



Advancing the Breed.  
Strengthening the Industry.

# Generating Strength

The American Hereford Association (AHA) had an exciting fiscal year (FY) that began with the sale of the AHA property in downtown Kansas City, Mo. The sale closed in January and certainly challenged the staff to make a quick transition to the AHA's new office space by early February. Sale proceeds were placed in a separate account at UMB Bank and are managed by the Hereford Legacy Fund LLC Board of Directors.

In December 2017, the AHA launched a state-of-the-art genetic evaluation that utilizes a new software, Biometric Open Language Tools (BOLT). At the same time, two economically relevant traits were added, and the profit (\$) indexes were refreshed to reflect the addition of these traits. In addition, the AHA Board of Directors voted to adopt a new DNA strategy to lower the cost of testing an animal and negotiated a discounted rate for breeders to DNA test an entire cow inventory.

## Expanding the marketplace

The AHA worked with the Red Angus Association of America (RAAA) to develop a program to identify genetically superior commercial females. The Premium Red Baldy program was introduced in front of a standing-room-only crowd at the National Cattlemen's Beef Association convention. This is a first-of-its-kind program that brings

together two beef-breed associations to provide a tool for commercial cattlemen.

Launched this spring, the Maternal Advantage Program allows commercial cattlemen to market genetically superior females produced by Hereford bulls that are better than breed average for either BMI\$ or BII\$.

Certified Hereford Beef® sold nearly seven percent more pounds of beef this past fiscal year. The *Certified Hereford Beef* staff continues to build exposure for the brand through its new website, social media outlets, food shows and meetings. The AHA and the *Certified Hereford Beef* Board voted to move away from the Classic program and to market only Choice and Premium programs. These changes will ensure consumers receive a more consistent product, which will strengthen the brand within the marketplace. An increase in farm-to-table tours this year allowed current and potential *Certified Hereford Beef* customers to visit the operations of our dedicated farmers and ranchers, reinforcing the commitment the AHA membership has in producing a high-quality, sustainable product.

## Gearing up for the future

The youth program continues to grow with a continued focus on building educational and leadership skills along with knowledge of the cattle industry. The

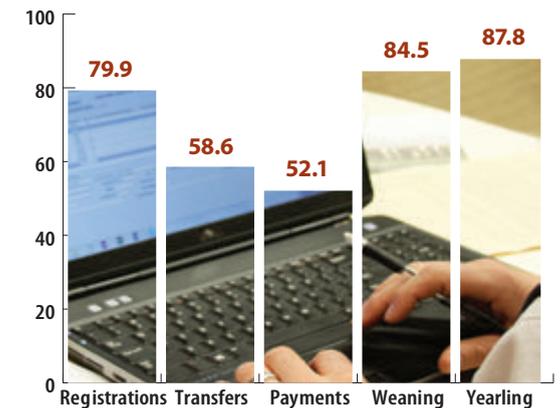
junior Fed Steer Shootout program is in its second year, and the number of cattle and participants almost doubled from the first year. BioZyme® continues to support Hereford youth, and it committed an extra \$5,000 in award money to the Fed Steer Shootout for 2018.

Core Strategy IV of the 2017-22 AHA Strategic Plan reads, "Develop and capitalize on 'Team Hereford.'" As you can see, this focus has allowed the AHA to grow and to work together like a set of properly positioned gears. These gears represent the membership, staff and industry leaders, and each group functions in a manner highlighting the "Truth about Hereford Genetics." Working together, the gears behind the AHA have powered the Association through another great year.

