



Leading **Through Innovation**



2019 AHA ANNUAL REPORT

Innovation Through Strategy

A Year of Innovation

In business, innovation often results when a company applies ideas to further satisfy the needs and expectation of its customers. The American Hereford Association (AHA) Board of Directors and staff continue to pursue innovation, and in fiscal year (FY) 2019, many of these efforts came to fruition.

Early in 2019, an updated version of the online registry system MyHerd was released with more efficient, user-friendly and mobile-friendly functions. In FY 2019 more than 80% of the AHA's registrations were submitted on mobile platforms — the majority of which came through MyHerd. This real-time system is one of a kind in the livestock industry and gives breeders the opportunity to register and to transfer cattle, to submit performance data and to request DNA 24/7.

Through the spring of 2019, the AHA staff worked with Theta Solutions and leaders from the Uruguay and Argentina Hereford associations to relaunch the Pan-American Cattle Evaluation (PACE). The first set of expected progeny differences (EPDs) from this evaluation was released this summer, allowing breeders from both North and South America to search and to compare animals directly across continents.

The AHA is committed to maintaining the best genetic evaluation in the industry, which starts with the Whole Herd Total Performance Records (TPR™) program. The AHA continued to strengthen its evaluation, and currently has more than 10,000 actual carcass measurements, nearly 7,500 individual feed intake records and more than 90,000 genotypes on record.

In June, the AHA hosted “The Brand” Marketing Summit to provide tools for breeders to develop a stronger marketing strategy. With more than 200 attendees from across the U.S. and Canada, participants representing multiple breeds learned how to better advocate their personal brand and the Hereford breed. To continue the momentum of this event, a marketing fitness challenge was developed to encourage attendees to continue improving the marketing component of their operations.

During the Marketing Summit, the new online sale catalog platform, Herefords On



Demand, was officially launched. This digital catalog platform is the first of its kind in the industry and provides real-time pedigrees and EPDs for each lot listing. EPD values can be searched within and across all Herefords On Demand catalogs, making this a great tool for breeders of all sizes to market their genetics.

Effective Jan. 1, 2019, Certified Hereford Beef® (CHB) implemented changes to its carcass specifications. This change has allowed the program to support the high-quality, consistent and tender product demanded by both foodservice and retail consumers. The upgrade also allowed for CHB premiums to be added to all National Beef Packing Co. and U.S. Premium Beef® value-added grids.

The junior programs continue to grow with a strong focus on education and leadership. During the 2019 VitaFerm® Junior National Hereford Expo, the Bridging the Gap college and career fair was introduced to connect junior members with secondary education opportunities and agricultural organizations seeking great young talent. In partnership with BioZyme® Inc., the National Junior Hereford Association's Fed Steer Shootout increased its educational efforts to give our junior membership an opportunity to gain valuable insight into the feeding and packer industry.

It has been another strong year for the AHA, and through our collective efforts, we will continue to lead through innovation.

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

Innovation Through Advancement

My Herd, Your Way

Four years after the official launch of the American Hereford Association's (AHA) digital registration site, *MyHerd.org* was redesigned to be more efficient, user-friendly and mobile-friendly. Along with a modernized look, intuitive user task screens and faster system speeds have streamlined the registration process for MyHerd users.

For more than a year, the AHA staff worked diligently on the new MyHerd site to ensure a quality, welcoming experience for our members. Arguably the most exciting function from the update is the system's mobile-friendly display. Members can now access MyHerd from any mobile device, whether it be a cell phone or a tablet.

The functionality of MyHerd increases with every system update and the platform continues to be one of our breeders' favorite aspects of the online registry system.

"I absolutely love MyHerd. We register several different breeds of cattle and MyHerd is the easiest platform that we use for registering cattle. The best part is how easy it is to navigate and how it shows me where to find any errors I have made."

— *Erin Sidwell,
Sidwell Hay and Cattle,
Carpenter, Wyo.*



4,800+
activated users

83%
of registrations were
made electronically

86%
of electronic registrations
were made on MyHerd

Members can
request multiple
DNA tests at
one time.

24 new tutorial videos



Members are now able to transfer multiple animals – whether they are bred females, open females or bulls – all at the same time to the same buyer.

Innovation Through Precision

Setting Higher Standards

The American Hereford Association (AHA) continues to stay focused on providing the most current and reliable genetic evaluation and tools to its members and the commercial cattle industry alike. In fiscal year (FY) 2019, significant strides were made in breed improvement through data generated with the National Reference Sire Program (NRSP), the completion of the Whole Cow Herd DNA Project, the relaunch of the Pan-American Cattle Evaluation (PACE) and research in cow efficiency. This year the AHA logged more than 90,000 genotypes and upgraded to the high-density GGP 50K chip to continue identifying genetic markers for traits of interest.

Strengthening the evaluation

FY 2019 marked a historic milestone for the NRSP as the program celebrated its 20th anniversary. With more than 400 sires tested since its inception, the NRSP has been instrumental in amassing critical phenotypes from birth to harvest and contributes many of the economically relevant traits (ERTs) reported in the AHA's genetic evaluation. In FY 2019, 38 bulls were selected by NRSP test herds to use for 2020 breeding decisions — the most bulls selected in one year to date. The AHA is also excited to welcome John Ranch, Huntsville, Mo., to an already impressive group of participating NRSP test herds from across the country. Certainly, this program continues to be an important cog in the arena of breed improvement.

