



Demand



Research



Leadership



2011 American Hereford Association Annual Report

Demand. Research. Leadership.

In 1881 a group of U.S. Hereford breeders gathered in Chicago to establish the American Hereford Cattle Breeders Association, known today as the American Hereford Association (AHA). At that time the Association's purpose was two-fold: to keep the breed's records and to promote the interests of its breeders.

Today, 130 years later, those two original responsibilities have been enhanced to meet the needs of today's Hereford breeder. Along with keeping records, AHA provides programs, services and leadership to improve Hereford genetics and increase the demand for Hereford cattle and Hereford beef.

During fiscal year 2011, the Association processed 65,000 registrations and 36,903 transfers with 97,581 cows on inventory. These numbers are flat compared to fiscal year 2010 — a remarkable fact while the industry is being faced with volatile economic and harsh environmental times.

Membership numbers are also stable compared to the previous year with 3,406 active adult members and 2,285 active junior members.

While registrations and transfers are steady, the real highlight of fiscal year 2011 is the dramatic increase in production sale prices while reports of private-treaty sales are the highest in years.

This increased demand can be attributed to the strategy and progress AHA and Hereford breeders have made in recent years. The Hereford breed is positioned to continue to increase market share for many years to come as commercial producers seek Hereford attributes — increased efficiency, docility and added heterosis.

On the following pages, we'll summarize fiscal year 2011, a year of "Demand. Research. Leadership."



Herefords in Demand

Breed experiences market share growth despite drought and escalating input costs.

Hereford breeders continued to experience increased demand for Hereford genetics during the 2011 American Hereford Association (AHA) fiscal year.

A total of 165 Hereford production sales were reported by AHA field representatives. Bull sales averaged \$3,937, up nearly \$700, and females \$3,033, up almost \$500 per head. These increases were also multiplied by about 1,300 more lots sold than last year.

"Despite the worst drought in 500 years in a large portion of the U.S., we are excited that Hereford registrations and cow numbers

have remained steady," says Craig Huffhines, AHA executive vice president. "This is certainly testament to the fact that the demand for Hereford seedstock has doubled the last five years."

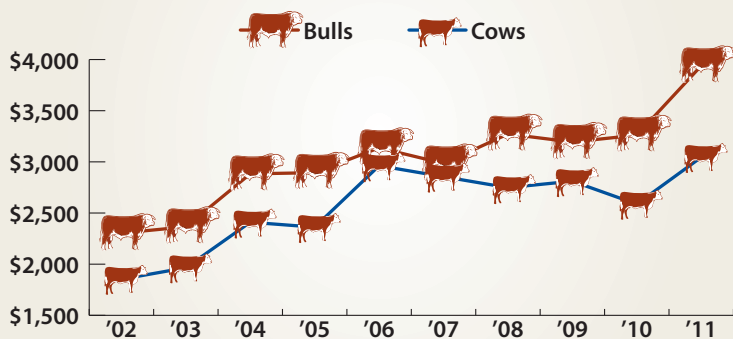
Hereford semen demand in the commercial industry is also increasing. According to the National Association of Animal Breeders (NAAB), Hereford semen sales increased 17% over last year, compared to the beef industry total, which increased a mere 2%.

Helping with the progress in commercial industry demand has been the AHA's Whole Herd Total Performance Records (TPR™) program. Now

10 years old, the program has helped the AHA and Hereford breeders build a database that documents the breed's strengths. More and more Hereford breeders continue to go above status quo and submit ultrasound data, body condition scores, udder scores and cow weights, which all add to the integrity and accuracy of the AHA database.

Demand

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



CHB LLC Foodservice Marketing Experiences Tremendous Growth In 2011

Fiscal year 2011 was excellent for Certified Hereford Beef (CHB) LLC, posting the second highest year in volume at 40.5 million lb. sold. Foodservice was the big winner with 47% growth and a total of 11 million lb. sold.

"2011 proved to be a very successful year in both growth and exposure for the brand," says Craig Huffhines, American Hereford Association (AHA) executive vice president. CHB LLC is a subsidiary of the AHA with its fiscal year ending Aug. 31.