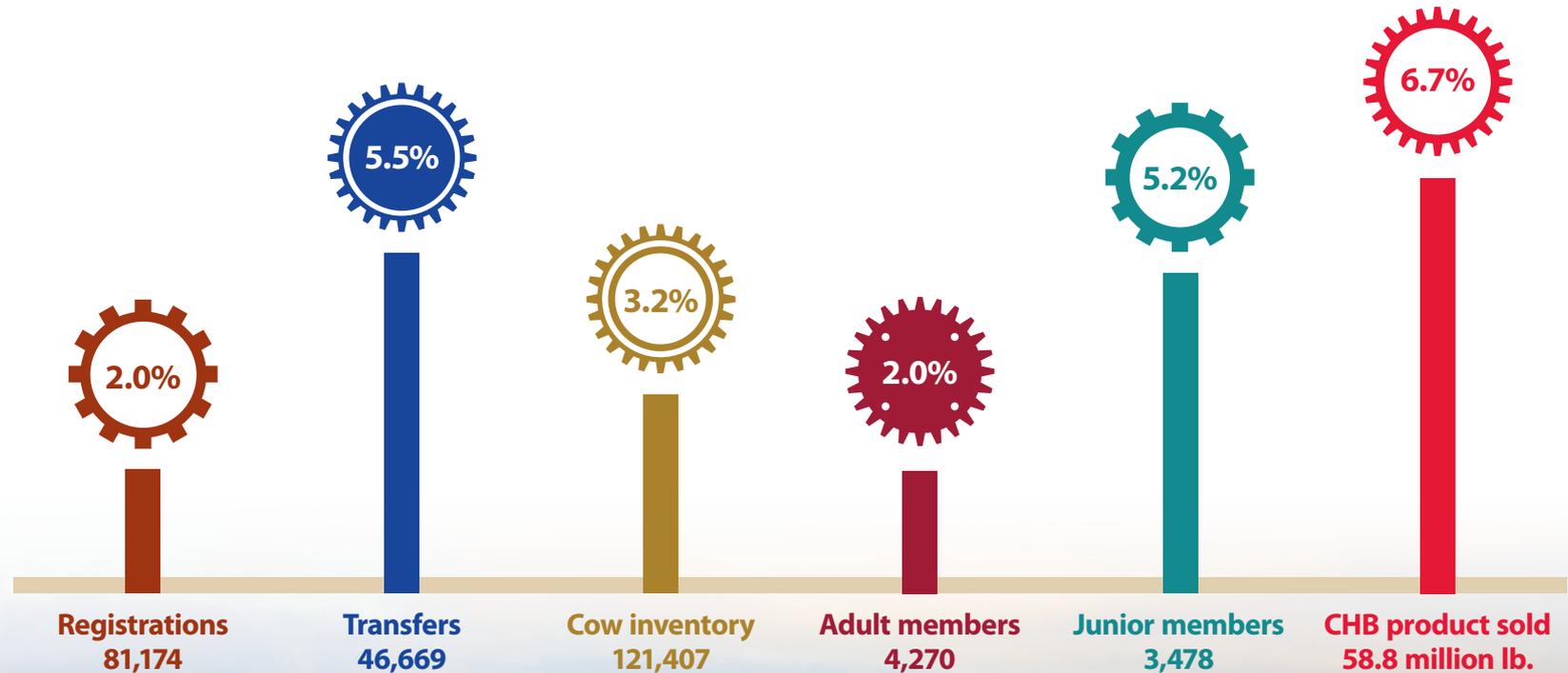


Jack Ward is the executive vice president of the American Hereford Association.

## Percentage of items electronically recorded out of total items recorded



# Fiscal Year 2018 Stats



# Driving Innovation

The American Hereford Association (AHA) continues to leverage breed improvement tools and technology to grow and position the future of the breed. In fiscal year (FY) 2018, the AHA released an updated genetic evaluation that incorporates the most up-to-date methodology in the business. Along with the implementation of strategic performance programs, the updated genetic evaluation allows the AHA to provide commercial cattlemen with a reliable source of germ plasm to maximize profitability.

## Cutting-edge evaluations

In December 2017, the AHA released a new, robust genetic evaluation that not only capitalizes on the 70,000 genotypes in the Association's database but also takes advantage of the comprehensive Whole Herd Total Performance Records (TPR™) program. This new evaluation offers many technological advancements to fully capture the most potential for calculating expected progeny differences (EPDs) and associated accuracies, one of which is utilizing Biometric Open Language Tools (BOLT) software to directly incorporate the genomic markers into the calculations through a single-step analysis. This software, coupled with using graphic processing units (GPUs) to run the evaluation and developing an in-house genomic pipeline, allows for a turnkey, automated genetic evaluation that runs weekly.

In addition, the AHA's genetic evaluation implemented a data cutoff strategy to eliminate any performance data prior to 2001. This technique ensures only quality and unbiased data enter the genetic evaluation. Along with this strategy, the AHA implemented a new method

of calculating accuracies — called sampling — which provides a more precise accuracy calculation rather than using the traditional method of approximation, which tended to overestimate accuracy values. In conclusion, the AHA's genetic evaluation is recognized as a leader in the industry with the implementation of these innovative approaches.

In FY 2018 the AHA Board of Directors implemented a new price structure for DNA testing. Additionally, all animals tested receive a genomic enhancement. This price change resulted in a 31 percent cost savings to AHA members. The two following options are available for DNA testing:

**Genomic profile, \$38:** Profile, parentage, abnormalities and a genomic enhancement.

**Full package, \$58:** Profile, parentage, abnormalities, a genomic enhancement and a horn/poll result.

The AHA also implemented a \$4 rebate program if members submit a DNA sample via a tissue sample unit (TSU).



### Fueling progress

**Cow Herd Project.** In FY 2018, the AHA also began the Cow Herd Project to obtain more female genotypes. Early adoption of genotyping resulted in an influx of bull sample submissions with very few female sample submissions. To improve the genomic prediction of specific female traits associated with fertility, the AHA offered a \$20 test to members. That's right — for \$20 breeders can get a profile, parentage, abnormalities and a genomic enhancement. The only stipulation is that all females must be tested on the breeder's cow inventory. More than 80

members have taken advantage of this opportunity, and 3,500 females have been genotyped through this project.

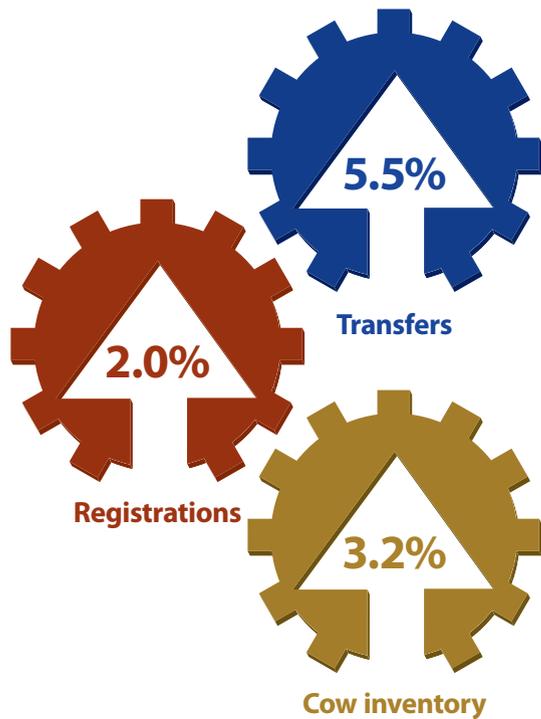
### Platinum Whole Herd TPR.

To encourage more genomic testing along with collecting key phenotypic records, the AHA began the Platinum Whole Herd TPR program. The Platinum TPR Breeder is the highest level of achievement when it comes to complete calf crop reporting. Breeders must meet all the requirements of Gold TPR Breeder status plus genotype 85 percent of their calves with a weaning weight submitted. The time requirement to do this will fall under the same two-year compliancy rule. The results of the genotype will need to be completed by Jan. 1 of the recognition year. As a result, the first award winners of this prestigious and progressive award will be recognized in the spring of 2020 and will be based on the 2018 calf crop.