PACE, a joint effort between the AHA and the Hereford associations of Canada, Uruguay and Argentina, was reinitiated in FY 2019. Originally released in July 2009, this first-of-its-kind collaboration compares common genetics used in



North and South America in the same evaluation. When the AHA incorporated Biometric Open Language Tools (BOLT) software into its genetic evaluation in December 2017, the evaluation became limited to data from the U.S. and Canada while the two South American countries researched changes to their evaluation models. The AHA has since worked with the leaders of the Uruguay and Argentina Hereford associations to run research prototypes to determine the best approach to restructuring PACE. In adding South American data back into the North American genetic evaluation, the AHA will gain more than 500,000 pedigree records and more than 200,000 performance records to contribute to calculating the expected progeny differences (EPDs) of animals used across continents.

Excelling in efficiency

Hereford genetics continue to excel in feedlot trials and studies, and this year a study on voluntary feed intake of baldy cows added more positive data to the repertoire. Dave Lalman, Ph.D., and his research team at Oklahoma State University compared baldy females to straight-bred black females and found baldy cows averaged a higher body condition score over straight-bred black cows while consuming less feed per day. On average, the baldy female consumed roughly 2 pounds per day less of moderate-quality forage than her straight-bred counterpart — equating to 725 pounds less forage on an annual basis.

90,000+

genotypes in the AHA database

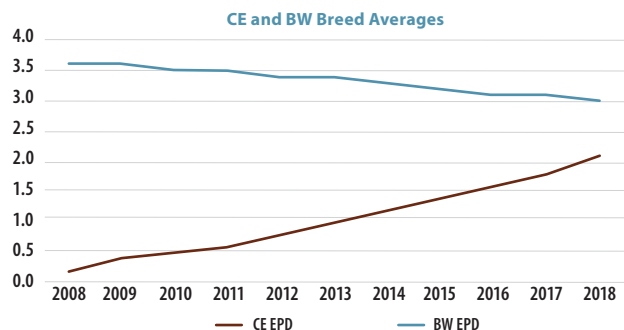
120%

increase in
domestic semen sales
from 2008–2018

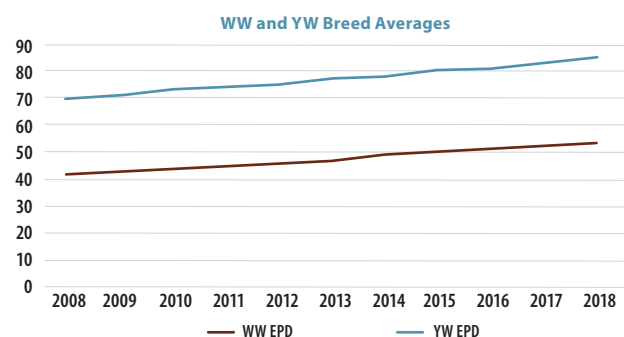
37%

of registrations are
AI/ET calves

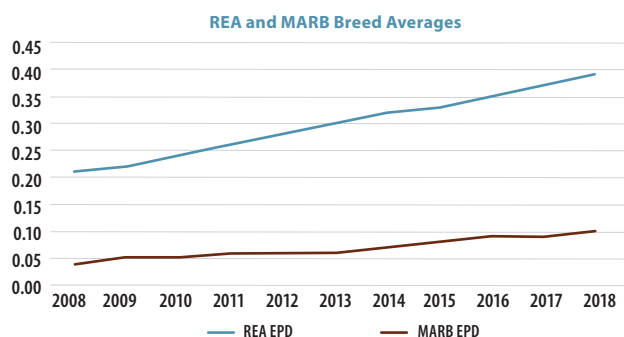
Hereford Genetics Are Bending the Right Curves



Marked improvement in CE and 17% reduction in BW



More than a 20% improvement in key growth traits



Impressive carcass merit
86% REA improvement and 150% MARB gain

Top 10 Registrations

| State | Breeders |
|---|----------|
| Texas | 9,336 |
| Nebraska | 5,988 |
| Oklahoma | 5,359 |
| Kansas | 4,763 |
| South Dakota | 4,413 |
| Missouri | 3,788 |
| Montana | 3,024 |
| North Dakota | 2,749 |
| Illinois | 2,345 |
| Idaho | 2,297 |
| Breeders | |
| Rausch Herefords, Hoven, S.D. | 917 |
| Shaw Cattle Co. Inc., Caldwell, Idaho | 815 |
| Upstream Ranch, Taylor, Neb. | 806 |
| Van Newkirk Herefords, Oshkosh, Neb. | 518 |
| Hoffman Herefords, Thedford, Neb. | 484 |
| Topp Herefords, Grace City, N.D. | 454 |
| Alexander Mih, Chanute, Kan. | 435 |
| Fawcetts Elm Creek Ranch, Ree Heights, S.D. | 429 |
| Langford Herefords, Okmulgee, Okla. | 408 |
| Mrnak Herefords, Bowman, N.D. | 348 |

