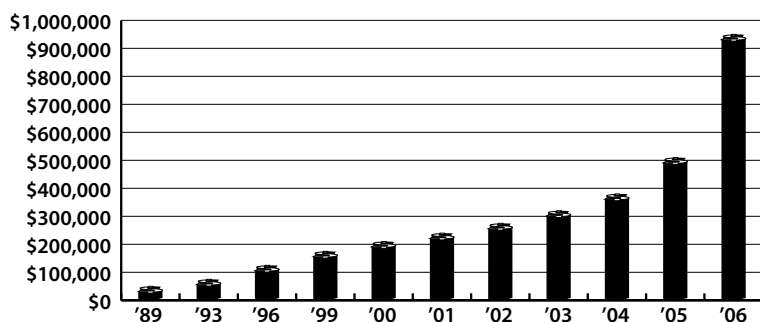
Devoted to youth

The Hereford Youth Foundation of America (HYFA) is devoted to scholarship, education and leadership development as it pertains to youth in the business of raising Hereford cattle. What began in 1989 as a not-for-profit 501(c)(3) corporation has propelled into a highly visible component of the framework supporting the National Junior Hereford Association (NJHA). In FY 2006, the HYFA:

- Gave more than \$60,000 in monetary support to Hereford youth programs, thanks to the Foundation's many supporters.

- Awarded 30 scholarships to Hereford junior members.
- Hosted the "Harvest Gala" fundraiser during the 2005 AHA Annual Meeting.
- Grew the Capital Endowment Fund to further strengthen the capabilities of the HYFA in the future.
- Teamed up with the AHA to sponsor a youth segment on "The American Rancher" series on RFD-TV.

HYFA asset growth 1989-2006



NJHA Highlights

- NJHA membership grew to 2,283 (440-plus new members), with juniors from 46 states.
- More than 600 exhibitors from 38 states showed 1,213 entries at the Junior National Hereford Expo (JNHE). Five hundred junior members participated in more than 20 skill-based contests or applied for numerous scholarships.
- Eighty-five junior members, parents and advisors participated in the Program for Reaching Individuals Determined to Excel (PRIDE) Convention at Texas A&M University.

2005-06 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	851	490	1534	37	22	26
Arizona	619	80	595	13	0	32
Arkansas	1,045	588	1,111	65	39	22
California	1,635	740	2,341	114	96	14
Colorado	1,360	408	1,828	67	23	20
Connecticut	115	61	302	15	17	41
Delaware	26	82	13	5	4	47
Florida	252	122	332	15	9	40
Georgia	2,167	1,608	3,902	93	63	10
Idaho	2,255	877	3,268	73	28	9
Illinois	2,501	1,341	4,677	192	198	8
Indiana	1,515	1,077	2,479	144	164	15
Iowa	1,023	518	1,977	83	82	23
Kansas	3,937	1,365	6,660	128	70	3
Kentucky	1,444	699	2,068	77	43	17
Louisiana	503	462	1,185	43	49	34
Maine	57	102	36	7	5	44
Maryland	326	260	637	39	55	38
Massachusetts	40	27	71	5	4	46
Michigan	769	776	1,021	71	55	28
Minnesota	1,331	552	2,751	101	37	21
Mississippi	639	553	1,013	39	43	31
Missouri	3,131	1,868	4,525	184	97	6
Montana	3,038	1,187	3,992	68	22	7
Nebraska	4,646	1,454	6,586	141	61	2
Nevada	294	107	560	12	11	39
New Hampshire	104	41	85	16	8	42
New Jersey	46	18	106	10	3	45
New Mexico	760	289	1,080	30	7	30
New York	415	231	537	53	38	36
North Carolina	763	331	1,189	62	33	29
North Dakota	1,402	516	3,029	56	24	19
Ohio	973	736	2,029	110	56	24
Oklahoma	3,844	2,305	4,821	154	116	5
Oregon	1,738	749	2,681	89	42	13
Pennsylvania	578	673	1,044	62	63	33
Rhode Island	10	8	11	1	1	48
South Carolina	381	404	946	29	18	37
South Dakota	3,872	1,191	6,556	86	45	4
Tennessee	1,920	1,030	2,522	111	71	11
Texas	10,025	5,794	13,799	378	242	1
Utah	849	144	1,127	30	0	27
Vermont	66	65	101	5	6	43
Virginia	945	486	1,250	63	32	25
Washington	1,457	539	2,039	82	66	16
West Virginia	459	248	946	44	13	35
Wisconsin	1,424	686	2,195	119	83	18
Wyoming	1,794	464	2,563	41	19	12
Total	69,344	34,352	106,120	3,462	2,283	