**NRSP.** The AHA continues to grow the National Reference Sire Program (NRSP). In its 19th year, the NRSP has tested more than 375 bulls for economically relevant traits of interest. The NRSP is the envy of the industry in breed improvement and has allowed the AHA to lead the way in

performance testing. The significance of this program continues to shine as all major AI (artificial insemination) bull studs tested at least one of their sires in the program this year. The AHA is excited to have added two new test herds this year — Mershon Cattle, Buckner, Mo., and Barnitz Cattle, Rolla, Mo. The addition of these reputable ranches will continue to add strength and testing power to the NRSP.



### New traits

This year, the AHA added two new economically relevant traits to its genetic evaluation.



#### Sustained Cow Fertility

The Sustained Cow Fertility (SCF) EPD is a prediction of a cow's ability to continue to calve from 3 to 12 years of age, given that she calved as a 2-year-old. The EPD is expressed as a deviation in the proportion of the cow's 10 possible calvings from age 3-12, expressed as a probability. For example, the daughters of a bull with a 30 SCF EPD would have the genetic potential to have one more calf by age 12 than the daughters from a bull with a 20 SCF EPD. In other words, the daughters from the 30 EPD bull would have a 10 percent greater probability of having one more calf than daughters of the bull with a 20 EPD. This outcome is equivalent to saying the daughters are 10 percent more likely to remain in the heard up to age 12.

#### Dry Matter Intake

The Dry Matter Intake (DMI) EPD predicts the daily consumption of pounds of feed. For example, if sire A has a DMI EPD of 1.1 and sire B has a DMI EPD of 0.1, you would expect sire B's progeny, if comparatively mated, to consume, on average, 1 lb. of feed less per day.

# Maximizing Market Value

As the Hereford breed continues its advancement in the beef industry, the American Hereford Association (AHA) is committed to providing relevant tools to both seedstock and commercial producers. The Hereford Advantage program continues to be a valuable tool, adding market power and additional exposure to qualifying groups. In fiscal year (FY) 2018, participation in the program was more than 15,000 head, and prices of tracked qualifying lots realized an advantage in price compared to the market average.



In addition to current programs and tools, a notable list of additional opportunities has been introduced during FY 2018. The Maternal Advantage program, the Premium Red Baldy program and the Integrity Beef Alliance are three new opportunities for producers to advance genetic quality and to add value to their operations.

## Maternal Advantage Program

The Maternal Advantage program is a female-focused program designed to take advantage of



hybrid vigor by capitalizing on Hereford genetics. This program generates females with added longevity, more docility, increased fertility and more profit per year. Producers using Hereford bulls on British- or Brahman-based females in their breeding program can utilize this program. To take advantage of the program, producers must verify eligible females are sired by a registered Hereford bull battery ranking in the top 50 percent of the breed for Baldy Maternal Index (BMI\$) or Brahman Influence Index (BII\$), depending on the breed makeup of the cows to which the bulls are bred.

## Premium Red Baldy Program

Another maternal-focused program for commercial producers to take advantage of is the Premium Red Baldy program. Managed in conjunction with the Red Angus Association of America (RAAA), the program is a unique collaboration between two breed associations both backed by whole-herd reporting, illustrating the opportunities available when industry partners collaborate. This program is designed to take advantage of the hybrid



vigor gained by maximizing the best traits of both Hereford and Red Angus breeds, providing commercial producers with premium replacement females containing an ideal balance of maternal and carcass traits, yielding cattle poised to increase profitability. To take advantage of this tagging program, producers must verify that eligible females are sired by a registered bull battery ranking in the top 50 percent of the breed for BMI\$ if Hereford bulls are used or the Herdbuilder Index (HB) if Red Angus bulls are used.

## Integrity Beef Alliance

The Integrity Beef Alliance simplifies cow-calf producer management decisions and increases the marketability of calves through the production of high-quality, uniform and preconditioned cattle. The AHA is proud to have Hereford bulls included as the newest breed the program is accepting. In addition to the Alliance's replacement female program that Hereford has long been a foundational part of, producers will now be able to utilize Hereford genetics in this terminal program. This is yet another opportunity for producers using Hereford genetics to add value to their operations.





# Advocating the Hereford Truth

The American Hereford Association (AHA) employs a variety of communication and marketing campaigns to strategically align the breed with the beef industry.

In fiscal year (FY) 2018, the Association reached an increasing amount of commercial producers to promote Hereford genetics. The current national ad campaign, “The Bald-Faced Truth About Hereford Genetics,” has been successful and praised by many in the industry. The campaign shares the breed’s well-documented advantage with commercial producers — Hereford genetics maximize herd value by leveraging traits such as fertility, feed efficiency, docility and feedlot profitability.

From October through February, the AHA implemented a paid media campaign which ran digital ads in *Beef Magazine*, *CattleUSA*, *Drovers* and *DVAuction*. The campaign resulted in more than 3.9 million impressions — or the number of times a digital ad is delivered.

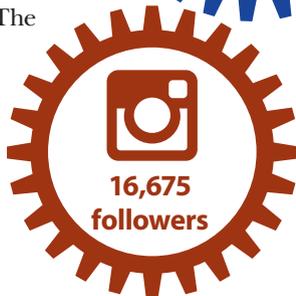
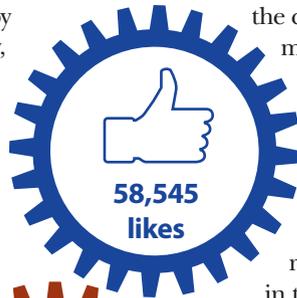
Additional promotion included the Red Reception at the 2018 Cattle Industry Convention and NCBA Trade Show in Phoenix, a special breeder’s event to commemorate the launch of the Premium Red Baldy program.