2018-19 Registrations, Transfers and Memberships

| State | Registrations | Transfers | Cow Inventory | Members | | Registration Rank |
|----------------|---------------|---------------|----------------|--------------|--------------|-------------------|
| | | | | Active | Juniors | |
| Alabama | 1,055 | 815 | 1,357 | 52 | 40 | 25 |
| Arizona | 91 | 34 | 139 | 9 | 2 | 40 |
| Arkansas | 1,397 | 886 | 1,838 | 88 | 80 | 18 |
| California | 1,251 | 542 | 1,898 | 77 | 94 | 21 |
| Colorado | 1,328 | 540 | 1,771 | 67 | 51 | 19 |
| Connecticut | 91 | 56 | 158 | 12 | 14 | 40 |
| Delaware | 13 | 17 | 0 | 5 | 1 | 47 |
| Florida | 285 | 192 | 626 | 23 | 6 | 39 |
| Georgia | 2,185 | 1,473 | 3,050 | 88 | 34 | 12 |
| Idaho | 2,297 | 1,099 | 3,193 | 61 | 50 | 10 |
| Illinois | 2,345 | 1,736 | 3,761 | 186 | 260 | 9 |
| Indiana | 1,228 | 1,082 | 1,650 | 153 | 209 | 22 |
| Iowa | 1,897 | 1,258 | 2,934 | 184 | 214 | 13 |
| Kansas | 4,763 | 1,741 | 7,962 | 149 | 129 | 4 |
| Kentucky | 1,295 | 884 | 2,193 | 99 | 77 | 20 |
| Louisiana | 613 | 502 | 836 | 67 | 66 | 33 |
| Maine | 65 | 13 | 12 | 10 | 6 | 43 |
| Maryland | 617 | 438 | 663 | 54 | 83 | 32 |
| Massachusetts | 31 | 27 | 18 | 5 | 7 | 44 |
| Michigan | 570 | 534 | 862 | 89 | 56 | 35 |
| Minnesota | 1,620 | 726 | 2,536 | 123 | 88 | 15 |
| Mississippi | 1,022 | 806 | 1,329 | 70 | 65 | 26 |
| Missouri | 3,788 | 2,782 | 6,715 | 229 | 153 | 6 |
| Montana | 3,024 | 1,169 | 4,395 | 72 | 32 | 7 |
| Nebraska | 5,988 | 2,415 | 8,906 | 154 | 127 | 2 |
| Nevada | 379 | 158 | 715 | 12 | 9 | 37 |
| New Hampshire | 69 | 46 | 61 | 12 | 4 | 42 |
| New Jersey | 23 | 10 | 25 | 7 | 8 | 46 |
| New Mexico | 1,088 | 297 | 1,592 | 36 | 17 | 23 |
| New York | 407 | 170 | 661 | 58 | 40 | 36 |
| North Carolina | 741 | 461 | 1,117 | 73 | 35 | 31 |
| North Dakota | 2,749 | 932 | 4,063 | 65 | 22 | 8 |
| Ohio | 1,062 | 999 | 1,580 | 160 | 133 | 24 |
| Oklahoma | 5,359 | 3,971 | 6,380 | 210 | 256 | 3 |
| Oregon | 1,498 | 728 | 2,363 | 85 | 60 | 17 |
| Pennsylvania | 799 | 443 | 932 | 87 | 69 | 28 |
| Rhode Island | 2 | 0 | 1 | 1 | 1 | 48 |
| South Carolina | 367 | 217 | 627 | 26 | 12 | 38 |
| South Dakota | 4,413 | 2,327 | 8,585 | 113 | 80 | 5 |
| Tennessee | 2,223 | 1,533 | 3,790 | 172 | 82 | 11 |
| Texas | 9,336 | 6,452 | 12,186 | 522 | 515 | 1 |
| Utah | 593 | 101 | 744 | 29 | 4 | 34 |
| Vermont | 27 | 71 | 45 | 3 | 0 | 45 |
| Virginia | 795 | 610 | 1,068 | 73 | 57 | 29 |
| Washington | 871 | 315 | 1,277 | 65 | 45 | 27 |
| West Virginia | 776 | 504 | 1,245 | 63 | 28 | 30 |
| Wisconsin | 1,761 | 1,253 | 2,783 | 168 | 102 | 14 |
| Wyoming | 1,563 | 603 | 2,862 | 52 | 22 | 16 |
| Total | 75,760 | 43,968 | 113,504 | 4,218 | 3,545 | |

Innovation Through Collaboration

Branding the Advantage

As part of the effort to improve demand and value of Hereford genetics, the American Hereford Association (AHA) hosted a two-day educational conference for breeders to build and strengthen their marketing strategies. Garnering nationwide attention, “The Brand” Marketing Summit was a first-of-its kind industry event which brought together producers from the U.S. and Canada to collaborate to better position their brand and the Hereford breed.

Professionals representing all sectors of the beef industry discussed how to utilize traditional and digital marketing platforms to connect with customers. Sessions covered the strengths of Hereford genetics, the relevancy of beef in the food industry, establishing a marketing compass, ideal customer service practices and incorporating social media and video into a marketing plan.

Attendees noted the event was great for helping Hereford breeders develop one voice to make the breed stronger.

“Whether it is our youngest ones here, or the oldest that have passed their farm or ranch down, I think it’s critical that we stay abreast of everything that is going on in the industry,” says Terri Barber, former AHA president. “It gives us a chance to gather around an event that’s not related to a convention or a stock show or a sale, and it allows us to be able to focus on what we are truly here for, and that’s learning what’s going on in the industry and how we can impact it positively.”

