



Hereford Advantage

Accountable. Predictable. Profitable. Sustainable.



2016 American Hereford Association Annual Report

Proven

Advantage

Verifying the continued resurgence of the Hereford breed within the commercial industry, fiscal year (FY) 2016 has been another tremendous time of growth for the American Hereford Association (AHA). This year the Association documented the Hereford advantage, recording increases in registrations, cow inventories and memberships, all while Certified Hereford Beef (CHB[®]) LLC witnessed another year of growth.



As the commercial industry continues to put pressure on genetics that are accountable, predictable, profitable and sustainable, the Hereford breed continues to grow market share. The commercial producer “Wants it All,” and Hereford breeders have become dedicated to data collection and endorsing all tools available to produce reliable genetics.

Whole Herd Total Performance Records (TPR[™]) is the cornerstone to identify Hereford genetics, and during FY16 the AHA moved to increase the number of genetic evaluation runs from two to 10 runs per year. This change gives breeders and their customers the most up-to-date information available. In addition, the AHA has seen a tremendous growth in the area of genomics with more than 28,000 Hereford animals genotyped.

CHB LLC saw another nice increase in total lb. sold. To support the supply for the growing demand of CHB, the AHA developed CHB Hereford Advantage, a feeder calf program which allows breeders and their customers a potential market for Hereford-influenced feeder calves sired by bulls with the genetics supported by feedlots and packers.

AHA staff continues to work hard to develop programs that add value to cattle through performance programs, registration programs, fingertip access to pedigree and performance information, seedstock marketing, commercial marketing and research activities while keeping a keen eye on office efficiencies and value.

During the survey of commercial cow-calf producers in 2014, it was clear those producers count heavily on their seedstock suppliers to produce data-driven, reliable cattle that make them profitable. As seedstock producers, it is your job to use the tools available to make breeding and selection decisions to make your customers profitable. And, it is the AHA's responsibility to continue building the tools you need.

—**Jack Ward, AHA executive vice president**

Fiscal Year 2016 Stats

79,082 Registrations  4%

4,038 Active adult members  4%

3,057 Active junior members  5%

6,954 Bulls sold  10%

54.8 million lb. CHB product sold  7%



Progressing Predictable Performance

The American Hereford Association (AHA) continues to provide its members with programs and services to document the Hereford advantage. This dedication to genetic improvement has proved Herefords are: Accountable. Predictable. Profitable. Sustainable.

The advancement and accuracy of genetic prediction for breeding Hereford cattle is a very powerful tool," says AHA Board Member Kevin Schultz, Haviland, Kan. "The AHA will continue to research and accurately provide its members these cutting-edge tools to help meet and exceed the demands of the commercial industry. The AHA staff is a talented, industry-respected team of men and women that are the basis for the integrity and success of these programs."

Genetic evaluation

The AHA is advancing genetic improvement through more frequent genetic evaluations. Traditionally, the Pan-American Cattle Evaluation (PACE) program, which provides expected progeny differences (EPDs) derived from pedigree, phenotype and genomic information, is run twice per year. The AHA has moved to 10 runs per year (July and November will be the only two months the AHA will not have updated evaluations), allowing breeders to make breeding decisions with the most current information.



Profit (\$) Indexes like Baldie Maternal Index (BMI\$) for female retention has allowed the Hereford's continued growth in the commercial sector.

New economically relevant traits

The AHA continues to provide more tools for genetic selection to Hereford breeders and commercial cattlemen. New to genetic evaluations in fiscal year (FY) 2016 are the Carcass Weight (CW), Dry Matter Intake (DMI), Heifer Calving Rate (HCR) and Sustained Cow Fertility (SCF) EPDs.

"As we continue to prove the Hereford advantage, these new EPDs will help us find cattle that are profitable," says Shane Bedwell, AHA director of breed improvement.

"Anytime we can measure differences in the population for economically relevant traits, we begin to find the animals that truly position Herefords for success and profit."



Carcass Weight

Pounds of product continue to drive the bottom-line for end-product merit. Thanks to real carcass data collected through the National Reference Sire Program (NRSP) and breeder participation, the Hereford breed has made advances in the predictability of the new trait CW.



Dry Matter Intake

The Hereford breed has the advantage in efficiency, and over the course of the past few years, individual feed intake phenotypes have been collected through both the AHA sire test programs and breeders' testing efforts. This gathering of information has allowed the AHA to produce a new trait for DMI.



Heifer Calving Rate and Sustained Cow Fertility

Pounds of calf produced per cow exposed, which is fertility, still drives profit for the commercial cow-calf producer. Through the efforts of Whole Herd Total Performance Records (TPR™), the Association has developed two new traits, HCR and SCF, to identify cattle that excel for fertility and longevity.

Hereford Advantage program

FY 2016 brought with it the Hereford Advantage program, which allows commercial breeders to identify genetically backed, high-quality Hereford and Hereford-influenced feeder cattle and to build premiums in the cattle that meet the threshold. In order to qualify, the Hereford bull battery must rank in the top 20% of the Certified Hereford Beef Index (CHB\$). Because single-trait selection has a negative effect on the development of the breed, the focus of this program is put on the CHB\$ profit index. Cattle that qualify for this program should excel both in gain and end-product merit.