Volume increased this fiscal year by 6.4%. Total tonnage reached 40.5 million lb.

According to the Food Marketing Institute, 50 cents of the U.S. consumer dollar spent on food is spent at restaurant establishments. Even though the foodservice industry has seen a dip in consumer spending during the recession, CHB has witnessed tremendous growth across the U.S. in this category.

This year, CHB® licensed processors sold 11.3 million lb. of CHB into the restaurant trade, up 3.6 million lb. from a year ago — a 47% increase. The most impressive growth came from three Sysco Food Distribution centers located in Baraboo, Wis.; Minneapolis, and Nashville, Tenn.; and Kohls Foods located in Quincy, Ill. The Minneapolis center was licensed at the beginning of the fiscal



year and marketed 1.2 million lb. in its first year of selling the brand. The Baraboo and Nashville divisions marketed a combined 1.35 million lb. this year.

Another highlight of the program this year was the licensing of Sysco Food Distribution in Sacramento, Calif. This new relationship in California has made CHB product available in Reno and Tahoe, Nev., and a large area of northern

California. Finally, in its second year of selling CHB, Kohls Food Service grew its business by nearly a million pounds.

At the three CHB packing plants, a total of 215,000 carcasses were certified as CHB during fiscal year 2011, and the pounds used from each carcass increased 11.4% to 190 lb.

Currently CHB is offered in 233 retail supermarkets in 35 states, as well as 37 foodservice distribution centers serving restaurants in 25 states. Since the inception of CHB, 3.9 million head of cattle have been identified through licensed packing plants as meeting the live animal specifications to carry the CHB name.

The purpose of the CHB program, which was founded in 1995, is to enhance the market price for Hereford and Hereford-influenced feeder cattle, increase Hereford bull and female sale averages, and create demand.



Fiscal year CHB LLC statistics

	2010	2011	Difference
Number CHB live cattle identified	378,621	352,513	-6.9%
Carcasses certified	226,570	215,119	-5.1%
Total pounds sold	38.1 million	40.5 million	+6.4%
Pounds sold per carcass	168 lb.	190 lb.	+11.4%

CHB facts

- ◆ Currently 233 retail supermarkets are located in 35 states.
- ◆ CHB is sold through 37 foodservice distribution centers serving restaurants in 25 states.
- ◆ Three packing plants process CHB cattle including Greater Omaha Packing Co. Inc., located in Omaha, Neb., and two National Beef Packing Co. LLC plants, located in Dodge City and Liberal, Kan.
- ◆ Since its inception, 3.9 million head of cattle have been identified through licensed packing plants as meeting the live animal specification.
- ◆ Since 1995 2.4 million carcasses have been certified.

Research Documents Hereford Advantage

AHA continues to seek out projects to document the Hereford heterosis advantage.

During the past year, the AHA Board and staff have continued the focus on participating in research projects that validate the value of Hereford in the commercial industry.

In January the final results of the Harris Ranch Heterosis Project were released. Overall net return for the Hereford-sired calves was approximately \$30 per head in a vertically coordinated beef marketing system; this does not include the maternal advantages of the baldie female. Pregnancy rates for Hereford-sired females (black baldies) averaged 7% higher than those of Angus-sired heifers.

"The most notable and dramatic difference was the lower feed conversion for the Hereford-sired calves over all three years," explains Dave Daley, California State University, Chico associate dean and farm administrator, who lead the three-year research project. "This fact, coupled with the other feedlot traits, resulted in a significantly lower total cost of gain and breakevens for the Hereford-sired cattle."

For complete results, see the "Impacts of Crossbreeding on Profitability in Vertically Coordinated Beef Industry Marketing Systems Final Report," which was included in the

January 2011 *Hereford World* or visit Hereford.org/HarrisHeterosisProject.

