



HEREFORD

Homecoming

Celebrating Tradition and Progress



2020 AHA ANNUAL REPORT

HEREFORD

Homecoming

Fiscal year (FY) 2020 has certainly challenged everyone, but like every good batter who faces a hall-of-fame pitcher, you need to step up to the plate, dig in and aim to hit it out of the park. That is exactly what Team Hereford has done throughout this pandemic. As the old saying goes, through every challenge arises an opportunity. Through the use of new technology and hard work, both the American Hereford Association (AHA) membership and staff have forged ahead to make FY 2020 a great year.

In the last year, the AHA Board of Directors developed a new Commercial Programs committee to focus solely on creating demand and adding value to Hereford genetics for commercial cattlemen. This committee worked to change the parameters of the Hereford Advantage program to make it a third-party verified program (verified through IMI Global), while maintaining added value with superior genetics, health and management requirements. There is plenty of documentation representing the value of this type of program, and we have seen cattlemen from across the country take advantage of this opportunity. In addition to the changes to Hereford Advantage, the AHA started the Hereford Feedout program in partnership with HRC Feed Yards, Scott City, Kan. This program allows producers to retain ownership in cattle, no matter the group size, and to track both feedlot and carcass performance.

In March 2020, the AHA staff was mandated by the government of Kansas City to close the office and to work remotely. The staff needs to be commended for making this adjustment and it certainly gave a glimpse of how information and work can be transferred electronically. We continue to see breeders utilize MyHerd with more than 80% of registrations being submitted electronically.

The National Junior Hereford Association (NJHA) continues to thrive with a very strong and active membership, and these youth and their families proved their resilience and commitment to the breed as they adapted to changes to the 2020 VitaFerm® Junior National Hereford Expo.

It was another great event with great participation and support from everyone involved. Beyond the showing, we continue to see the junior membership understand the importance of the feedlot and packing industries to the long-term sustainability for agriculture. With the support of BioZyme® Inc., the NJHA has added educational components to the NJHA Fed Steer Shootout program.

The AHA has been working with Grant Company, St. Joseph, Mo., to build and to expand our opportunities to promote Hereford genetics through a very focused approach. Over the last year, the AHA launched its new campaign, "Come Home to Hereford," with some very focused messages of how Hereford genetics can add to the bottom line in commercial cow herds. In addition, the AHA has seen growth in services provided through Hereford Publications Inc. such as Herefords On Demand. Breeders are utilizing this online sales tool to promote their programs with the most current information available on their sale animals.

Breeders continue to utilize breed improvement tools to make sound breeding decisions. Whole Herd Total Performance Records continues to be the backbone of the strongest genetic evaluation available. Breeders are submitting data, genotyping and utilizing the most comprehensive young sire test program in the industry to identify Hereford genetics that will make a difference. This past year, the genomic component was added to the maternal traits to make those traits even stronger on nonparent animals.

The beef industry hit it out of the park despite this difficult curve ball the pandemic threw at us, and the Hereford membership continues to see the rewards of staying committed to a program and making cattle better. The message is clear: "Come Home to Hereford."

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

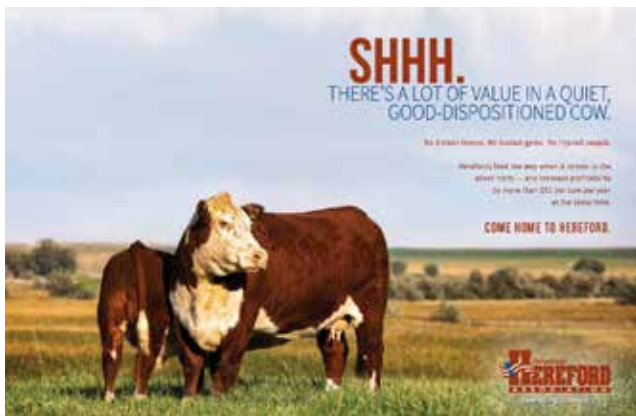


A MESSAGE THAT HITS HOME

The progress is undeniable. The potential is unlimited. Cattle producers across the country seek reliable genetics, and many are returning to their Hereford roots.