Expanding DNA

In 2016 the Association expanded the avenues available for DNA collection. Hereford breeders may now submit DNA samples using blood cards and Tissue Sampling Units (TSU) for DNA testing. Blood cards and tissue samples offer advantages in convenience and flexibility since there is no age restriction on taking a sample, unlike hair samples.

"Breeders can take a blood or tissue sample when it is most fitting for them, whether that be when they tag, brand or vaccinate," Bedwell says.

These methods will also allow calves to be registered more accurately. Producers may use DNA testing to parentage-verify an animal before registering when the sire of the animal is in question, to test for genetic abnormalities or to get a set of genomic-enhanced EPDs (GE-EPDs).

Since the AHA transitioned its DNA testing to GeneSeek® in 2012, the Association has developed more than 28,000 genotypes that contribute to the genetic evaluation. In addition, more than 3,200 animals have been tested for the horned/polled gene.

National Reference Sire Program

Unmatched in the beef industry, the NRSP is in its 17th year and has tested more than 320 bulls since its inception in 1999. This robust test program allows Hereford to stand alone in the area of breed improvement. Because of the commitment of AHA breeders participating in the program, young sires have been identified and proved for all traits of economic relevance.

Herefords

predictable and profitable for commercial producers

Hereford cattle continue to excel within the commercial industry. The CHB\$ terminal sire index has seen a 50% improvement and the Baldie Maternal Index (BMI\$) for female retention has improved 20% from 2005 to 2015. These profit indexes provide multi-trait index selection tools, allowing for continued growth in the commercial sector. These impressive advances are possible because of AHA breeder commitment to better cattle and genetics. Because of these developments, the Hereford breed has witnessed a 54% increase in domestic semen sales from 2011 to 2015 and a 217% increase in domestic semen sales from 2005 to 2015.



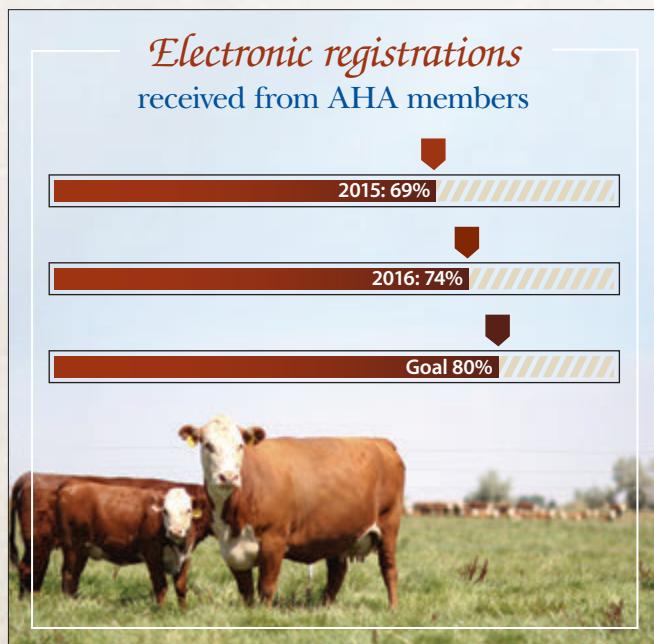
Focusing on Efficiency

The member service efforts of the American Hereford Association (AHA) continue to focus on ways to make the Association and its members more efficient in recording and receiving information while continuing to control the costs associated with delivering those services. The primary strategy for delivering on those goals continues to be centered on the additional development of the *MyHerd.org* online registry system and increasing its accessibility to and utilization by AHA members.

The official launch of the MyHerd system in 2014 and increased member adoption of the system since that time have allowed the AHA customer service department to continue delivering timely performance in processing members' work submitted outside the MyHerd system while also handling an increased number of customer service phone calls.

The introduction of MyHerd permits AHA to deliver information more efficiently to members through an electronic format rather than the traditional method of printing and mailing out reports, monthly statements and other notices. AHA Board Member Dave Bielema, Ada, Mich., says, "MyHerd allows members receive this information more quickly, and the cost of postage is eliminated."

While MyHerd continues to be the Association's focus for members submitting information electronically, it isn't the only option available. AHA has a long-standing policy of accepting animal information via compatible herd-management software packages.



"We know that there isn't a single system that meets every member's needs with regards to managing and submitting information to the AHA, so we feel it is important for members to have options so they can find a system that best fits their individual needs," says Stacy Sanders, AHA director of records department.

myHERD.org



MyHerd's new features

The AHA introduced new

MyHerd features in 2016 in answer to member requests.

First was the introduction of "Electronic Certificate Storage," where MyHerd users have the option to store registration certificates electronically. This feature eliminates paper shuffle and possible mailing errors while increasing the ease and efficiency of registrations and transfers. A hard-copy registration certificate can be released from storage at any time as long as the registration and transfer fees have been paid.

Most recent to MyHerd is a feature that allows members to electronically request DNA tests, track the status of existing requests and access the results of completed tests. This feature provides members the ability to create DNA test requests via MyHerd at any time, day or night, ensuring tests are completed and results are in their hands as fast as possible.