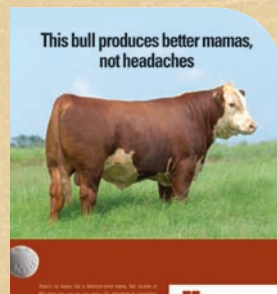
The Association's flagship research project is the National Reference Sire Program (NRSP). This fiscal year approximately 2,500 cows were enrolled in the program with 48 sires tested.

Longtime NRSP participants Olsen Ranches Inc., Harrisburg, Neb., has added a GrowSafe system to its feedlot. This system allows for the collection of feed intake data along with other performance information.

Other test herds include Stahly Ranch, Cavour, S.D., and Circle A Ranch, Iberia, Mo.

New projects started this fiscal year have been with J.R. Simplot Co. and the University of Wyoming.

Combine the research projects and resulting data with a strong advertising and public relations program, and the Hereford message is driving awareness and increasing demand for Hereford genetics.



AHA continues to participate in real-world heterosis projects documenting the efficiency of the Hereford breed.



The AHA communication team works diligently to create awareness about Hereford genetics by promoting demand and research results. Utilizing the *Hereford World*, *Hereford.org*, national advertising and social media, the goal is to spread the Hereford message and create top-of-mind awareness about Hereford strengths.



NRSP test herd Olsen Ranches Inc. installed a GrowSafe system to facilitate the collection of feed intake data to submit with other performance data.

Research



Taking a Global Leadership Role to Develop Genetic Evaluation Tools

AHA has positioned itself to incorporate genomic technology and to discover the genomic markers that are economically relevant to the Hereford breed.

Since 1999 AHA has positioned itself to incorporate genomic technology and to discover the genomic markers that are economically relevant to the Hereford breed. The organization has taken a proactive approach by testing and validating the tools available to make sure when releasing a Hereford genomic product it is reliable and useful to AHA members.

During this process, the Association has aligned itself with researchers and has worked collaboratively with the National Beef Cattle Evaluation Consortium (NCBEC), U.S. Department of Agriculture (USDA) Meat Animal Research Center and other global Hereford associations.

AHA has been working with Dorian Garrick of NCBEC on genotyping. Today the Association has more than 1,200 high-accuracy sires 50K genotyped. This population has been used to train and validate a Hereford-specific panel.

Garrick wrote in an article in the July *Hereford World* that AHA will be the first beef cattle breed association to develop and soon market its own genomic predictions to the benefit of its members. See "Hereford Genomic Developments" on Page 170.

Matt Spangler, University of Nebraska assistant professor and beef genetics Extension specialist,

said, "The AHA has taken a large and much needed step in the implementation of marker-assisted EPDs (expected progeny differences). Their approach of working with the NCBEC allows them flexibility in how they specifically incorporate the information into their genetic evaluations."

ABRI (Agricultural Business Research Institute) has developed the software to add genomic information into the Hereford Pan-American Genetic Evaluation, and AHA staff is currently working on a research run with introduction to be in spring 2012.

Genomic-enhanced EPDs is the next phase in breed improvement strategies that will allow AHA members to continue to improve the genetics they produce.

Breed improvement facts

- ◆ Nearly 98,000 cows on inventory.
- ◆ More than 6 million animal records in the genetic analysis.
- ◆ Since 2003 the number of artificial insemination (AI) calves registered has increased by 34.1%.
- ◆ Embryo transfer is gaining popularity, increasing 77% since 2003.
- ◆ Research reports were released this fiscal year for three new traits — mature cow weight, heifer calving rate and sustained cow fertility.

FY 2011 facts

- ◆ Record-setting fiscal year sale averages — bull sales averaged \$3,937, up nearly \$700. Females averaged \$3,033, up almost \$500.
- ◆ Hereford semen demand continues — Semen sales increased 17% over last year. Since 2006 Hereford has had a 51% increase in domestic semen sales and 36% increase in export sales.
- ◆ Registrations remain steady — despite a shrinking national cow herd and a 500-year drought, fiscal year 2011 registrations were even with 2010.
- ◆ Nearly 2,300 active junior members.
- ◆ Hosted largest beef breed junior national in 2011. A record 1,189 entries were exhibited by 640 youth from across the U.S.
- ◆ The *Hereford World* included 738.1 pages of advertising, an increase of 2.4 pages. The Creative Services team produced 51 sale catalogs compared to 38 the year prior, an increase of 13 catalogs.