TOP TEN REGISTRATIONS

STATES Top 10 States

Texas	10,025
Nebraska	4,646
Kansas	3,937
South Dakota	3,872
Oklahoma	3,844
Missouri	3,131
Montana	3,038
Illinois	2,501
Idaho	2,255
Georgia	2,167

BREEDERS Top 10 Breeders

Rausch Herefords	709
<i>Hoven, S.D.</i>	
Harper Cattle LLC	662
<i>Arlington, Texas</i>	
Upstream Ranch	507
<i>Taylor, Neb.</i>	
Grandview Plantation	476
<i>Como, Miss.</i>	
BB Cattle Co.	425
<i>Connell, Wash.</i>	
Shaw Cattle Co. Inc	417
<i>Caldwell, Idaho</i>	
Dudley Bros.	363
<i>Comanche, Texas</i>	
Colin Hoffman Hoffman Herefords	352
<i>Leola, S.D.</i>	
Jim W. Douthit	345
<i>St. Francis, Kan.</i>	
Star Lake Cattle Ranch	341
<i>Skiatook, Okla.</i>	

**American Hereford Association and Subsidiaries
Consolidated Statements of Financial Position
August 31, 2006 and 2005**

Assets	2006	2005
Current Assets		
Cash and cash equivalents	\$475,700	\$392,801
Short-term investments	124,805	100,578
Accounts receivable, net	481,077	509,729
Accounts receivable, other	30,839	39,945
Prepaid expenses	66,100	8,135
Inventories	53,594	41,247
Total current assets	<u>1,232,115</u>	<u>1,092,435</u>
Investments	<u>1,457,143</u>	<u>1,595,322</u>
Property and Equipment		
Land	462,122	462,122
Building	2,231,075	2,218,203
Furniture and fixtures	337,732	326,009
Autos	198,843	217,904
Data processing equipment	333,472	310,642
Software	266,587	238,637
Total property and equipment	3,829,831	3,773,517
Accumulated depreciation	(1,515,186)	(1,374,190)
Property and equipment, net	<u>2,314,645</u>	<u>2,399,327</u>
Other Assets	<u>8,039</u>	<u>90</u>
Total Assets	<u>\$5,011,942</u>	<u>\$5,087,174</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$11,281	\$10,685
Prepayments from breeders	116,774	129,174
Accounts payable	269,081	197,847
Accrued expenses	203,964	274,320
Deferred subscription and advertising revenue	226,407	183,034
Total current liabilities	<u>827,507</u>	<u>795,060</u>
Long-Term Debt	<u>9,836</u>	<u>21,117</u>
Other Liabilities		
Customer deposits	–	12,032
Net Assets		
Temporarily restricted net assets	17,500	20,000
Unrestricted net assets	4,157,099	4,238,965
Total net assets	<u>4,174,599</u>	<u>4,258,965</u>
Total Liabilities and Net Assets	<u>\$5,011,942</u>	<u>\$5,087,174</u>

**Consolidated Statements of Activities
For The Years Ended August 31, 2006 and 2005**

Changes in Unrestricted Net Assets, Revenues and Support	2006	2005
Services	\$2,128,571	\$2,082,181
Advertising and subscriptions	1,382,954	1,303,974
Program revenues	956,991	1,062,750
Other	531,621	509,214
Net assets released from restrictions	2,500	2,500
Total revenues	<u>5,002,637</u>	<u>4,960,619</u>
Expenses		
General and administrative	1,458,633	1,510,690
Board of Directors' expense	43,618	42,990
Building expense	150,084	149,516
Market development and information	531,537	416,371
Junior activities	229,524	195,957
Research and TPR activities	181,429	202,306
Program expenses	1,103,184	1,027,076
Advertising and subscriptions	1,209,715	1,165,134
Total expenses	<u>4,907,724</u>	<u>4,710,040</u>
Revenues Over Expenses Before Depreciation and Other Income (Expense)	<u>94,913</u>	<u>250,579</u>
Depreciation Expense	<u>161,301</u>	<u>165,176</u>
Other Income (Expenses)		
Realized gain (loss) on sale of securities	1,220	(5,266)
Net appreciation (depreciation) in fair value of investments	(21,890)	(22,279)
Other income (expenses)	5,305	(6,768)
Gain (loss) on sale of property and equipment	(113)	19,212
Total other income (expenses)	<u>(15,478)</u>	<u>(15,101)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(81,866)</u>	<u>70,302</u>
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	(2,500)	(2,500)
Increase (Decrease) in Net Assets	<u>(84,366)</u>	<u>67,802</u>
Net Assets (Deficiency) Beginning of Year	<u>4,258,965</u>	<u>4,191,163</u>
Net Assets (Deficiency) End of Year	<u>\$4,174,599</u>	<u>\$4,258,965</u>

See the accompanying report letter and notes to consolidated financial statements.