In addition, AHA staff continued to increase member utilization of MyHerd over the past year primarily through online webinars. Association staff hosted more than 50 webinars for more than 500 participants, and while these have proved useful, interest has gradually fallen off. Therefore, staff developed a series of online tutorials for various functions of MyHerd. Having these tutorials available to new and existing users of MyHerd allows members to focus on specific tasks they want to perform in MyHerd. Tutorials are available 24/7, so users do not have to wait on a webinar to learn more about a topic of interest.

The results of the continued development of MyHerd and focus on increasing utilization by members were observed with a significant increase in registrations submitted electronically during fiscal year 2016. AHA's goal is to receive 80% of registrations electronically, and this past year a rate of 74% was realized, which was an increase from 69% in the prior year. Overall, MyHerd accounted for more than \$2.5 million in payments from members and more than \$1.5 million in work processed.

"I would like to thank the breeders who helped during the trial phases of the MyHerd development," Bielema says. "This is not our service endpoint, however. We are continually trying to improve customer service and look forward to more improvements in the future."

Branding the Advantage

The AHA works to share with the industry all that the Association and Certified Hereford Beef (CHB®) has to offer cattlemen and consumers through digital and print media.

In May, the marketing and communications department welcomed team members Kaylen Baker and Katy Holdener, both agricultural communications graduates from Oklahoma State University. The marketing team utilizes *Hereford e-News*, *Sales Digest* and the *Hereford.org* media center to distribute the latest Hereford information to Hereford breeders, enthusiasts and media contacts across the country.

The AHA and CHB LLC social media platforms have played an important part in sharing the Hereford message. In fiscal year 2016, the AHA Facebook platform recorded an 8% growth in reach gaining 3,201 new ‘likes,’ and the CHB Facebook page saw a 45% growth, gaining 2,811 new ‘likes.’ Both AHA and CHB are also active on Instagram and Twitter.

In FY15, the AHA Board approved the “They Want It All” ad series and in FY16, three “He Wants It All” ads were placed in various media outlets. These ads highlight 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. The ads and videos are posted at *Hereford.org/TheyWantItAll*.



Profitable Expansion

The demand for Hereford genetics continues to be strong as Hereford breeders experienced consistent sale prices and a robust demand for Hereford genetics. AHA field representatives reported 200 production sales during the fiscal year.

Bull sales averaged \$5,839 and females averaged \$4,863. Embryos averaged \$377 and flushes averaged \$6,115. Hereford breeders moved 606 more bulls through sales than the previous year, selling a total 6,954 Hereford bulls in FY16.

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

The *Hereford World* included 1,090 pages of advertising and 17 ride-along catalogs, which records a 41-page increase and a 2-catalog increase in advertising.

Hereford World advertising has expanded outside U.S. borders, and included advertisements for Hereford genetics from Denmark, Australia, Canada and Uruguay.

The *Hereford World* is also reaching a broader audience. The magazine currently boasts 43 foreign subscribers including 31 from Canada, four from Australia, three from Uruguay, two from Mexico and one from each Argentina, Denmark and Finland.

Beyond the magazine, Creative Services produced various marketing pieces for Hereford breeders including catalogs, advertisements, posters, banner ads and logos.

A dark brown background featuring two Hereford cattle heads in the foreground. To the right is a stack of colorful magazines or catalogs. Text overlays indicate 2016 sales figures.

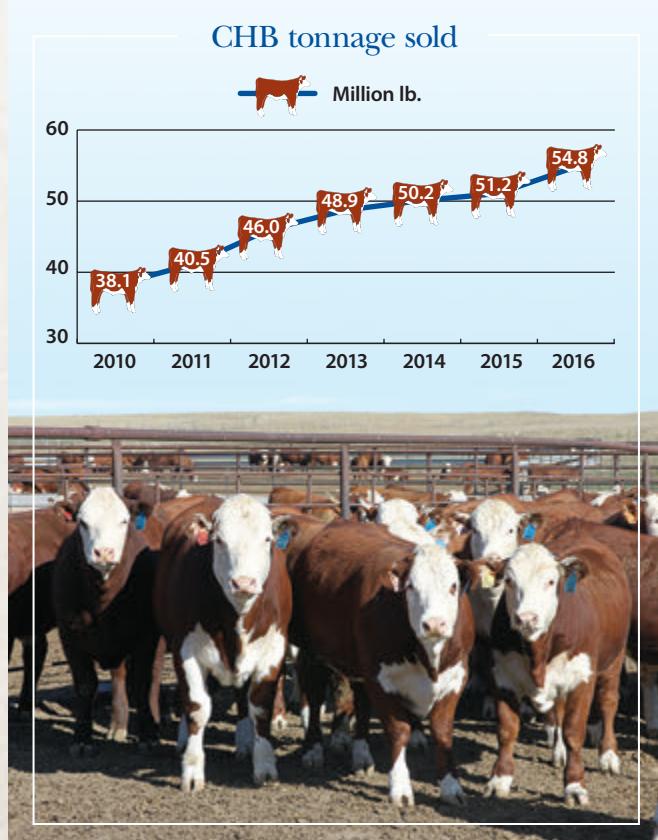
2016: 6,954 bulls sold

2015: 6,348 bulls sold

Certified Hereford Beef: Building the Brand

The Certified Hereford Beef (CHB[®]) brand was created more than 20 years ago to market the Hereford breed's superior genetics and performance. The CHB brand continues to meet the needs of consumers and to expand market share. The science-based specifications of the program establish quality and consistency that earn and maintain consumer trust through brand integrity. The brand logo, and the premium image it represents, has become synonymous with superior quality. The goal of CHB LLC is to continue the legacy of tender, juicy and great-tasting beef.