NJHA Develops, HYFA Supports Future Leaders



More than 640 Hereford youth and their families traveled to Kansas City July 9-16 for the 2011 VitaFerm® Junior National Hereford Expo (JNHE). A record 1,189 entries were exhibited. During the week Hereford youth also participated in 23 contests outside the showing.



Hereford youth reaped the benefits Aug. 20 as Hereford breeders enjoyed the picturesque landscape, Certified Hereford Beef (CHB®) and Kunde wine during "The Harvest" fundraiser. The auction benefiting the Hereford Youth Foundation of America (HYFA) raised more than \$292,000 to support Hereford youth. The event was hosted at Kunde Family Estate in Sonoma, Calif., by the Jim and Marcia Mickelson family. The sale was managed by National Cattle Services Inc., Eddie and Ruth Sims.



Leadership



The Torrance family of Torrance Polled Herefords, Media, Ill., purchased the 2011 Foundation Female Package during the Mile High Night Sale in Denver Jan. 14 for \$31,000. Hoffman Ranch LLC and Hoffman/W4 LLC donated 40 Grade 1 embryos to benefit Hereford youth and HYFA.

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

**American Hereford Association and Subsidiaries
Consolidated Statements of Financial Position
August 31, 2011 and 2010**

Assets	2011	2010
Current Assets		
Cash and cash equivalents	\$270,078	\$267,703
Short-term investments	332,076	–
Accounts receivable, net	556,736	624,600
Accounts receivable - other	46,560	24,029
Prepaid expenses	36,940	35,830
Inventories	21,817	27,746
Total current assets	<u>1,264,207</u>	<u>979,908</u>
Investments	<u>1,315,819</u>	<u>1,558,196</u>
Property and Equipment		
Land	462,122	462,122
Building	2,275,928	2,271,981
Furniture and fixtures	355,176	347,311
Vehicles	204,092	237,916
Data processing equipment	455,896	422,018
Software	387,223	331,085
Accumulated depreciation/amortization	<u>(1,876,979)</u>	<u>(1,903,917)</u>
Total Property and equipment, net	<u>2,263,458</u>	<u>2,168,516</u>
Other Assets		
Collections	–	–
Cash temporarily restricted for the National Western Stock Show (NWSS) award	5,000	7,500
Other	90	90
Total Other Assets	<u>5,090</u>	<u>7,590</u>
Total Assets	<u>\$4,848,574</u>	<u>\$4,714,210</u>

Liabilities and Net Assets	2011	2010
Current Liabilities		
Accounts payable	\$180,262	\$165,805
Accrued expenses	213,768	232,802
Current maturities of long-term debt	41,937	31,749
Prepayments from breeders	91,846	91,340
Deferred subscription and advertising revenue	261,789	248,960
Due to Junior National Hereford Expo (JNHE)	44,338	52,037
Total current liabilities	<u>833,940</u>	<u>822,693</u>
Long Term Debt, net of current maturities	<u>49,616</u>	<u>38,645</u>
Net Assets		
Temporarily restricted net assets	5,000	7,500
Unrestricted net assets	<u>3,960,018</u>	<u>3,845,372</u>
Total net assets	<u>3,965,018</u>	<u>3,852,872</u>
Total Liabilities and Net Assets	<u>\$4,848,574</u>	<u>\$4,714,210</u>