“Not only was this a networking opportunity, but the lessons learned hit home. It really made us concentrate on what we need to focus on as an operation, as far as customer service, and getting our story out there and being consistent with that story.”

— **Bill Dunn**,
Dunn Herefords,
Cochran, Pa.



Keynote speaker Mitch Holthus, the Voice of the Kansas City Chiefs, encouraged beef producers to be proud and transparent about the high-quality protein they produce and challenged Hereford breeders to not shy away from taking a fresh approach to achieve their goals.



Staff from Vermeer Corporation were on hand throughout the event to coach attendees through tasks like recording mobile videos and creating social media content.

200+

attendees from 30
states and Canada

\$47,350

raised to benefit
HYFA and HRF

20

industry representatives
presenting in 10
educational sessions

Innovation Through Resources

Marketing Made Easy

In fiscal year 2019, Hereford breeders took their digital marketing efforts a step further with the American Hereford Association's (AHA) launch of Herefords On Demand (HOD). This new online catalog production system is designed to serve breeders as an efficient and complete sale resource for sale offerings of any scale. Its many cutting-edge features — including daily expected progeny difference (EPD) updates, searchable information within a catalog and across all catalogs, video capabilities and sharing shortcuts — make it a great marketing avenue.

Creating a Herefords On Demand catalog has been tailored to be as user-friendly as possible with four simple steps to enter information for the catalog. These steps guide the user through entering contact information, sale details and lot information and then selecting a layout design. A Creative Services team member works directly with the user to approve the catalog before posting it to the AHA website.

"Herefords On Demand is a great promotional tool for Hereford programs regardless of size," says Joe Rickabaugh, AHA director of field management and seedstock marketing. "It will allow private treaty sale listings, video sale offerings, select small sale events, ongoing sire directories as well as traditional sale catalogs. Herefords On Demand will take promotion of Hereford seedstock to an all new level."

"I found the four-step process easy and straightforward to initiate on my own. As a small breeder, HOD expanded my marketing opportunities and allowed me to reach a broader group of potential buyers."

— Margaret Platter,
JLG Herefords, Greenfield, Ind.



Innovation Through Quality

Embracing Change

Fiscal year 2019 marked a year of change for the Certified Hereford Beef® brand. Effective Jan. 1, 2019, *Certified Hereford Beef* officially modified the brand's minimum marbling score requirement of the Schedule G-10 from a Slight⁰⁰ marbling score to a Small⁰⁰ marbling score, elevating the quality level of the *Certified Hereford Beef* brand to a United States Department of Agriculture 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* president and CEO. "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 to a new era of success."

The decision to modify the marbling score specification was due to the increasing quality



of Hereford cattle in the market. The specification improvement better positions *Certified Hereford Beef* for market relevance and allows the brand to be more competitive in the consumer market, where exceptional quality is demanded.

Along with increased growth potential, another benefit of the change has been the opportunity for higher premiums, rewarding producers who meet CHB Premium brand requirements. The growth in *Certified Hereford Beef* demand has allowed packing partners to pay premiums for high-quality cattle.

"This is a great opportunity for producers utilizing Hereford genetics to realize additional value for their cattle and further promotes the advantages of the Hereford breed," says Trey Befort, American Hereford Association (AHA) director of commercial programs.

Although change is not without obstacles, the *Certified Hereford Beef* brand has the resilience to continue on the path to exponential growth and success. The brand will continue the tradition of supporting Hereford farmers and ranchers by marketing and promoting premium Hereford genetics to foodservice distributors, retailers and consumers across the globe.

Positioning the Certified Hereford Beef brand for success

Established in 1995, *Certified Hereford Beef* was formed to create demand for the Hereford breed and to provide consumers with a high-quality eating experience. With a reputation built on exceptional product performance and flavor, *Certified Hereford Beef* continues to gain market share in the industry and to expand its distribution footprint throughout the U.S. and globally.

The consumer market is rich with opportunity for high-quality Hereford programs to offer differentiation in a saturated market consisting of a large number of "me-too" programs. To capitalize on this opportunity, *Certified Hereford Beef* adapted and improved its product to position the brand to gain market share. The CHB Premium program, founded in 2017, consists of upper 2/3rds Choice and higher products and has been the driving force behind recent CHB growth. An aggressive strategic plan is in place to continue the growth of the brand. Because of the extraordinary progress made in the Hereford breed to improve



quality, *Certified Hereford Beef* is poised to compete with the top beef brands in the industry.

Leveraging tradition

Brand support from the AHA membership is one of the greatest assets of *Certified Hereford Beef*.

Consumers crave a connection with those who produce their food, and the ability for *Certified Hereford Beef* to bring foodservice, retail and consumer partners to Hereford operations to see cattle production firsthand gives the brand a competitive advantage over other beef brands in the industry. Farm and ranch tours have been increasingly requested by the growing number of *Certified Hereford Beef* partners, and these visits are an excellent way for producers to tell their story and to educate participants about beef production and animal welfare.

Certified Hereford Beef is proud of the rich heritage and uncompromising dedication to quality Hereford farmers and ranchers provide. The exceptional eating experience the brand provides, coupled with an exciting story to tell, will continue to drive growth for the *Certified Hereford Beef* brand. The best is yet to come.