Innovation and progression are required to excel in a constantly changing beef industry. CHB LLC has undergone significant transformation over fiscal year (FY) 2016, from new management and staff to a strengthened focus on how to ultimately grow the program. By collectively focusing efforts in the same direction, CHB has created consumer awareness and driven demand for Hereford-influenced cattle. CHB increased a solid 3.6 million lb. sold over last year, which translates into a 7.1% growth.



Concentrating on breed and brand education between producers and consumers has helped bridge the knowledge gap in both industries. Communicating CHB's value and relevance has become increasingly important as the brand continues to grow. CHB LLC has been directly involved in producer and consumer events such as food shows and new retail openings. The contribution from both parties has made a significant effect on the brand.

A focused approach

Every pound of CHB product sold drives the brand forward. A licensed retailer or restaurant committed to using the brand logo or name has the largest effect on growth. This type of partnership helps further promote and create brand awareness of the program. CHB has experienced significant growth from within these partnerships in both retail and foodservice.

By intensifying customer service with a targeted approach from new regional brand managers, CHB is gaining traction through understanding current demographics, putting plans in place to develop the market, identifying areas to educate and properly promoting the brand through media and marketing. Being fully engaged and present with customers, CHB LLC can remain in tune with the changing needs of the industry and can continue to provide exceptional service.

Innovation is also vital to the growth of a brand. CHB LLC is committed to open-ended creativity in the marketing and new product arenas. The addition of two new marketing and communications coordinators has set the stage for additional engagements through all marketing and media channels and provided the opportunity to release new and updated educational materials to licensed partners. Product innovation is an ongoing project with the intent to identify items to enhance the product offerings under the CHB brand to appeal to all target audiences.

"Certified Hereford Beef has a solid foundation from which we can grow," says Amari Manning, CHB chief operating officer. "Our targeted and focused approach on strengthening and increasing pounds sold through current customers, and identifying opportunities with future partners, is becoming more streamlined and efficient with the leadership of Mick Welch and the introduction of Ron Santoro and Sarah Samuels to the team. We are all passionate about the program and focused in the same direction to provide the best tools and exceptional service to our partners. We are motivated by the opportunity the brand has in the market and are excited to make a difference and impact in the market."

Program growth

Foodservice is leading the charge with the most growth. This segment of the industry has grown by 3.5 million lb., a 22% growth during FY16.

This is due to new business and a refocused effort on increasing product offerings through current distribution channels. Currently, CHB can be found in 40 states with both foodservice and retail partners.

As the demand for CHB continues to steadily grow, the need for high-quality, performing Hereford cattle has increased. A total of 370,511 cattle were identified through CHB licensed packing facilities as eligible for the program from a live specification standpoint, which is an increase of 34,364 head, or 10.2 %, during 2016.



"I'm very excited about the direction CHB is going," says Jim Mickelson, CHB Board president. "We are seeing positive growth, and the energy Amari brings to CHB is really moving us forward."

The Certified Hereford Beef brand offers a unique and differentiated marketing program for CHB's licensed partners to compete and to excel in a competitive marketplace. CHB LLC is proud of the Hereford breed's rich heritage and the uncompromising dedication to quality from Hereford cattlemen. These elements allow CHB LLC to bring the legacy of naturally great tasting beef to its customers. They are the reasons why CHB is "Excellence Built by Tradition."