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

**Consolidated Statements of Activities
for the Years Ended August 31, 2011 and 2010**

	2011	2010
Changes in Unrestricted Net Assets		
Revenues and Support		
Services	\$2,333,889	\$2,334,556
Advertising and subscriptions	1,435,980	1,425,544
Program revenues	900,601	910,593
Other	543,403	571,272
Net assets released from restrictions	<u>2,500</u>	<u>2,500</u>
Total revenues and support	<u>5,216,373</u>	<u>5,244,465</u>
Expenses		
General and administrative	1,488,884	1,487,433
Board of Directors' expenses	36,099	32,431
Building expenses	126,776	114,350
Market development and information	541,926	515,120
Junior activities	182,459	221,940
Research and TPR activities	210,539	227,516
Program expenses	2,404,370	2,723,332
Depreciation expense	<u>128,469</u>	<u>159,694</u>
Total expenses	<u>5,119,522</u>	<u>5,481,816</u>
Other Income (Expense)		
Realized gain (loss) on sale of investments	2,382	593
Loss on non-refundable portion of deposit	–	(50,000)
Net appreciation (depreciation) in fair value of investments	(333)	27,913
Other income (expenses)	4,242	1,949
Gain (loss) on sale of property and equipment	<u>11,504</u>	<u>(461)</u>
Total other income (expense)	<u>17,795</u>	<u>(20,006)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>114,646</u>	<u>(257,357)</u>
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	<u>(2,500)</u>	<u>(2,500)</u>
Increase (Decrease) in Net Assets	<u>112,146</u>	<u>(259,857)</u>
Net Assets - Beginning of Year	<u>3,852,872</u>	<u>4,112,729</u>
Net Assets - End of Year	<u>\$3,965,018</u>	<u>\$3,852,872</u>

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

Consolidated Statements of Cash Flows for the Years Ended August 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 112,146	\$(259,857)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	128,469	159,694
Realized (gain) loss on sale of investments	(2,382)	(593)
Net (appreciation) depreciation in fair value of investments	333	(27,913)
(Gain) loss on disposal of property and equipment	(11,504)	461
Loss on non-refundable portion of deposit	—	50,000
Interest received from investment of other asset	—	(457)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	67,866	(11,838)
(Increase) decrease in accounts receivable — other	(22,532)	3,826
(Increase) decrease in prepaid expenses	(1,114)	(25,717)
(Increase) decrease in inventories	5,930	20,181
(Increase) decrease in prepayments from breeders	506	(1,160)
(Increase) decrease in accounts payable	14,459	(15,668)
(Increase) decrease in accrued expenses	(19,033)	43,083
(Increase) decrease in deferred subscription and advertising revenue	12,828	874
(Increase) decrease in due to JNHE	(7,699)	(25,644)
Total adjustments	166,127	169,129
Net Cash Provided by (used in) Operating Activities	278,273	(90,728)
Cash Flows from Investing Activities		
Cash temporarily restricted for NWSS award	2,500	2,500
Purchases of property and equipment	(233,906)	(88,680)
Proceeds from sale of property and equipment	22,000	—
Proceeds from refund of deposit	—	212,255
Purchases of investments	(410,513)	(748,978)
Proceeds from sale and maturity of investments	322,864	244,136
Net Cash Provided by (used in) Investing Activities	(297,055)	(378,767)
Cash Flows Used In Financing Activities		
Net proceeds (payments) UMB car loan	80,516	(29,860)
Repayments on long-term debt	(59,359)	—
Net Cash Provided by (used in) Financing Activities	21,157	(29,860)
Net Increase (Decrease) in Cash and Cash Equivalents	2,375	(499,355)
Cash and Cash Equivalents, Beginning of Year	267,703	767,058
Cash and Cash Equivalents, End of Year	\$270,078	\$267,703
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$ 4,304	\$4,492

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

Notes to Consolidated Financial Statements August 31, 2011 and 2010

1 — Summary of Significant Accounting Policies

Nature of Operations The American Hereford Association (AHA) conducts research and experiments in the breeding of Hereford cattle, compiles and preserves pedigree records for owners and breeders, participates in and promotes the arrangement of fairs, exhibitions and cattle shows to encourage the breeding of Hereford cattle, and assists with the promotion of the end product produced from Hereford cattle. Members and subscribers of the Association are primarily owners and breeders of Hereford cattle. The members and subscribers are located worldwide; however, the largest concentration is within the United States.