2.2 million

pound increase in sales through CHB licensed accounts

38

states where CHB is distributed

71

new licensed retailers

15

new licensed distributors

Innovation Through Leadership

Opportunities for Learning and Leading

The Hereford Youth Foundation of America (HYFA) and the National Junior Hereford Association (NJHA) work together to provide learning and leadership opportunities for the breed's future leaders. This last fiscal year (FY), NJHA members reaped the benefits of scholarship, leadership and education through an array of programs designed to showcase junior talents and to help youth build a brighter future for the beef industry.

The breadth and scope of the NJHA provides programs like the VitaFerm® Junior National Hereford Expo (JNHE), the annual Faces of Leadership Conference and the Fed Steer Shootout.

Voted Best of the Barns by Sullivan Supply and Stock Show University for four consecutive years

and considered one of the largest junior beef breed shows in the nation, the 20th annual JNHE was a highlight of the year's activities.

Hereford youth not only had the opportunity to show cattle on the industry's biggest stage but also explored their futures. The NJHA board of directors debuted an innovative college and career fair dubbed Bridging the Gap. The event attracted the industry's top companies and universities and provided Hereford youth with a unique venue to talk about their next big step.

New face, same conference

For a decade, the NJHA has worked to build junior members into strong leaders through the Faces of Leadership Conference. This year on the University of Nebraska-Lincoln's Innovation Campus the conference took on a new face with an even greater focus on creating leaders, collaborating and cultivating opportunities.

Through this vehicle, the NJHA strives to offer a unique and influential experience to junior members. Entrepreneurship was this year's theme and Tom Field, Ph.D., director of the Engler Agribusiness Entrepreneur Program, led the charge and provided a once-in-a-lifetime experience for participants. Field approached the conference with the foundational belief a young person is capable of problem solving and creating solutions when given the opportunity and bandwidth to do so.



1,179
entries

800
exhibitors

38 states and Canada represented



Herefords made history on the Hill at the historic National Western Complex as one of the last events of its kind in the Stadium Arena and the Denver Yards.

“The reality is for any industry, developing your talent is the key,” Field says. “What Hereford has chosen to do through a number of really thoughtful and forward-thinking donors, they made the decision to invest in young people and they are investing in ways that actually change the trajectory of their careers, their thoughts, the trajectory of their relationships and, in doing so, I think they are changing lives.”

Real-world educational opportunities abound

For three years running, the NJHA has conducted a unique program called the Fed Steer Shootout. Its goal is to teach juniors about the challenges and opportunities of feeding their own cattle for the Certified Hereford Beef® brand.

Powered by BioZyme® Inc.’s Feed the Future program, the Fed Steer Shootout is an industry-leading opportunity for NJHA members to gain an invaluable educational and a real-world cattle-feeding experience. Contestants collect feedyard performance and carcass data during the contest and are given the opportunity to gain a broad knowledge of the cattle feeding and packing industries through a comprehensive educational component of the contest.

This year’s contest started with almost a 60% increase in numbers from the previous year with more than 200 Hereford and Hereford-influenced steers on feed at Gregory Feedlots Inc., Tabor, Iowa.

In partnership with BioZyme Inc., the NJHA incorporated more educational components into the program in FY 2019. In addition to a monthly health report, a series of videos and quizzes was deployed to educate participants. Juniors also competed in a performance portfolio competition, with the top five portfolios receiving a travel scholarship for the speech and interview portion of the contest to be named the NJHA Fed Steer Shootout Junior of the Year at the 2019 American Hereford Association Annual Meeting and Conference in Kansas City, Mo.



The Lot 1 Foundation female continues to be one of the largest funding platforms for the foundation. This fundraising tradition celebrated 11 years at the 2019 Mile High Night Sale and has generated \$890,000 in its lifetime to support youth initiatives.

HYFA gives back

Last fall, HYFA reached an all-time high in net assets of \$4.2 million, and throughout the fiscal year, more than \$310,000 was given back to junior members through scholarship, education and leadership programs.

New fundraising programs are added each year as HYFA is always working to build on the legacy programs upon which the foundation is built. HYFA was excited to bring long time industry partners BioZyme Inc. and Sullivan Supply on board in an even greater capacity. BioZyme Inc. powered the NJHA Fed Steer Shootout through the Feed the Future program, and Sullivan Supply joined forces as the official industry partner and show supplier of the NJHA.

The Foundation 1 Club was initiated by Sierra Ranches in 2018, and the program grew to new heights in FY 2019 with more than \$90,000 in revenue generated from all participating ranches and industry partners who give a percentage of their yearly sales back to HYFA.

Hereford Youth Foundation of America

\$170,000
scholarships

\$50,000
Faces of Leadership

\$60,000
JNHE education

\$30,000
Fed Steer Shootout



\$310,000

total awarded in 2019

American Hereford Association and Subsidiaries

INDEPENDENT AUDITORS' 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 Hereford Legacy Fund, LLC (collectively, the Association), which comprise the consolidated statements of financial position as of August 31, 2019 and 2018; and the related consolidated statements of activities, functional expenses, 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, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

— Respectfully submitted, K. Coe Isom, LLP
October 8, 2019
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, 2019 and 2018.