Developing the Future

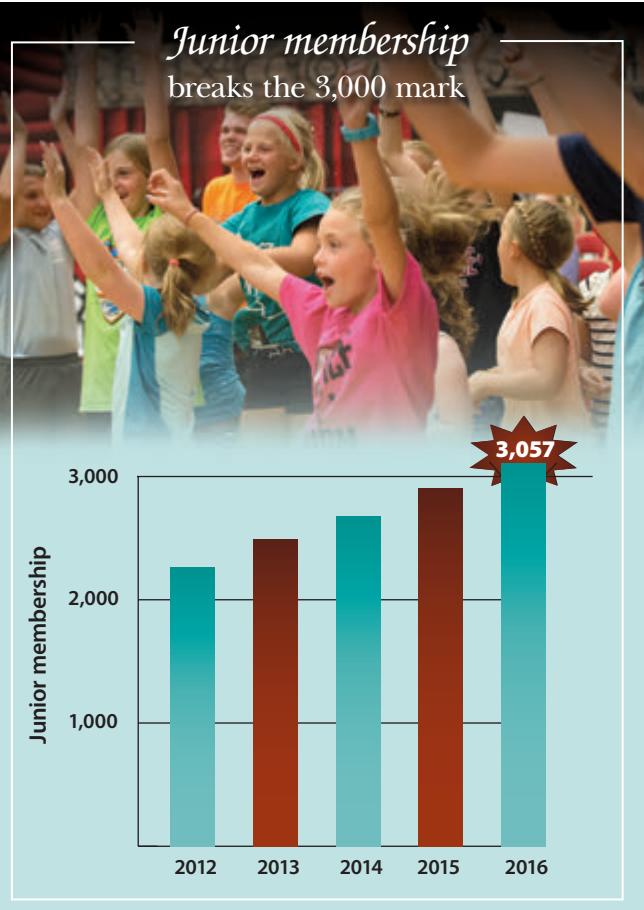
The National Junior Hereford Association (NJHA) and the Hereford Youth Foundation of America (HYFA) continue to create enthusiasm among Hereford youth. The last fiscal year produced a 5% increase in NJHA membership, breaking the 3,000-member mark and bringing the total of junior members to 3,057.

HYFA generated \$2 million for youth scholarships and leadership activities during The Harvest II auction at the Kunde Family Winery in Sonoma Valley, Calif., Aug. 26-27. The live auction grossed \$350,000 on 39 lots, and the silent auction grossed an additional \$10,000.

Three new leadership and scholarship endowments were also announced at the event. Rick Malir and Bonnie Coley-Malir, Dublin, Ohio, donated a \$500,000 leadership endowment to HYFA and announced they will make a planned estate gift of \$1 million for a total contribution of \$1.5 million. Perks Ranch, Rockford, Ill., established a \$100,000 scholarship endowment, and BJ Jones and Sondra Brancel, co-chairmen of "A Hereford Scene in 2016," donated \$100,000 to the Growing a Lasting Legacy campaign courtesy of the fundraising efforts of the 2016 JNHE.

The 2016 VitaFerm® Junior National Hereford Expo (JNHE) took Madison, Wis. by storm July 9-15 for "A Hereford Scene in 2016." The record-setting event boasted more than 900 youth from 41 states that exhibited 1,547 head of Hereford cattle. Entries saw a 7% increase from the previous JNHE. Throughout the week, juniors were also awarded \$22,500 in scholarships and participated in 22 contests outside the showring.

Junior membership
breaks the 3,000 mark



The Harvest II auction at the Kunde Family Winery in Sonoma Valley, Calif., grossed \$350,000 on 39 lots for youth scholarships and leadership activities.



This year 90 NJHA members attended the Faces of Leadership — Program for Reaching Individuals Determined to Excel (PRIDE) Convention in Amarillo, Texas, Aug. 6-9. The group visited prestigious ranches in the Texas Panhandle and eastern New Mexico, including Barber Ranch, Pérez Cattle Co. and Copeland and Sons LLC.

Hereford youth and the Lot 1 Foundation Female, "Salsa," heated up the Mile High Night Sale Jan. 15 at the National Western Stock Show in Denver. KJ BJ DWE 686Z Salsa 364C ET topped the sale at \$80,000. Proceeds supported the HYFA Growing a Lasting Legacy campaign. The Kevin and Sheila Jensen family and Dylan and Chelsea Evans donated the Foundation Female. Salsa was purchased by Jonny and Toni Harris, Winton Jr. Harris and Oscar I. Harris from Screven, Ga., in memory of Winton C. and Emily Harris; C&L Ranch, the Steve and Jill Folkman family, Ixonia, Wis.; and RGR Cattle, Carlinville, Ill.

HYFA hosted an auction at the "Celebrate the Brand" event at the American Hereford Association in Kansas City, Mo., on Oct. 30. More than \$50,000 was raised to support Hereford youth through scholarship and educational opportunities. HYFA awarded a combined \$61,250 in scholarships to NJHA members throughout the 2015-16 fiscal year.



The Lot 1 Foundation Female, "Salsa," raised \$80,000 for Hereford youth during the Mile High Night Sale on Jan. 15.



The Faces of Leadership - Program for Reaching Individuals Determined to Excel (PRIDE) Convention in Amarillo, Texas, brought together 90 NJHA members and future beef industry leaders.



Hereford youth exhibited a record-number 1,547 head of cattle at the 2016 JNHE in Madison, Wis. More than 900 youth from 41 states participated in the weeklong event featuring 22 contests in addition to the cattle show.