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

The Association is the sole member of Certified Hereford Beef® LLC (CHB). CHB strives to increase demand for Hereford cattle by promoting Hereford beef as a premium beef product under the Certified Hereford Beef® trademark. CHB was formed as a limited liability company on September 1, 2001. Prior to that date, CHB's activities were performed and accounted for within the Association.

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

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

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

Advertising Costs The Association expenses advertising costs as they are incurred. Advertising expense was \$478,702 and \$473,273 as of August 31, 2011 and 2010.

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

- Unrestricted net assets are funds available for any purpose.
- Temporarily restricted net assets represent contributions whose use by the Association is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. When a stipulated restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.
- Permanently restricted net assets — At August 31, 2011 and 2010, the Association had no permanently restricted net assets.

Cash and Cash Equivalents The Association considers all money market investments and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Investments amounting to \$83,986 and \$124,356 were considered to be cash equivalents as of August 31, 2011 and 2010, respectively.

Accounts Receivable Accounts receivable consist of amounts billed for magazine advertising, subscriptions and member services, but not received by year-end. Bad debts are provided on the allowance method based on management's evaluation of outstanding accounts receivable at the end of each year. HPI's policy states that accounts with outstanding balances beyond 60 days will accrue interest at 1.5% per month, balances beyond 90 days will no longer be provided with services and balances beyond 120 days will be turned over to a collection agency. The allowance for doubtful accounts was \$4,001 and \$31,364 as of August 31, 2011 and 2010, respectively.

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

Investments Investments are comprised of debt securities and are carried at fair value. The fair value of investments is based on quoted fair prices for those investments or similar investments as of August 31, 2011 and 2010. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market values.

Property and Equipment Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The assets are depreciated and amortized over periods ranging from 3 to 30 years. Additions and improvements of \$1,000 or more are capitalized, while maintenance and repairs which do not improve or extend the life of the asset are expensed in the year incurred. Depreciation charged against income amounted to \$128,469 and \$159,694 in 2011 and 2010, respectively.

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

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

Income Taxes AHA, ABRA, and CHB are exempt from federal income taxes on their primary operations under paragraph 501(c)(5) of the Internal Revenue Code, and therefore have made no provision for federal or state income taxes in the accompanying financial statements. They are, however, subject to income taxes on any net income from unrelated business activities. AHA, ABRA, and CHB have been classified by the Internal Revenue Service as organizations that are not private foundations. HPI is a taxable entity and is, therefore, subject to federal income 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, 2011 and 2010, HPI believes it has appropriately accounted for any unrecognized tax benefits. To the extent HPI prevails in matters for which a liability for unrecognized tax benefit is established or is required to pay amounts in excess of the liability, HPI's effective tax rate in a given financial statement period may be affected.

2 — Concentration of Credit Risk

The Association maintains cash accounts at a bank located in the Kansas City metropolitan area. The balances in the bank periodically exceed the Federal Deposit Insurance Corporation (FDIC) limits. The FDIC insured limits were \$250,000 at August 31, 2011 and 2010. The Association's uninsured cash balances totaled \$0 and \$76,394 at August 31, 2011 and 2010, respectively.

3 — Fair Value Measurements

Fair values of assets measured on a recurring basis at August 31, 2011 and 2010 are:

August 31, 2011	Fair Value	Quoted prices in active markets for identical assets (Level 1)
Government bonds and notes	\$985,140	\$985,140
Corporate bonds	\$662,755	\$662,755
Total	<u>\$1,647,895</u>	<u>\$1,647,895</u>
August 31, 2010		
Government bonds and notes	\$971,704	\$971,704
Corporate bonds	\$586,492	\$586,492
Total	<u>\$1,558,196</u>	<u>\$1,558,196</u>

Investments consist of government and corporate bonds and notes which are carried at fair value using quoted prices in active markets for identical assets (Level 1), in accordance with generally accepted accounting standards. Unrealized gains/losses in the amount of \$(333) and \$27,913 were recorded to adjust investments to fair value for the years ended August 31, 2011 and 2010, respectively.