— American Hereford Association, Jack Ward, executive vice president

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – August 31

| ASSETS | 2019 | 2018 |
|--|---------------------|---------------------|
| Current Assets | | |
| Cash and cash equivalents | \$157,271 | \$3,012,850 |
| Short-term investments | 1,374,957 | 1,118,770 |
| Accounts receivable – net | 654,565 | 763,276 |
| Prepaid expenses | 8,132 | 86,691 |
| Inventories | 159,046 | 154,821 |
| Due from Hereford Youth Foundation of America | 10,888 | 15,905 |
| Income tax receivable | 5,533 | – |
| Total Current Assets | 2,370,392 | 5,152,313 |
| Property and Equipment – Net | 644,235 | 613,574 |
| Other Assets | | |
| Investments | 11,308,408 | 8,768,202 |
| Operating lease right-of-use assets | 2,053,204 | 2,247,640 |
| Deferred income tax | – | 9,000 |
| Other noncurrent assets | – | 25 |
| Total Other Assets | 13,361,612 | 11,024,867 |
| TOTAL ASSETS | \$16,376,239 | \$16,790,754 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Checks written in excess of deposits | \$21,415 | \$– |
| Accounts payable | 197,790 | 218,746 |
| Accrued expenses | 342,933 | 261,845 |
| Prepayments from breeders | 124,731 | 102,765 |
| Deferred subscription and advertising revenue | 173,518 | 163,415 |
| Due to Junior National Hereford Expo | 2,170 | 70,522 |
| Income tax payable | – | 5,769 |
| Operating lease liabilities – current portion | 266,649 | 261,030 |
| Total Current Liabilities | 1,129,206 | 1,084,092 |
| Noncurrent Liabilities | | |
| Operating lease liabilities – less current portion | 1,811,089 | 1,996,506 |
| Total Liabilities | 2,940,295 | 3,080,598 |
| Net Assets | | |
| Without donor restrictions | 13,435,944 | 13,710,156 |
| TOTAL LIABILITIES AND NET ASSETS | \$16,376,239 | \$16,790,754 |

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

CONSOLIDATED STATEMENTS OF ACTIVITIES – Years Ended August 31

| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | 2019 | 2018 |
|--|---------------------|---------------------|
| Revenues and Support | | |
| Services | \$3,525,762 | \$3,630,902 |
| Advertising and subscriptions | 2,087,613 | 2,017,255 |
| Program revenues | 679,963 | 1,134,068 |
| Other revenue | 791,461 | 733,588 |
| Total Revenue and Support | 7,084,799 | 7,515,813 |
| Expenses | | |
| Program expenses | 5,764,911 | 5,304,594 |
| General and administrative expenses | 1,981,575 | 2,025,697 |
| Total Expenses | 7,746,486 | 7,330,291 |
| Other Income (Expense) | | |
| Gain (Loss) on sale of investments | 13,755 | (5,123) |
| Gain (Loss) on sale of assets | 6,028 | 7,139,155 |
| Net appreciation (depreciation) in fair value of investments | 216,673 | 160,978 |
| Other income (expense) | 160,197 | 111,037 |
| Total Other Income (Expense) | 396,653 | 7,406,047 |
| Change in Net Assets | | |
| Without Donor Restrictions Before Tax | (265,034) | 7,591,569 |
| Income tax benefit (expense) | (9,178) | (19,267) |
| Net Change in Net Assets | (274,212) | 7,572,302 |
| Net Assets – Beginning of Year | 13,710,156 | 6,137,854 |
| Net Assets – End of Year | \$13,435,944 | \$13,710,156 |

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES – Years Ended August 31

| | 2019 | | | 2018 | | |
|--|--------------------|----------------------------|--------------------|--------------------|----------------------------|--------------------|
| | Program Expenses | General and Administrative | Total | Program Expenses | General and Administrative | Total |
| Salaries and wages | \$1,544,242 | \$1,100,411 | \$2,644,653 | \$1,475,891 | \$1,056,975 | \$2,532,866 |
| Employee benefits | 289,702 | 186,378 | 476,080 | 200,746 | 242,952 | 443,698 |
| Accounting and professional fees | 47,566 | 90,293 | 137,859 | 16,787 | 140,753 | 157,540 |
| Supplies | 14,031 | 26,441 | 40,472 | 11,319 | 25,604 | 36,923 |
| Telephone and utilities | 108 | 29,712 | 29,820 | 20,130 | 13,763 | 33,893 |
| Postage and Shipping | 77,101 | 57,944 | 135,045 | 85,418 | 69,624 | 155,042 |
| Equipment rental | 2,586 | 13,936 | 16,522 | 2,638 | 12,277 | 14,915 |
| Printing | 318,455 | 19,015 | 337,470 | 332,032 | 23,048 | 355,080 |
| Travel | 415,369 | 103,275 | 518,644 | 390,929 | 117,866 | 508,795 |
| Moving | 1,522 | – | 1,522 | 53,480 | – | 53,480 |
| Office rent | 240,607 | 26,734 | 267,341 | 123,601 | 13,733 | 137,334 |
| Meeting and conferences | 158,569 | 17,572 | 176,141 | 95,984 | 10,370 | 106,354 |
| Dues and subscriptions | 30,975 | 18,362 | 49,337 | 16,236 | 18,528 | 34,764 |
| Insurance | 18,742 | 39,946 | 58,688 | 52,237 | 5,543 | 57,780 |
| Publicity and promotional materials | 204,360 | – | 204,360 | 251,730 | – | 251,730 |
| Credit card fees | – | 128,829 | 128,829 | – | 124,079 | 124,079 |
| Janitorial and building services, maintenance, and repairs | 11,839 | 76,359 | 88,198 | 45,520 | 72,866 | 118,386 |
| DNA | 736,605 | – | 736,605 | 539,174 | – | 539,174 |
| Advertising | 204,421 | – | 204,421 | 241,522 | – | 241,522 |
| Premiums | 48,921 | – | 48,921 | 46,142 | – | 46,142 |
| Genetic evaluation | 119,275 | – | 119,275 | 96,434 | – | 96,434 |
| Research and development | 30,095 | – | 30,095 | 58,095 | – | 58,095 |
| Miscellaneous | 27,490 | 42,961 | 70,451 | 26,791 | 76,417 | 103,208 |
| NJHA expenses | 129,184 | – | 129,184 | 121,936 | – | 121,936 |
| Creative services | 539,017 | – | 539,017 | 436,721 | – | 436,721 |
| Consumer marketing | 304,765 | – | 304,765 | 329,790 | – | 329,790 |
| Export | 10,433 | – | 10,433 | 16,950 | – | 16,950 |
| Depreciation expenses | 234,089 | – | 234,089 | 205,949 | – | 205,949 |
| Taxes | 4,842 | 3,407 | 8,249 | 10,412 | 1,299 | 11,711 |
| Total Functional Expenses | \$5,764,911 | \$1,981,575 | \$7,746,486 | \$5,304,594 | \$2,025,697 | \$7,330,291 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS – Years Ended August 31