American Hereford Association and Subsidiaries

Consolidated Statements of Financial Position August 31, 2016 and 2015

Assets	2016	2015
Current Assets		
Cash and cash equivalents	\$796,045	\$499,090
Short-term investments	76,976	—
Accounts receivable, net	610,075	714,910
Prepaid expenses	5,858	14,693
Inventories	104,563	80,507
Due from Hereford Youth Foundation of America (HYFA)	—	2,953
Due from Junior National Hereford Expo (JNHE)	—	10,544
Total Current Assets	<u>1,593,517</u>	<u>1,322,697</u>
Investments	2,526,811	2,080,610
Property and Equipment, net	2,187,780	2,220,323
Other noncurrent assets	—	90
Total Assets	<u>\$6,308,108</u>	<u>\$5,623,720</u>

Liabilities and Net Assets	2016	2015
Current Liabilities		
Accounts payable	\$282,043	\$186,212
Accrued expenses	272,447	215,954
Current maturities of long-term obligations	—	24,106
Prepayments from breeders	110,085	113,650
Deferred subscription and advertising revenue	149,787	155,026
Due to HYFA	7,961	—
Due to JNHE	800	—
Total Current Liabilities	<u>823,123</u>	<u>694,948</u>
Long Term Obligations, less current maturities	—	38,668
Total Liabilities	<u>823,123</u>	<u>733,616</u>
Net Assets		
Unrestricted net assets	<u>5,484,985</u>	<u>4,890,104</u>
Total Liabilities and Net Assets	<u>\$6,308,108</u>	<u>\$5,623,720</u>

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

Consolidated Statements of Activities for the Years Ended August 31, 2016 and 2015

	2016	2015
Changes in Unrestricted Net Assets		
Revenues and Support		
Services	\$3,385,424	\$3,148,187
Advertising and subscriptions	2,139,617	2,046,006
Program revenues	977,853	1,027,213
Other revenue	704,446	633,817
Net assets released from restrictions	—	112
Total Revenue and Support	<u>7,207,340</u>	<u>6,855,335</u>
Expenses		
General and administrative	2,358,252	2,060,346
Board of directors' expenses	37,621	49,608
Building expenses	123,114	161,100
Market development and information	626,907	572,210
Junior activities	292,904	269,183
Research and TPR activities	208,019	231,377
Program expenses	2,875,123	3,105,572
Depreciation	178,331	173,217
Total Expenses	<u>6,700,271</u>	<u>6,622,613</u>
Other Income (Expense)		
Realized gain (loss) on sale of investments	(73,294)	(3,538)
Gain (loss) on sale of assets	10,000	6,231
Net appreciation (depreciation) in fair value of investments	165,896	(41,455)
Other income (expense)	(14,790)	(10,459)
Total Other Income (Expense)	<u>87,812</u>	<u>(49,221)</u>
Net Changes in Unrestricted Net Assets	<u>594,881</u>	<u>183,501</u>
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	—	(112)
Change in Net Assets	<u>594,881</u>	<u>183,389</u>
Net Assets - Beginning Of Year	<u>4,890,104</u>	<u>4,706,715</u>
Net Assets - End Of Year	<u>\$5,484,985</u>	<u>\$4,890,104</u>

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

Consolidated Statements of Cash Flows for the Years Ended August 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	<u>\$594,881</u>	<u>\$183,389</u>
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided By (Used In) Operating Activities:		
Depreciation	178,330	173,217
Realized (gain) loss on sale of investments	73,294	3,538
(Gain) loss on sale of assets	(7,000)	(6,231)
Net (appreciation) depreciation in fair value of investments	(165,896)	41,455
(Increase) decrease in:		
Accounts receivable – net	104,835	(12,238)
Prepaid expenses	8,835	2,802
Other noncurrent assets	90	–
Inventories	(24,056)	(50,107)
Due to/from HYFA	10,914	5,686
Due to/from JNHE	11,344	6,807
(Increase) decrease in:		
Accounts payable	95,831	(130,374)
Accrued expenses	56,493	(96,365)
Prepayments from breeders	(3,565)	5,671
Deferred subscription and advertising revenue	(5,239)	15,249
Total Adjustments	<u>334,210</u>	<u>(40,890)</u>
Net Cash Provided By (Used In) Operating Activities	<u>929,091</u>	<u>142,499</u>
Cash Flows From Investing Activities		
Cash temporarily restricted for NWSS award	–	112
Purchases of property and equipment	(145,787)	(172,466)
Purchases of investments	(1,694,466)	(619,971)
Proceeds from sale of investments	1,263,891	793,700
Proceeds from sales of property and equipment	7,000	14,923
Net Cash Provided By (Used In) Investing Activities	<u>(569,362)</u>	<u>16,298</u>
Cash Flows From Financing Activities		
Net proceeds from long-term obligations	–	69,888
Payments on long-term obligations	(62,774)	(49,791)
Net Cash Provided By (Used In) Financing Activities	<u>(62,774)</u>	<u>20,097</u>
Net Increase (Decrease) in Cash And Cash Equivalents	<u>296,955</u>	<u>178,894</u>
Cash and Cash Equivalents – Beginning of Year	<u>499,090</u>	<u>320,196</u>
Cash and Cash Equivalents – End of Year	<u><u>\$796,045</u></u>	<u><u>\$499,090</u></u>

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

Notes to Consolidated Financial Statements August 31, 2016 and 2015

1 — Summary of Significant Accounting Policies

Nature of Operations The American Hereford Association (AHA) 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 AHA are primarily owners and breeders of Hereford cattle. The members and subscribers are located world-wide; however the largest concentration is within the United States.

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

The AHA 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 AHA. ABRA provides computer consultation in herd planning and management, breeding services and marketing for commercial livestock of various breeds.