The marketing team utilizes multiple digital platforms to communicate with the AHA membership. Relevant and timely information about the Association is provided on *Hereford.org*, and the *Hereford Headlines* and *Sales Digest* weekly eNewsletters distribute the latest information to Hereford breeders, enthusiasts and media contacts across

the country. The AHA’s social media platforms play an important role in sharing the Hereford message with both members and nonmembers. This year, sponsored posts played an integral part in reaching a wider audience in the commercial industry.

Together, Hereford Publications Inc. (HPI) and the *Hereford World* connect cattlemen with their target market. In FY 2018, AHA field staff reported

196 production sales. Twenty ride-along catalogs and promotional inserts and 1,066 pages of ads in the *Hereford World* helped promote these sales to the magazine’s 5,660 U.S. and 27 foreign subscribers. In total, 7,060 bulls were sold, averaging \$4,930 per head. Females averaged \$4,511.

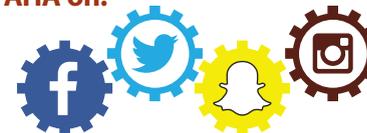


## LPC awards

The Livestock Publications Council (LPC) awards livestock media organizations for quality work in its annual LPC Contest. Hereford Publications Inc. (HPI) and the American Hereford Association (AHA) staff received six awards in the 2018 contest:

- **James Flanagan Award for Most Improved Publication:** *Hereford World* magazine redesign
- **First Place Association website:** AHA – *Hereford.org*
- **Second Place national show coverage:** 2017 Junior National Hereford Expo (JNHE) printed in the September 2017 *Hereford World*
- **Second Place 4-color, full page ad for a livestock sale:** Parker Bros. ad
- **Honorable Mention, annual report:** AHA Annual Report printed in the November 2017 *Hereford World*
- **Honorable Mention 4-color, full page ad for a ranch or farm:** Innisfail Farm ad

Follow AHA on:



@americanherf



# Continuing the Tradition



The Certified Hereford Beef® brand continues the tradition of supporting Hereford farmers and ranchers by marketing and promoting premium Hereford genetics to foodservice distributors and retailers across the globe.

Established in 1995, *Certified Hereford Beef* provides consumers a high-quality eating experience backed by 10 science-based specifications to ensure quality and consistency with every bite.

The *Certified Hereford Beef* brand continues to excel in the marketplace with steady growth each year. With a reputation built on product performance and premium taste,

*Certified Hereford Beef* is recognized as a high-quality beef program with a competitive advantage against other branded beef programs in the industry.

## Positioning the *Certified Hereford Beef* brand for success

American Hereford farmers and ranchers have drastically increased the quality of their Hereford animals through years of genetic improvements. These efforts made by the American Hereford Association (AHA) membership have positioned the Hereford breed as a leader in the beef industry. Additionally, consumer demand has driven the foodservice and retail industries to require a product with a United States Department of Agriculture (USDA) Choice or higher quality grade.

To continue growth and success for the *Certified Hereford Beef* brand and to recognize Hereford farmers and ranchers for their efforts, the AHA and the Certified Hereford Beef Board of Directors has taken a strong stance to move the brand forward into a new era of success.

The AHA and the Certified Hereford Beef Board of Directors voted

unanimously to modify the minimum marbling score requirement of the current Schedule G-10 for the *Certified Hereford Beef* brand.

The minimum marbling score requirement will be modified from a Slight<sup>00</sup> marbling score to a Small<sup>00</sup> marbling score to elevate the quality level of the *Certified Hereford Beef* brand to a USDA Choice quality grade.

“Our Hereford farmers and ranchers have worked diligently over the years to improve the Hereford breed,” says Amari Seiferman, *Certified Hereford Beef* chief operating officer. “This modification is a testament to that work and proves *Certified Hereford Beef* is a premium quality product. We are proud to move our brand forward into a new era of success.”

The marbling score modification will go into effect Jan. 1, 2019. The *Certified Hereford Beef* brand will serve customers with two flagship programs — Choice and Premium. The Choice program will provide a USDA Choice and higher product, while the Premium program will provide an upper-two-thirds USDA Choice and higher product.





### Supporting our partners

To assist *Certified Hereford Beef* licensed partners with increasing the demand for Hereford beef and growing their market share, the *Certified Hereford Beef* team provides marketing and educational assistance through point-of-sale materials and support at food shows, product demonstrations and many other industry events.

Both foodservice and retail partners have access to the newly launched *Certified Hereford Beef* partner portal, which allows licensed partners to download all *Certified Hereford Beef* marketing materials with the click of a button, including posters, banners, recipe cards and brochures, proprietary photography, informational cards, and more. *Certified Hereford Beef* marketing materials effectively communicate that *Certified Hereford Beef* supports American Hereford farm and ranch families and provides

a premium beef product for an exceptional eating experience.

With an emphasis on marketing directly to the consumer, *Certified Hereford Beef* has experienced an increase in restaurant partners across the country that are marketing *Certified Hereford Beef* on their menu and to their patrons.

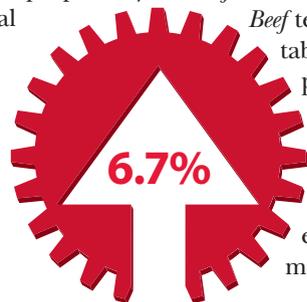
Restaurants who choose to join *Certified Hereford Beef* as partners receive many benefits, including a listing on the *Certified Hereford Beef* website under “Where to Buy,” driving producer traffic to their establishment.