| | 2019 | 2018 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from members and subscribers | \$6,916,721 | \$7,499,499 |
| Cash paid to vendors and employees | (7,311,908) | (7,389,841) |
| Interest and dividends received | 354,360 | 175,011 |
| Income taxes paid | (11,480) | (4,362) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (52,307) | 280,307 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (7,212,662) | (6,612,835) |
| Purchases of property and equipment | (268,222) | (587,127) |
| Proceeds from sale of investments | 4,646,697 | 65,228 |
| Proceeds from sales of property and equipment | 9,500 | 9,021,165 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (2,824,687) | 1,886,431 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Check written in excess of deposits | 21,415 | – |
| Net Increase (Decrease) in Cash and Cash Equivalents | (2,855,579) | 2,166,738 |
| Cash and Cash Equivalents – Beginning of Year | 3,012,850 | 846,112 |
| Cash and Cash Equivalents – End of Year | \$157,271 | \$3,012,850 |

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

Notes to Consolidated Financial Statements

1 — NATURE OF ORGANIZATION

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) is a for-profit corporation that 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.

2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

Net Assets Without Donor Restrictions: Net assets in this category are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net Assets With Donor Restrictions: Net assets in this category are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. The Association has no net assets without donor restrictions.

Measure of Operations The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Association's ongoing animal services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

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 \$101,719 and \$2,867,820 were considered to be cash equivalents at August 31, 2019 and 2018, 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 net realizable value 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, 2019 and 2018. 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, 2019 and 2018.

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 Accounting Standards Update (ASU) 2016-02, Leases. This ASU intends to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. Previous to this ASU, entities were allowed to exclude from the balance sheet leases classified as operating leases. This ASU requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. In July 2018, FASB issued ASU 2018-11, Leases: Targeted Improvements, which amended ASU 2016-02 to provide an entity with a transition method for implementing the standard. Under this transition method, an entity initially applies the new leases standard at the adoption date, and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The Association early adopted ASU No. 2016-02. The adoption of this standard had a material impact on the consolidated statement of financial position, but did not have an impact on the consolidated statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating lease, 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 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 Expenses The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of activities. The presentation of expenses by function and nature is included in the consolidated statements of functional expenses. The Association charges direct expenses incurred for a specific function directly to the program or supporting service category. These costs can be specifically identified as being incurred for the activities of that program or supporting service. Other costs that are incurred by the Association that benefit more than one program or supporting service are allocated on a reasonable basis that is consistently applied. Payroll and related costs are allocated based on estimates of time and effort; other costs including depreciation, certain occupancy and office costs, and consulting are allocated based on estimates of usage or benefit received by each function. The Association reevaluates its allocation method each year to determine if there are adjustments that are necessary to the allocation method based on actual activities conducted during the year.

Advertising Costs Advertising costs are charged to expense when incurred. The amounts expended during the years ended August 31, 2019 and 2018, were \$204,421 and \$241,522, 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 and state income taxes. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards; deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. HPI includes interest and penalties related to income tax liabilities, if any, in income tax expense. Income tax credits are accounted for by the flowthrough method, which recognizes the credits as reductions of income tax expense in the year utilized.

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.

New Accounting Pronouncement In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update

addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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 8, 2019, the date the consolidated financial statements were available for issue.

3 — AVAILABILITY AND LIQUIDITY

The Association is substantially supported by the services it provides its members. Revenue from services provided can be affected by the number of cattle and current economic conditions. The following represents the Association's financial assets:

| August 31 | 2019 | 2018 |
|---|---------------------|---------------------|
| Financial Assets – End of Year | | |
| Cash and cash equivalents | \$157,271 | \$3,012,850 |
| Accounts receivable - net | 654,565 | 763,276 |
| Investments | 12,683,365 | 9,886,972 |
| Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year | \$13,495,201 | \$13,663,098 |

The Association has \$13,495,201 available for general expenditures. This would cover all of next year's budgeted expenses, even without the income they have budgeted.