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

Consolidated Financial Statement Presentation The Association classifies its information regarding net assets and revenues, expenses, gains, and losses based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and report as follows:

- **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, 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.

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 \$414,076 and \$222,824 were considered to be cash equivalents at August 31, 2016 and 2015, 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.

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, 2016 and 2015. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market values and are 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 corroborating 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, 2016 and 2015.

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.

Exchange Traded Funds: These assets are valued at the net asset value reported on the active market on which the securities are traded. The valuation occurs throughout the day based on the market value of the underlying securities as well as the market supply and demand for the particular exchange traded fund.

Mutual Funds: Each investor in the mutual fund will typically receive units of participation in the mutual fund. These units are valued daily, based on the underlying securities owned by the mutual fund, which are usually publicly traded debt or equity securities.

Property and Equipment Property and equipment are stated at cost and depreciated 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 for financial statement purposes. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of activity for the period. The Association capitalizes all assets, major replacements, and betterments with a useful life greater than one year and cost in excess of \$1,000. Maintenance and repairs are charged to expenses as incurred.

Long-lived assets to be held and used are tested for recoverability whenever events or changes in the circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be disposed of by sales are reported at the lower of carrying amount or fair value, less cost to sell.

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, 2016 and 2015, was \$282,149 and \$250,582, respectively.

Income Taxes The Association follows the provisions of an accounting standard for accounting for uncertainty in income taxes. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

The Association files income tax returns in the U.S. federal jurisdiction, the State of Missouri jurisdiction, and U.S. city jurisdictions. Income tax returns of the Association are subject to U.S. federal or state income tax examinations by tax authorities generally for three years after they were filed.

The 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. The Association, 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, 2016 and 2015, 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 consolidated 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 of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting period, and the disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Supplemental Disclosure of Cash Flow Information The Association paid cash during the year for interest in the amount of \$2,275 and \$3,137 for the years ended August 31, 2016 and 2015, respectively.

Reclassifications Certain amounts in the prior year comparative information have been reclassified for comparative purposes to conform to presentation in the current year consolidated financial statements.

Subsequent Events The Association has evaluated subsequent events through October 10, 2016, the date which the consolidated financial statements were available for issue.

2 — Accounts Receivable

Accounts receivable consists of the following:

	2016	2015
Trade receivables	\$612,796	\$698,926
Less: Allowance for doubtful accounts	(12,352)	(28,554)
Subtotals	600,444	670,372
Other receivables	9,631	44,538
Total Accounts Receivable	<u>\$610,075</u>	<u>\$714,910</u>

3 — 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, 2016	Level 1	August 31, 2015	Level 1
Mutual Funds	\$ 34,949	Equity Securities	\$ 66,437
Exchange traded funds	\$ 20,018	Municipal Bonds	24,856
Equity Securities	\$1,435,685	Government agency bond	916,601
Municipal Bonds	25,381	Corporate bonds	842,365
Government agency bond	376,522	Fixed Income Securities	230,351
Corporate bonds	510,135	Total	<u>\$2,080,610</u>
Fixed Income Securities	201,097		
Total	<u>\$2,603,787</u>		

4 — Property and Equipment

Property and equipment consists of the following:

August 31	2016	2015
Land	\$ 462,122	\$ 462,122
Buildings	2,353,371	2,340,558
Furniture and fixtures	367,142	362,984
Vehicles	240,585	219,600
Data processing equipment	275,992	231,156
Software	301,056	301,057
Subtotals	4,000,268	3,917,477
Less: Accumulated depreciation	(1,812,488)	(1,697,154)
Total Property and Equipment - Net	<u>\$2,187,780</u>	<u>\$2,220,323</u>

5 — Long-Term Obligations

Long-term obligations consists of the following at August 31:	2016	2015
Notes - vehicles, collateralized by related vehicles, interest from 2.74% to 6.74% all paid off as of July 2016.	-	62,774
Less: Accumulated depreciation	-	(24,106)
Total Property and Equipment - Net	<u>-</u>	<u>\$38,668</u>

Interest expense was \$2,275 and \$3,137 for the years ended August 31, 2016 and 2015, respectively.

6 — Operating Leases

The Company leases a copier from an unrelated third party under an operating lease. The lease requires monthly lease payments of \$465 with a termination or renewal date of March 19.

The Company leases a copier from an unrelated third party under an operating lease. The lease requires monthly lease payments of \$313 with a termination or renewal date of July 2020.

Amounts recorded as equipment lease expense were \$15,575 and \$12,984, respectively, for the years ended August 31, 2016 and 2015.

The future minimum lease payments under operating leases are as follows:

Year	Amount	Year	Amount
FYE 2017	\$ 9,337	FYE 2019	\$ 7,012
FYE 2018	\$ 9,337	FYE 2020	\$ 3,443
		Total	<u>\$29,129</u>

7 — Income Taxes

The provisions for income taxes consist of the following components:

	2016	2015
Current	\$ -	\$ -
Deferred:		
Temporary differences	80,782	(932)
Change in valuation allowance	(80,782)	932
	<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, 2016	August 31, 2015
Net operating loss carryforwards	\$ 34,965	\$115,747
Less: Valuation Allowance	(34,965)	(115,747)
Total Deferred Tax Assets	<u>\$ -</u>	<u>\$ -</u>

HPI utilized a net operating loss of approximately \$210,225 and \$23,823 for the years ended August 31, 2016 and 2015, respectively.