Demand for the *Certified Hereford Beef* brand has experienced continued growth thanks to the exceptional eating experience it provides consumers, paired with the strategic market approach and support provided by the *Certified Hereford Beef* team.

### Engaging our producers

The AHA membership is one of the greatest assets of the *Certified Hereford Beef* brand, allowing the *Certified Hereford Beef* team to share the farm-to-table story with current and prospective partners.

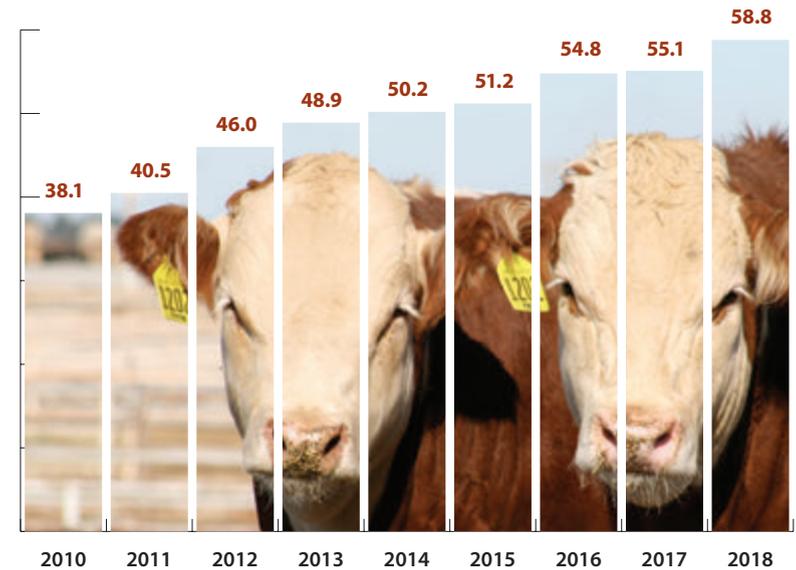
The past fiscal year brought an increase in farm-to-table tours hosted by AHA members. These tours are an excellent tool to portray the message of sustainability and



**CHB product sold**

## CHB tonnage sold

(FY 2010 to FY 2018 in million pounds)



high-quality care Hereford animals are given throughout their lifetime.

*Certified Hereford Beef* is proud of the rich heritage and uncompromising dedication to quality our Hereford farmers and ranchers provide. This time-honored tradition of providing an exceptional eating experience coupled with an exciting story to tell is a key driver in the growth of the *Certified Hereford Beef* brand.

# Building a Strong Foundation

The National Junior Hereford Association (NJHA) and the Hereford Youth Foundation of America (HYFA) work together to provide opportunities for our breed's future leaders to excel in and strengthen the cattle industry.

In fiscal year (FY) 2018, the junior organization and foundation held fast to their mission of scholarship, leadership and education by providing programs that not only showcase the talents of junior members but also build leaders and prepare them for a bright future in the beef industry and beyond.

Highlighting HYFA's activities for the year was the establishment of the Cottonwood Springs Farm Educational Endowment gifted by Tim and Nancy Keilty of Cedar, Mich. This \$250,000 gift will propel education to the next level with the sole purpose of providing financial support for

educational programs and contests at the annual Junior National Hereford Exposition.

With education a priority, the NJHA was excited to see the number of cattle on feed at Gregory Feedlots Inc. double in the second year of the Fed Steer Shootout program. Thanks to our industry partners at BioZyme Inc., VitaFerm® matched HYFA's monetary contribution to fund the program and awards.

The Lot 1 Foundation Female continues to be one of the largest funding platforms for the foundation. This 10-year tradition has generated \$770,000 in its lifetime to support youth initiatives.

New fundraising programs are added each year to support leadership and education and in FY 2018 the Foundation 1 Club was initiated by Sierra Ranches, Modesto, Calif., which donated 1 percent of the proceeds of its fall production sale to HYFA. The Ladies of the Royal and Mile

High Night Sale followed suit, and in the first year generated nearly \$35,000. HYFA welcomed The Hereford Prep Collection and Michelle Weber Studios to the Foundation 1 Club. HYFA partnered with BioZyme® for a second year to "Feed the Future," raising more than \$14,000 to support youth. HYFA invites you to grow with us to show how the power of one can make a huge difference.

**\$80,000**  
raised with the  
foundation  
female FY 2018



**\$173,000**  
in scholarships  
awarded in FY 2018



The NJHA's Fed Steer Shootout program is an opportunity for youth to gain experience in the cattle-feeding industry.

**13** states  
**37** participants  
**149** head entered



Lot 1 set the stage for a tremendous Mile High Night Sale, Jan. 12, at the National Western Stock Show in Denver. MF 104Y Eve 109 19E ET, brought in \$80,000 and was purchased by Express Ranches, Yukon, Okla; Buck Cattle Co., Madill, Okla; and Moore Cattle Co., Madill, Okla. She was donated by Scott McDonald, McDonald Farm, Grand Rapids, Mich.



**5.2%**  
**3,478**  
Junior members



Seventy-six NJHA members travelled to San Francisco for the Faces of Leadership conference, Aug. 1-4, to develop leadership and communication skills and to learn about the agriculture industry. The annual event is made possible by Rick Malir and Bonnie Coley-Malir's \$500,000 endowment to HYFA. Thanks to Sierra Ranches and Pedretti Ranches for hosting this year's Faces of Leadership.




The 2018 VitaFerm® Junior National Hereford Expo was held July 1-7 in Grand Island, Neb.