Consolidated Statements of Cash Flows For The Years Ended August 31, 2006 and 2005

Cash Flows From Operating Activities	2006	2005
Increase (decrease) in net assets	\$(84,366)	\$67,802
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation expense	161,301	165,176
Realized gain (loss) on sale of investments	(1,220)	5,266
Net appreciation (depreciation) in fair value of investments	21,890	22,279
Gain on disposal of property and equipment	113	(19,212)
(Increase) decrease in assets:		
Accounts receivable	28,652	(33,404)
Accounts receivable — other	9,106	(18,067)
Prepaid expenses	(57,965)	(4,752)
Inventories	(12,347)	91
Other assets	(7,949)	358
Increase (decrease) in liabilities:		
Prepayments from breeders	(12,400)	8,663
Accounts payable	71,234	72,700
Accrued expenses	(70,356)	142,088
Customer deposits	(12,032)	—
Deferred subscription and advertising revenue	43,373	3,996
Net Cash Provided by Operating Activities	<u>77,034</u>	<u>412,984</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(76,732)	(132,111)
Proceeds from sale of property and equipment	—	26,197
Purchase of investments	(248,272)	(799,668)
Proceeds from sale and maturity of investments	341,554	544,219
Net Cash Provided by (Used in) Investing Activities	<u>16,550</u>	<u>(361,363)</u>
Cash Flows Used In Financing Activities		
Repayment of long-term debt	(10,685)	(19,000)
Net Increase in Cash and Cash Equivalents	82,899	32,621
Cash and Cash Equivalents, Beginning of Year	<u>392,801</u>	<u>360,180</u>
Cash and Cash Equivalents, End of Year	<u>\$475,700</u>	<u>\$392,801</u>

See the accompanying report letter and notes to consolidated financial statements.

Notes to Consolidated Financial Statements August 31, 2006 and 2005

1 — Summary of Significant Accounting Policies

Nature of Operations The American Hereford Association (Association) conducts research and experiments in the breeding of Hereford cattle; compiles and preserves pedigree records for owners and breeders; participates in and promotes 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.

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

Certified Hereford Beef (CHB) LLC The Association is the sole member of CHB LLC. 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 AHA.

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

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

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

- Unrestricted net assets, which are funds available for any purpose.
- Temporarily restricted net assets represent contributions whose use by the Association is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. When a stipulated restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets — At August 31, 2006 and 2005, 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. For the years ended August 31, 2006 and 2005, investments amounting to \$213,040 and \$68,169, respectively, were considered to be cash equivalents.

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 \$24,749 and \$27,059 as of August 31, 2006 and 2005, 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 market value. The fair market value of investments is based on quoted market prices for those investments or similar investments as of August 31, 2006 and 2005.

Property and Equipment and Depreciation Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The assets are depreciated and amortized over periods ranging from five to 30 years. Additions and betterments of \$1,000 or more are capitalized, while maintenance and repairs which do not improve or extend the life of the asset are expensed in the year incurred. Depreciation charged against income amounted to \$161,301 in 2006 and \$165,176 in 2005.

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 The Association, ABRA and CHB LLC are exempt from federal income taxes on their primary operations under paragraph 501(c)(5) of the Internal Revenue Code. They are, however, subject to income taxes on any net income from unrelated business activities. The Association and ABRA have been classified by the Internal Revenue Service as organizations that are not private foundations.

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

2 — Concentration of Credit Risk

The Association maintains cash accounts at a bank located in the Kansas City metropolitan area. The balances in the bank periodically exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of 100,000. Funds in excess of FDIC insured limits, before considering reconciling items, were \$79,103 and \$124,190 on August 31, 2006 and 2005, respectively.

3 — Investments

Investments at August 31, 2006 and 2005, are summarized as follows:

August 31, 2006	Amortized Cost	Fair Value
Government bonds and notes	<u>\$1,611,541</u>	<u>\$1,581,948</u>
August 31, 2005		
Government bonds and notes	\$1,605,037	\$1,595,322
Corporate bonds and notes	<u>100,071</u>	<u>100,578</u>
	<u>\$1,705,108</u>	<u>\$1,695,900</u>

4 — Retirement Plan

The Association established a defined contribution employee retirement plan for all eligible employees of the Association, HPI and CHB. The plan provides for employer and employee contributions based on a percentage of annual compensation. Employer contributions for the years ended August 31, 2006 and 2005, were \$75,317 and \$75,119, respectively.