HPI has a net operating loss carryforward of \$102,838 available to offset future federal and state taxable income that begin to expire in 2021, as follows:

Year	Amount
2021	\$54,705
2022	29,681
Thereafter	18,452
Total	102,838

8 — Collections of Artwork

The Association has a collection of artwork, appraised at approximately \$639,200 at August 31, 2016 and 2015, that is on public display at the Association's headquarters. The most recent appraisal is as of April 2015 for new pieces added in 2015 and as of 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 no pieces added to the collection during the year ended August 31, 2016, and there were four pieces added to the collection during the year ended August 31, 2015. There were no pieces disposed of during the years ended August 31, 2016 and 2015.

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 — 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, 2016 and 2015, were \$90,333 and \$95,862, respectively.

11 — Subsequent Events

The City of Kansas City, Missouri has announced that, in their 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.

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, a nonprofit organization, and its subsidiaries (collectively, the Association), which comprise the consolidated statements of financial position as of August 31, 2016 and 2015; 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 as of August 31, 2016 and 2015, 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 10, 2016

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2016 and 2015.

— American Hereford Association, Jack Ward, executive vice president

2015-16 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Rank
				Active	Juniors	
Alabama	1,099	769	1,193	50	25	23
Arizona	211	138	119	15	3	40
Arkansas	1,395	828	2,052	99	70	20
California	1,403	567	2,038	90	85	19
Colorado	1,211	559	1,903	69	26	22
Connecticut	104	79	194	10	14	41
Delaware	5	2	4	2	2	47
Florida	338	92	436	17	6	39
Georgia	2,158	1,390	3,258	87	40	12
Idaho	1,968	1,000	2,182	56	40	14
Illinois	2,696	2,202	4,545	187	243	9
Indiana	1,359	1,084	1,832	161	192	21
Iowa	2,650	1,441	3,428	164	189	10
Kansas	5,585	2,303	8,679	157	117	3
Kentucky	1,507	925	2,594	98	57	17
Louisiana	543	447	680	50	46	35
Maine	56	25	47	15	4	42
Maryland	488	510	479	59	67	36
Massachusetts	43	10	29	5	10	44
Michigan	644	547	981	73	49	32
Minnesota	1,675	746	2,661	111	80	16
Mississippi	911	702	876	53	53	27
Missouri	4,404	2,848	6,467	225	129	6
Montana	3,412	1,428	4,140	72	20	7
Nebraska	6,110	2,042	8,097	161	118	2
Nevada	362	178	665	15	6	38
New Hampshire	39	43	24	8	4	45
New Jersey	49	48	47	11	11	43
New Mexico	1,016	274	1,268	30	8	24
New York	544	187	1,054	62	40	34
North Carolina	785	558	1,030	66	37	30
North Dakota	2,730	1,073	3,980	70	21	8
Ohio	985	810	1,732	153	100	25
Oklahoma	4,723	2,944	5,774	202	205	5
Oregon	1,447	856	1,960	70	61	18
Pennsylvania	835	626	1,141	90	74	28
Rhode Island	1	0	32	0	2	48
South Carolina	396	281	771	31	17	37
South Dakota	5,088	1,681	8,063	114	79	4
Tennessee	2,371	1,525	3,674	155	75	11
Texas	8,721	5,316	10,577	443	346	1
Utah	620	91	680	24	3	33
Vermont	34	18	69	5	1	46
Virginia	818	644	981	73	50	29
Washington	929	364	2,140	70	36	26
West Virginia	751	438	1,333	61	27	31
Wisco nsn	1,767	1,184	2,564	150	142	15
Wyoming	2,096	581	2,862	49	27	13
Total	79,082	42,404	111,335	4,038	3,057	

Top 10 Registrations

State	Breeders	
TX	8,721	941
NE	6,110	814
KS	5,585	682
SD	5,088	558
OK	4,723	554
MO	4,404	514
MT	3,412	446
ND	2,730	412
IL	2,696	392
IA	2,650	367



Pictured is the 2016 American Hereford Association (AHA) Board of Directors. Seated (l to r) are: **Sam Shaw**, Caldwell, Idaho, president; **Terri Barber**, Channing, Texas, vice president; **Curtis Curry**, McAlester, Okla.; **Jonny Harris**, Screven, Ga.; and **Jack Ward**, Kansas City, Mo., executive vice president. Directors standing (l to r) are: **Joe Van Newkirk**, Oshkosh, Neb.; **Bob Thompson**, Rolla, Mo.; **Kyle Pérez**, Nara Visa, N.M.; **Dave Bielema**, Grand Rapids, Mich.; **Kevin Schultz**, Haviland, Kan.; **Jim Mickelson**, Santa Rosa, Calif.; **Jim Bellis**, Aurora, Mo.; and **Peter Atkins**, Tea, S.D.

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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