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

4 — Retirement Plan

The Association established a defined contribution employee retirement plan for all eligible employees. The plan provides for employer and employee contributions based upon a percentage of annual compensation. Employer contributions for the years ended August 31, 2011 and 2010 were \$78,307 and \$86,692, respectively.

5 — Long-Term Debt

Long-term debt consists of the following at August 31:	2011	2010
Notes - vehicles, collateralized by related vehicles, interest fixed at 4.99%, maturing from September 2012 through August 2014	\$91,553	\$70,394
Current portion	41,937	31,749
Total Long-Term Debt	<u>\$49,616</u>	<u>\$38,645</u>

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

Year	Amount	Year	Amount
FYE 2012	\$41,937	FYE 2015	-
FYE 2013	32,427	FYE 2016	-
FYE 2014	17,190	Thereafter	-
			<u>\$91,553</u>

Interest expense was \$4,304 and \$4,492 for the years ended August 31, 2011 and 2010, respectively.

6 — Income Taxes

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

	2011	2010
Current	\$ -	\$ -
Deferred		
Temporary differences	13,203	10,212
Change in valuation allowance	(13,203)	(10,212)
	<u>\$ -</u>	<u>\$ -</u>

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

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of HPI's assets and liabilities. Differences are primarily attributable to the net operating loss

carryforwards, resulting in deferred tax assets. The components of the deferred tax assets are as follows:

Deferred Tax Assets	August 31, 2011	August 31, 2010
Net operating loss carryforwards	\$176,183	\$189,386
Less: Valuation Allowance	(176,183)	(189,386)
	<u>\$ -</u>	<u>\$ -</u>

HPI utilized net operating losses of approximately \$38,832 and \$32,319 for the years ended August 31, 2011 and 2010, respectively.

HPI has net operating loss carryforwards of \$518,186 available to offset future federal and state taxable income that expire through 2023 as follows:

Year	Amount	Year	Amount
2012	\$ -	2015	95,052
2013	119,463	2016	116,294
2014	157,696	Thereafter	29,681
			<u>\$518,186</u>

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

7 — Temporarily Restricted Net Assets

Temporarily restricted net assets are funds donated for the purpose of awarding \$2,500 annually to the champion of the National Western Stock Show in Denver. The balance of temporarily restricted net assets was \$5,000 and \$7,500 as of August 31, 2011 and 2010, respectively.

8 — Collections

The Association has a collection of artwork, appraised at approximately \$640,500 and \$500,000, at August 31, 2011 and 2010, respectively, that is on public display at the Association's headquarters. The Association has adopted a policy of not capitalizing the collection of artwork in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. No items were purchased for or removed from the collection during the years ended August 31, 2011 or 2010.

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

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

CHB showed a decrease in net assets of \$308,640 during the year ended August 31, 2010. The deficit equity balance amounted to \$1,143,308 as of August 31, 2010. In response to those results, management developed plans to generate additional unrestricted revenues and to significantly reduce operating costs. These plans called for increased oversight and management from the Association, resulting in a minimal decrease in net assets of \$6,325 for the year ended August 31, 2011. The deficit equity balance at August 31, 2011 was \$1,149,633. The Association will continue to evaluate the success of these efforts in determining the future of CHB.

10 — Reclassifications

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

11 — Subsequent Events

Management has evaluated subsequent events through September 28, 2011, the date which the financial statements were available for issue. There have been no events which require disclosure.

Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of American Hereford Association and subsidiaries as of August 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of American Hereford Association and subsidiaries as of August 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

— Respectfully submitted, Kennedy and Coe, LLC, September 28, 2011

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2011 and 2010.

— American Hereford Association, Craig Huffhines, executive vice president



2010-11 AHA Board of Directors

Pictured seated (l to r) are: John Woolfolk, Jackson, Tenn., president; David Breiner, Alma, Kan., vice president; James Milligan, Kings, Ill.; Jerry Huth, Oakfield, Wis.; and Craig Huffhines, Kansas City, Mo., executive vice president. Directors standing (l to r) are: Jimmie Johnson, Clinton, Okla.; Cliff Copeland, Nara Visa, N.M.; Paul Funk, Copperas Cove, Texas; Steve Lambert, Oroville, Calif.; Dale Micheli, Ft. Bridger, Wyo.; Marty Lueck, Mountain Grove, Mo.; and Keith Fawcett, Ree Heights, S.D. Not pictured is AHA Director Dale Venhuizen, Manhattan, Mont.