5 — Long-Term Debt

Notes – vehicles, collateralized by related vehicles, interest from 5% to 5.85%, maturing from February 2007 through July 2008. Long-term debt consists of the following at August 31:

	2006	2005
Current portion	<u>(11,281)</u>	<u>(10,685)</u>
Long-term debt	<u>\$9,836</u>	<u>\$21,117</u>

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

2007	\$11,281
2008	<u>9,836</u>
	<u>\$21,117</u>

6 — Income Taxes

The components of the deferred tax assets at August 31 are as follows:

Deferred tax assets:	2006	2005
Net operating loss carryforwards	336,083	\$402,341
Less valuation allowance	<u>336,083</u>	<u>402,341</u>
	<u>\$ —</u>	<u>\$ —</u>

For the year ended August 31, 2006, HPI utilized net operating losses of approximately \$195,000 to eliminate taxable income. HPI has net operating loss carryforwards of \$988,481 available to offset future federal and state taxable income that expire through 2023 as follows:

2008	\$30,193
2009	4,660
2010	179,332
2011	114,044
2018	93,429
Thereafter	<u>566,823</u>
	<u>\$988,481</u>

7 — Supplemental Cash Flow Information

Interest paid during the years ended August 31, 2006 and 2005, was \$1,466 and \$396, respectively. Noncash investing and financing transactions during the years ended August 31 were as follows:

	2006	2005
Purchase of equipment	\$76,732	\$165,696
Equipment financed by long-term debt	—	<u>(33,585)</u>
Cash paid for equipment	<u>\$76,732</u>	<u>\$132,111</u>

8 — Temporarily Restricted Net Assets

Temporarily restricted net assets are funds donated for the purpose of awarding \$2,500 annually to the supreme champion Hereford of the Denver show.

Independent Auditor's Report

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

We have audited the accompanying consolidated statement of financial position of American Hereford Association and subsidiaries (collectively, the Association) as of August 31, 2006, and the related consolidated statements of activities and cash flows for the year 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 audit. The consolidated financial statements as of August 31, 2005, were audited by Henderson, Warren & Eckinger PC, PA, who merged with RubinBrown LLP as of December 1, 2005, and whose report dated September 26, 2005, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Hereford Association and subsidiaries as of August 31, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

—RubinBrown LLP, September 27, 2006

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of this fiscal year ended August 31, 2006.

—American Hereford Association, Craig Huffhines, executive vice president



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2006 American Hereford Association (AHA) board of directors (pictured front row, l to r) are: Jack Holden, Valier, Mont., president; and Jack Evans, Winona, Miss., vice president. Directors second row (l to r) are: Hank DeShazer, Hearne, Texas; and Bill King, Stanley, N.M. Third row (l to r) are: Wayne Mrnak, Bowman, N.D., director; Craig Huffhines, Kansas City, Mo., executive vice president; and Lee Haygood, Canadian, Texas, director. Directors fourth row (l to r) are: Wes Hudson, Harrison, Ark.; Bill Cox, Pomeroy, Wash.; and Lavette Teeter, Mooresville, N.C. Directors fifth row (l to r) are Steve Folkman, Ixonia, Wis.; and Paul Slayton, Bedford, Pa. Not pictured is Dale Spencer, Brewster, Neb., director.



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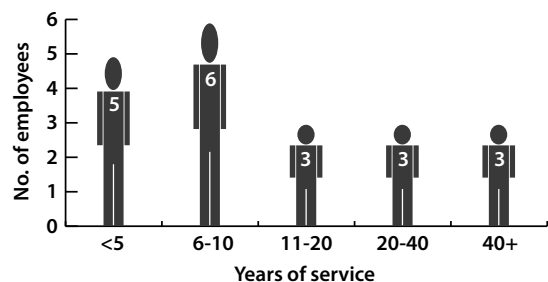
Devoted To the Organization, Devoted To Serving You

Like many Hereford breeders, there are AHA employees who have been working decades for the breed. At the end of FY 2006, six had been with the Association 20-plus years (See “AHA employee years of service” graph below.) This is close to a third of the 20 AHA employees. Three had served for more than 40 years — now that’s devotion.



Mary Ann Hackleman recently celebrated 50 years of continuous service with the AHA. She is the Association’s longest-serving employee. The AHA, HPI and CHB LLC together employed 39 individuals in FY 2006.

AHA employee years of service





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

HEREFORDS – THE EFFICIENCY EXPERTS



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