**1,494** entries  
**900+** participants  
**38 states+**  
Canada represented  
**\$30,000+**  
in scholarships awarded

# American Hereford Association and Subsidiaries

## Consolidated Statements of Financial Position August 31, 2018 and 2017

ASSETS	2018	2017
<b>Current Assets</b>		
Cash and cash equivalents	3,012,850	\$846,112
Short-term investments	1,118,770	1,362
Accounts receivable, net	763,276	687,973
Prepaid expenses	86,691	14,141
Inventories	154,821	96,369
Due from Hereford Youth Foundation of America	15,905	4,897
<b>Total Current Assets</b>	<b>5,152,313</b>	<b>1,650,854</b>
<b>Property and Equipment – Net</b>	<b>613,574</b>	<b>2,114,406</b>
<b>Other Assets</b>		
Investments	8,768,202	3,182,1481
Operating lease right-of-use assets	2,247,640	–
Deferred income tax	9,000	19,000
Other noncurrent assets	25	25
<b>Total Other Assets</b>	<b>11,024,867</b>	<b>3,201,173</b>
<b>TOTAL ASSETS</b>	<b>\$16,790,754</b>	<b>\$6,966,433</b>

LIABILITIES AND NET ASSETS	2018	2017
<b>Current Liabilities</b>		
Accounts payable	218,746	\$289,531
Accrued expenses	261,845	282,807
Prepayments from breeders	102,765	99,258
Deferred subscription and advertising revenue	163,415	149,432
Due to Junior National Hereford Expo	70,522	5,413
Income tax payable	5,769	2,138
Operating lease liabilities – current portion	261,030	–
<b>Total Current Liabilities</b>	<b>1,084,092</b>	<b>828,579</b>
<b>Noncurrent Liabilities</b>		
Operating lease liabilities – less current portion	1,996,506	–
<b>Total Liabilities</b>	<b>3,080,598</b>	<b>828,579</b>
<b>Net Assets</b>		
Unrestricted net assets	13,710,156	6,137,854
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>16,790,754</b>	<b>\$6,966,433</b>

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

## Consolidated Statements of Activities for the Years Ended August 31, 2018 and 2017

CHANGES IN UNRESTRICTED NET ASSETS	2018	2017
<b>Revenues and Support</b>		
Services	3,630,902	\$3,565,688
Advertising and subscriptions	2,017,255	2,110,084
Program revenues	1,134,068	1,093,146
Other revenue	733,588	707,398
<b>Total Revenue and Support</b>	<b>7,515,813</b>	<b>7,476,316</b>
<b>Expenses</b>		
General and administrative expenses	2,141,349	1,896,767
Board of directors' expenses	33,050	52,890
Building expenses	76,506	127,730
Market development and information expenses	765,779	703,604
Junior activities expenses	331,309	309,235
Research and TPR activities expenses	807,728	752,959
Program expenses	2,969,895	2,992,976
Depreciation	205,949	182,980
<b>Total Expenses</b>	<b>7,331,565</b>	<b>7,019,141</b>
<b>Other Income (Expense)</b>		
Gain (Loss) on sale of investments	(5,123)	(8,827)
Gain (Loss) on sale of assets	7,139,155	14,000
Net appreciation (depreciation) in fair value of investments	160,978	202,437
Other income (expense)	111,037	(28,778)
<b>Total Other Income (Expense)</b>	<b>7,406,047</b>	<b>178,832</b>
<b>Net Changes in Unrestricted Net Assets Before Tax</b>	<b>7,590,295</b>	<b>636,007</b>
Income tax benefit (expense)	(17,993)	16,862
<b>Change in Net Assets</b>	<b>7,572,302</b>	<b>652,869</b>
<b>Net Assets – Beginning Of Year</b>	<b>6,137,854</b>	<b>5,484,985</b>
<b>Net Assets – End Of Year</b>	<b>13,710,156</b>	<b>\$6,137,854</b>

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

## Consolidated Statements of Cash Flows for the Years Ended August 31, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Change in net assets	7,572,302	\$652,869
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	205,949	182,980
(Gain) Loss on sale of investments	5,123	8,827
(Gain) Loss on sale of assets	(7,139,155)	(14,000)
Net (appreciation) depreciation in fair value of investments	(160,978)	(202,437)
Deferred income tax	10,000	(19,000)
Operating lease expense	9,896	-
(Increase) decrease in:		
Accounts receivable – net	(75,303)	(77,898)
Prepaid expenses	(72,550)	(8,283)
Inventories	(58,452)	8,194
Other noncurrent assets	-	(25)
Due to/from Hereford Youth Foundation of America	(11,008)	-
Due to/from Junior National Hereford Expo	65,109	(12,858)
Due from affiliates	-	4,613
Accounts payable	(70,785)	-
Accrued expenses	(20,962)	7,488
Prepayments from breeders	3,507	10,360
Deferred subscription and advertising revenue	13,983	(10,827)
Income tax payable	3,631	(355)
Due to affiliates	-	2,138
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>280,307</b>	<b>531,786</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(6,612,835)	(782,453)
Purchases of property and equipment	(587,127)	(120,606)
Proceeds from sale of investments	65,228	396,340
Proceeds from sales of property and equipment	9,021,165	25,000
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>1,886,431</b>	<b>(481,719)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,166,738</b>	<b>50,067</b>
<b>Cash and Cash Equivalents – Beginning of Year</b>	<b>846,112</b>	<b>796,045</b>
<b>Cash and Cash Equivalents – End of Year</b>	<b>3,012,850</b>	<b>\$846,112</b>

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

## Notes to Consolidated Financial Statements August 31, 2018 and 2017

### 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.

Certified Hereford Beef, LLC (CHB), is a not-for-profit association whose sole member is the AHA. 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.