“Come Home to Hereford”

To mark the beginning of fiscal year (FY) 2020, the American Hereford Association (AHA) unveiled its new national advertising campaign, “Come Home to Hereford.” The campaign’s goal is to promote the advantages of Hereford genetics in the marketplace supported through research showing the economic advantages of the breed. The AHA partnered with Grant Company, St. Joseph, Mo., to develop and to grow the campaign.



Marketing tools

The AHA provides expanding options to help members market their programs and continues to develop digital resources.

Herefords On Demand, a digital production catalog service launched in FY 2019, is connecting breeders from coast to coast to help customers locate animals that fit their specified criteria. The service is a valuable tool for marketing production and private treaty sales of all sizes.

In FY 2020, Hereford Publications Inc. (HPI) began researching and developing digital advertising options for Hereford breeders. These digital options complement print advertisement through targeted Facebook campaigns and website advertising services.

These marketing efforts helped Hereford producers promote the breed. In FY 2020 Hereford bulls averaged \$4,724 and Hereford females \$3,562, as reported to the *Hereford World* by the HPI field staff.

Hereford.org resources

Find everything you need to help market your operation on [Hereford.org](https://www.hereford.org):

- | Production catalog listings
- | Sales results
- | Commercial Marketplace
- | Promotional videos
- | Beef marketing tools
- | Downloadable PDFs:
 - ▶ Come Home to Hereford inserts
 - ▶ Hereford Advantage inserts
 - ▶ Premium Red Baldy inserts
 - ▶ Understanding EPDs and GE-EPDs inserts
 - ▶ Beef Industry Sustainability insert

Follow HPI on Facebook!



FORWARD FOCUS



The American Hereford Association (AHA) continues to embrace technology to strengthen the core foundation of its genetic evaluation to provide the strongest breed improvement tools for its members and for the commercial cattle industry. Fiscal year (FY) 2020 marked a historic year within the area of breed improvement as Whole Herd Total Performance Records (TPR™) celebrates 20 years of being the backbone of the AHA's genetic evaluation. Through this robust program, the AHA has collected a very precise and unbiased set of phenotypes to form and to predict an extremely accurate suite of expected progeny differences (EPDs).

The AHA currently has more than 115,000 genotypes in its database, up 28% from last fiscal year. These genotypes aid in improving the accuracy of an animal's EPDs. With this, the AHA upgraded to the high-density GGP 100K chip to continue to identify key genetic markers of interest for continued improvement and research. FY 2020 also marked the first recognition award year for the Platinum TPR breeder recognition. Thirteen breeders from eight states were recognized with the highest performance

award available to members showing their commitment to going above and beyond collecting whole herd phenotypes and genotypes.

To further highlight the strength of the AHA's genetic evaluation the National Reference Sire Program celebrates 21 years. More than 420 bulls have been tested through this program, building on the AHA's strong inventory of birth-to-harvest phenotypes.

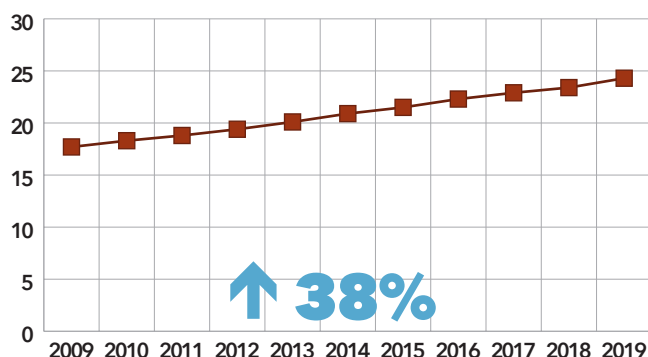
Also, in FY 2020 AHA began a research project, collaborating with David Riley, Ph.D., Texas A&M, and Dorian Garrick, Ph.D., Massey University, New Zealand, to identify genetic markers to predict eye pigment. Previous research suggests markers may exist to assist in predicting an animal's eye pigment. The AHA looks forward to gaining a better understanding of the genetic markers driving pigmentation in the Hereford breed.