2010-11 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	607	764	955	33	17	31
Arizona	165	27	645	13	5	40
Arkansas	895	660	1,228	68	64	24
California	1,233	528	1,764	97	96	19
Colorado	1,365	464	1,901	64	21	17
Connecticut	107	103	148	18	14	41
Delaware	11	30	22	4	4	47
Florida	183	61	170	18	6	39
Georgia	1,871	1,659	2,542	74	43	9
Idaho	1,856	750	2,206	59	30	10
Illinois	2,324	1,523	4,241	163	208	8
Indiana	1,233	999	2,594	156	140	20
Iowa	1,464	698	2,480	108	103	14
Kansas	3,722	2,415	6,290	127	74	5
Kentucky	1,231	896	1,763	69	65	21
Louisiana	421	556	242	31	40	34
Maine	57	25	45	14	6	45
Maryland	347	235	646	44	49	38
Massachusetts	31	13	61	5	3	46
Michigan	664	603	996	63	49	30
Minnesota	1,344	614	2,595	93	44	18
Mississippi	968	701	879	42	25	23
Missouri	3,136	2,258	5,378	163	128	6
Montana	2,752	1174	3,008	73	23	7
Nebraska	5,035	1,889	7,560	137	62	2
Nevada	383	139	637	13	9	36
New Hampshire	84	37	176	9	4	42
New Jersey	84	42	179	12	14	43
New Mexico	756	223	1,705	33	6	27
New York	383	169	633	54	30	37
North Carolina	738	413	1,118	66	27	28
North Dakota	1,825	900	3,144	52	18	11
Ohio	869	701	1,416	121	56	25
Oklahoma	4,084	2,248	4,597	155	119	3
Oregon	1,459	549	2,081	84	51	15
Pennsylvania	708	588	980	68	74	29
Rhode Island	7	5	0	2	0	48
South Carolina	420	206	769	28	12	35
South Dakota	4,055	1,499	7,188	85	49	4
Tennessee	1,779	1,295	2,443	117	56	13
Texas	7,997	5,443	10,689	385	230	1
Utah	561	151	779	27	3	32
Vermont	71	92	121	6	5	44
Virginia	778	501	1,084	63	33	26
Washington	1,156	450	1,963	72	44	22
West Virginia	539	360	976	54	18	33
Wisconsin	1,457	774	2,183	128	90	16
Wyoming	1,785	473	2,361	36	18	12
TOTAL	65,000	36,903	97,581	3,406	2,285	

TOP 10

REGISTRATIONS

Top 10 States

Texas	7,997
Nebraska	5,035
Oklahoma	4,084
South Dakota	4,055
Kansas	3,722
Missouri	3,136
Montana	2,752
Illinois	2,324
Georgia	1,871
Idaho	1,856

Top 10 Breeders

Rausch Herefords	838
<i>Hoven, S.D.</i>	
Upstream Ranch	659
<i>Taylor, Neb.</i>	
W4 Ranch	564
<i>Morgan, Texas</i>	
Jamison Herefords	374
<i>Quinter, Kan.</i>	
Star Lake Cattle Ranch	368
<i>Skiatook, Okla.</i>	
Van Newkirk Herefords	363
<i>Oshkosh, Neb.</i>	
Dudley Bros.	360
<i>Comanche, Texas</i>	
Langford Herefords	351
<i>Okmulgee, Okla.</i>	
Middleswarth Herefords	327
<i>Torrington, Wyo.</i>	
Coates Ranch Co.	309
<i>Mertzson, Texas</i>	

American Hereford Association

Vision Statement

To be the preferred beef breed for producers and consumers.

Mission Statement

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

Strategic Intent Statement

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

Core Strategies

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



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