Hereford Legacy Fund, LLC (HLF), is a not-for-profit association whose sole member is the AHA. HLF holds the proceeds from the sale of AHA's building and uses its investment income to pay for the rent of the consolidated Association. HLF was formed as a limited liability company on April 12, 2018.

**Principles of Consolidation** The accompanying consolidated financial statements include the accounts of AHA and its wholly-owned subsidiaries: HPI, CHB, ABRA, and HLF. All significant intercompany transactions have been eliminated in the consolidation. Collectively, the consolidation of AHA, HPI, CHB, ABRA, and HLF 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 consolidated statement of activities as net assets released from restrictions. The Association does not have any temporarily restricted net assets.

*Permanently Restricted Net Assets:* Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. The Association does not 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 consolidated 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 \$2,867,820 and \$304,598 were considered to be cash equivalents at August 31, 2018 and 2017, 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 may 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, 2018 and 2017. 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 corroboration with market data; and
- Level 3: Unobservable inputs – include 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, 2018 and 2017.

**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, agency, 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 consolidated 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 activities 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.

**Leases** In February 2016, the Financial Accounting Standards Board (FASB) issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases historically classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Association elected to early adopt ASU No. 2016-02, *Leases (Topic 842)*, effective September 1, 2017. The adoption of this standard had a material impact on the consolidated balance sheets, but did not have an impact on the consolidated income statements. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, which was \$2,247,640 and \$2,257,536, respectively, for the year ended August 31, 2018. The Association elected to use the risk free rate of 2.78% in determining the present value of the ROU assets and lease liabilities.

**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 statements 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 statements 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 amounts expensed during the years ended August 31, 2018 and 2017, were \$238,170 and \$238,417, respectively.

**Income Taxes** AHA, ABRA, CHB, and HLF are exempt from federal income tax under section 501(c)(5) of the Internal Revenue Code, therefore, no provision for federal or state income taxes has been made in the accompanying consolidated financial statements. AHA, ABRA, CHB, and HLF are, however, subject to income taxes on any net income from unrelated business activities. AHA, ABRA, CHB, and HLF 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. Tax returns of the Association are subject to U.S. federal tax examinations by tax authorities generally for a period of three years after filing of the tax returns.

**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.

**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.

**Evaluation of Subsequent Events** The Association has evaluated subsequent events through October 4, 2018, the date the consolidated financial statements were available for issue.

## 2 — ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

August 31	2018	2017
Trade receivables	\$ 675,993	\$670,872
Allowance for doubtful accounts	(10,692)	(10,696)
<b>Subtotals</b>	665,301	660,176
Other receivables	97,975	27,797
<b>Total Accounts Receivable</b>	<b>\$763,276</b>	<b>\$687,973</b>

## 3 — FAIR VALUE MEASUREMENTS

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

Level 1	August 31, 2018	August 31, 2017
Mutual Funds	\$ 29,767	\$ 35,353
Exchange traded funds	52,959	95,224
Equity Securities	2,899,992	1,825,983
Municipal Bonds	24,959	25,582
Government agency bond	911,272	400,269
Corporate bonds	4,865,484	570,560
Fixed Income Securities	1,102,539	230,539
<b>Totals</b>	<b>\$9,886,972</b>	<b>\$3,183,510</b>

There were no level 2 or 3 for either year

## 4 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

August 31	2018	2017
Land	\$ -	\$ 462,122
Buildings	-	2,353,368
Leasehold Improvements	83,894	-
Furniture and fixtures	326,537	368,641
Vehicles	216,460	217,283
Data processing equipment	217,869	317,102
Software	311,781	354,054
<b>Subtotals</b>	1,156,541	4,072,570
Accumulated depreciation	(542,967)	(1,958,164)
<b>Total Property and Equipment – Net</b>	<b>\$613,574</b>	<b>\$2,114,406</b>

## 5 — 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 2019.

The Company leased a postage machine from an unrelated third party under an operating lease. The lease required monthly lease payments of \$313. This lease was terminated in February 2018.

The Company leases a postage machine from an unrelated third party under an operating lease. The lease requires monthly lease payments of \$540 with a termination or renewal date of May 2023.

The Company leases an office building from an unrelated third party under an operating lease. The lease requires monthly lease payments that increase each March according to a set payment schedule based on a price per square footage rented. The monthly lease payment through August 2018 was \$20,787 with a termination or renewal date of March 2028.

Amounts recorded as lease expenses were \$152,249 and \$14,872, respectively, for the years ended August 31, 2018 and 2017. Amounts paid through cash were \$142,353 and \$14,872, respectively, for the years ended August 31, 2018 and 2017.

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

Years Ending August 31	Amount
2019	\$261,030
2020	261,475
2021	265,171
2022	268,873
2023	270,956
Thereafter	1,242,782
<b>Total</b>	<b>\$2,570,287</b>

## 6 — INCOME TAXES

The provisions for income taxes consist of the following components:

Current Income Tax Expense	August 31, 2018	August 31, 2017
Federal	\$ 5,664	\$ 1,515
State	2,329	623
<b>Total Current Income Tax Expense</b>	<b>7,993</b>	<b>2,138</b>
<b>Deferred Income Tax Expense (Benefit)</b>		
Relating to:		
Depreciation	10,000	(15,000)
Allowance for bad debt	-	(4,000)
<b>Total Deferred Income Tax Expense (Benefit)</b>	<b>10,000</b>	<b>(19,000)</b>
<b>Total Provision for Income Tax Expense (Benefit)</b>	<b>\$17,993</b>	<b>\$(16,862)</b>

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of HPI's assets and liabilities.

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 were as follows at:

Deferred Tax Assets	August 31, 2018	August 31, 2017
Depreciation	\$5,000	\$15,000
Bad debt	4,000	4,000
<b>Net Deferred Tax Assets</b>	<b>\$9,000</b>	<b>\$19,000</b>

HPI utilized net operating losses of approximately \$-0- and \$116,678 in the years ended August 31, 2018 and 2017, respectively.