4 — ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

| August 31 | 2019 | 2018 |
|----------------------------------|------------------|------------------|
| Trade receivables | \$623,589 | \$675,993 |
| Allowance for doubtful accounts | (11,462) | (10,692) |
| Subtotals | 612,127 | 665,301 |
| Other receivables | 42,438 | 97,975 |
| Total Accounts Receivable | \$654,565 | \$763,276 |

5 — 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, 2019 | August 31, 2018 |
|-------------------------|---------------------|--------------------|
| Mutual funds | \$ 27,739 | \$ 29,767 |
| Exchange traded funds | 55,458 | 52,959 |
| Equity securities | 8,090,299 | 2,899,992 |
| Municipal bonds | 25,161 | 24,959 |
| Government agency bonds | 921,931 | 911,272 |
| Corporate bonds | 2,796,214 | 4,865,484 |
| Fixed income securities | 766,563 | 1,102,539 |
| Totals | \$12,683,365 | \$9,886,972 |

There were no level 2 or 3 for either year

6 — PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| August 31 | 2019 | 2018 |
|---|------------------|------------------|
| Leasehold Improvements | 91,773 | 83,894 |
| Furniture and fixtures | 337,204 | 326,537 |
| Vehicles | 241,060 | 216,460 |
| Data processing equipment | 246,359 | 217,869 |
| Software | 439,281 | 311,781 |
| Subtotals | 1,355,677 | 1,156,541 |
| Accumulated depreciation | (711,442) | (542,967) |
| Total Property and Equipment – Net | \$644,235 | \$613,574 |

7 — LEASES

The Company leased a copier from an unrelated third party under an operating lease. The lease required monthly lease payments of \$465. This lease was terminated in March 2019.

The Company leases a copier from an unrelated third party under an operating lease. The lease requires monthly lease payments of \$431 with a termination or renewal date of January 2024.

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 2019 was \$21,096 with a termination or renewal date of March 2028.

Amounts recorded as lease expenses were \$283,863 and \$152,249, respectively, for the years ended August 31, 2019 and 2018. Amounts paid through cash were \$525,977 and \$142,353, respectively, for the years ended August 31, 2019 and 2018.

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

| Years Ending August 31 | Amount |
|------------------------|--------------------|
| 2020 | \$266,649 |
| 2021 | 270,349 |
| 2022 | 274,050 |
| 2023 | 276,132 |
| 2024 | 271,958 |
| Thereafter | 972,983 |
| Total | \$2,332,121 |

8 — INCOME TAXES

The provisions for income taxes consist of the following components:

| Current Income Tax Expense (Benefit) | August 31, 2019 | August 31, 2018 |
|---|-----------------|-----------------|
| Federal | \$ – | \$ 5,664 |
| State | – | 2,329 |
| City | 178 | 1,274 |
| Total Current Income Tax Expense | 178 | 9,267 |
| Deferred Income Tax Expense (Benefit) | | |
| Relating to: | | |
| Depreciation | 8,000 | 10,000 |
| Allowance for bad debt | 1,000 | – |
| Total Deferred Income Tax Expense (Benefit) | 9,000 | 10,000 |
| Total Provision for Income Tax Expense (Benefit) | \$9,178 | \$19,267 |

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of HPT'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, 2019 | August 31, 2018 |
|---|-----------------|-----------------|
| Depreciation | \$– | \$5,000 |
| Allowance for bad debt | 3,000 | 4,000 |
| Total Deferred Tax Assets | 3,000 | 9,000 |
| Deferred Tax Liability | | |
| Depreciation | (3,000) | – |
| Allowance for bad debt | – | – |
| Total Deferred Tax Assets | (3,000) | – |
| Net Deferred Tax Asset (Liability) | \$– | \$9,000 |

9 — COLLECTIONS OF ARTWORK

The Association has a collection of artwork, appraised at approximately \$639,200 at August 31, 2019 and 2018, 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, 2019 and 2018. There were no pieces disposed of during the years ended August 31, 2019 and 2018.

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

10 — 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.

11 — 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, 2019 and 2018, were \$104,278 and \$95,749, respectively.

12 — RECENT ACCOUNTING PRONOUNCEMENTS

In June of 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU intends to clarify how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction and provides a framework for determining whether a resource recipient should account for a transaction as a contribution or as an exchange transaction. Previous to this ASU, there has been difficulty and diversity in practice among not-for-profit organizations: with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and in distinguishing between conditional and unconditional contributions. The new standard is effective for annual reporting period beginning after December 15, 2018, for resource recipients. The Association has not yet determined the impact, if any, the implementation of this amendment will have on the financial statements.

2018-19 Board of Directors



President
Pete Atkins



Vice president
Joel Birdwell



Jim Bellis



Kyle Pérez



Tommy Mead



Bruce Thomas



Nate Frederickson



Mark St. Pierre



Joe Waggoner



Craig Beran



Bruce Everhart



Andrew Matheny

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.



11500 N. Ambassador Dr. | Kansas City, MO 64153
816-842-3757 | Hereford.org