## 7 — COLLECTIONS OF ARTWORK

The Association has a collection of artwork, appraised at approximately \$639,200 at August 31, 2018 and 2017, 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 consolidated 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 years ended August 31, 2018 and 2017. There were no pieces disposed of during the years ended August 31, 2018 and 2017.

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

## 8 — CONCENTRATION OF CREDIT RISK

The Association maintains cash accounts that are insured by the Federal Deposit Insurance Corporation. The Association's bank balances may exceed this insurance from time to time.

## 9 — 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, 2018 and 2017, were \$95,749 and \$94,307, respectively.

## Independent Auditor's Report

To the Board of Directors American Hereford Association Kansas City, Missouri

We have audited the accompanying consolidated financial statements of American Hereford Association; Hereford Publications, Inc.; Certified Hereford Beef, LLC; American Beef Records Association; and Herford Legacy Fund, LLC (collectively, the Association), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017; 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 consolidated financial position of the Association as of August 31, 2018 and 2017, 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.

**Emphasis of Matter** As discussed in note 1 to the consolidated financial statements, during the year ended August 31, 2018, the Association adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, Leases (Topic 842). Our opinion is not modified with respect to this matter.

**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 4, 2018  
Lenexa, Kansas

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2018 and 2017.

— American Hereford Association, Jack Ward, executive vice president

## Top 10 Registrations

State	Breeders	
TX	Rausch Herefords, Hoven, S.D.	988
NE	Upstream Ranch, Taylor, Neb.	868
SD	Shaw Cattle Co. Inc., Caldwell, Idaho	815
KS	Topp Herefords, Grace City, N.D.	661
OK	Fawcetts Elm Creek Ranch, Ree Heights, S.D.	531
MO	Van Newkirk Herefords, Oshkosh, Neb.	527
MT	Alexander Mih, Chanute, Kan.	462
IL	Durbin Creek Ranch, Thermopolis, Wyo.	444
ND	Hoffman Herefords, Theford, Neb.	422
TN	Holden Herefords, Valier, Mont.	383

## 2017-18 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	914	836	1,337	61	34	27
Arizona	100	39	234	11	2	40
Arkansas	1,487	1,028	2,150	103	77	19
California	1,508	619	2,543	81	93	18
Colorado	1,260	661	2,028	74	38	23
Connecticut	64	57	169	10	12	41
Delaware	6	10	8	2	1	47
Florida	285	147	351	25	4	39
Georgia	2,079	1,348	3,636	74	36	14
Idaho	2,167	1,096	1,962	60	49	12
Illinois	2,861	1,953	4,855	212	275	8
Indiana	1,263	1,036	2,069	165	187	22
Iowa	2,429	1,396	3,039	171	224	11
Kansas	5,290	2,362	8,928	162	135	4
Kentucky	1,602	1,281	2,615	102	62	17
Louisiana	518	492	694	58	58	35
Maine	55	22	52	12	6	42
Maryland	408	450	618	62	77	37
Massachusetts	29	14	18	6	11	45
Michigan	614	538	921	87	55	33
Minnesota	1,656	867	2,666	121	83	16
Mississippi	1,148	1,023	1,020	54	61	24
Missouri	4,376	2,874	6,820	225	155	6
Montana	3,340	1,369	4,082	76	27	7
Nebraska	5,996	2,811	9,212	157	149	2
Nevada	434	179	786	14	7	36
New Hampshire	53	33	43	11	2	43
New Jersey	43	41	38	6	8	44
New Mexico	1,305	267	1,513	31	11	21
New York	549	224	643	61	40	34
North Carolina	913	603	1,465	77	34	28
North Dakota	2,576	848	5,412	69	23	9
Ohio	1,089	837	1,728	158	118	25
Oklahoma	5,046	3,317	8,075	217	231	5
Oregon	1,443	701	2,153	75	65	20
Pennsylvania	798	579	1,116	81	86	30
Rhode Island	1	2	24	1	2	48
South Carolina	387	343	758	33	11	38
South Dakota	5,437	2,000	8,629	120	93	3
Tennessee	2,449	1,751	3,641	169	84	10
Texas	9,877	6,982	11,883	508	478	1
Utah	670	146	966	24	2	32
Vermont	29	24	69	4	0	45
Virginia	815	741	1,531	82	58	29
Washington	978	338	1,180	71	40	26
West Virginia	720	612	1,162	65	33	31
Wisconsin	1,957	1,089	2,909	171	116	15
Wyoming	2,150	683	3,656	51	25	13
<b>Total</b>	<b>81,174</b>	<b>46,669</b>	<b>121,407</b>	<b>4,270</b>	<b>3,478</b>	

## 2017-18 Board of Directors



President  
Kevin Schultz



Vice president  
Pete Atkins



Jim Mickelson



Bob Thompson



Jim Bellis



Kyle Pérez



Joel Birdwell



Tommy Mead



Bruce Thomas



Nate Frederickson



Mark St. Pierre



Joe Waggoner

## American Hereford Association

### AHA Mission

Grow demand for Hereford genetics by delivering the highest quality and most efficient services to members and other progressive cattlemen in the areas of breed registry, genetic improvement and education.

### AHA Vision

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

### Core Strategies

- I. Drive the development and use of genetic tools and technologies.
- II. Expand the educational opportunities for AHA members/beef industry.
- III. Improve the demand and value of Hereford genetics.
- IV. Develop and capitalize on "Team Hereford."
- V. Expand opportunities and engagement of junior members.
- VI. Strengthen the growth and adoption of CHB.



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