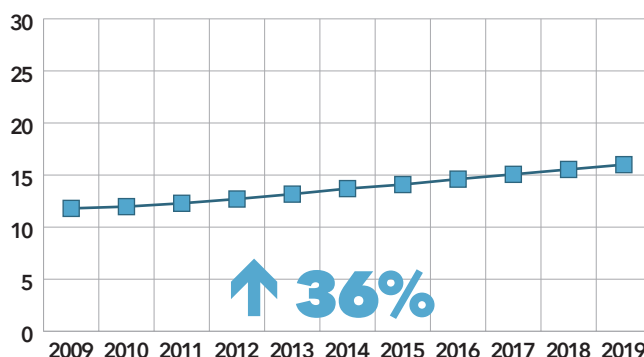
Focus on the female

In FY 2020 the AHA added the Marker Effects Model (MEM) utilizing Biometric Open Language Tools (BOLT) to our maternal traits to incorporate the genomic information for Sustained Cow Fertility (SCF), Milk (M) and Calving Ease Maternal (CEM) EPDs. This feat was accomplished because of a successful cow herd project that rounded up more than 10,000 female genotypes and the continued effort of breeders who have increased collecting female genotypes in their respective herds. Female genotypes accounted for 57% of the 25,000 genotypes collected in FY 2020. This is definitely a progressive

Milk trend 2009-2019



SCF trend 2009-2019





trend by AHA breeders showing their investment in breed improvement.

Adding the genomic component to SCF, M and CEM helps to accurately determine a sire's maternal contributions earlier in his lifetime, as opposed to waiting for results until he has multiple daughters in production. In fact, genotyping a nonparent animal for M EPD alone provides the equivalent accuracy of a sire with 15 daughters already in production.

Hereford genetics and cow efficiency

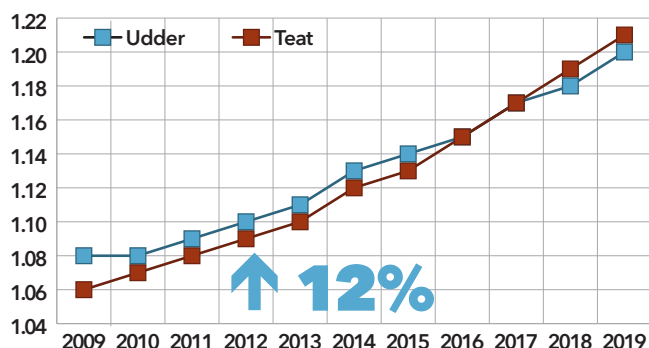
	Straightbred black cow	Black baldy cow
Body condition score	5.5	6.0
Dry matter intake	30 lb./day	28 lb./day
Annual basis (lb.)	10,950 lb./year	10,220 lb./year
Annual basis (tons)	5.5 tons/year	5.1 tons/year
Annual hay cost (\$125/ton)	\$688	\$638

Hereford advantage: \$50 savings per cow, per year

Research provided by Dave Lalman, Ph.D., Oklahoma State University. Lalman's research allowed for the following assumptions:

1. On average, baldy cows had a 0.5 higher body condition score than straightbred black cows.
2. On average, baldy cows consumed 2 pounds less of voluntary forage intake per day than straightbred black cows.

Udder and Teat trend 2009-2019



Top 10 Registrations

State	Breeders	
Texas	Shaw Cattle Co. Inc., Caldwell, Idaho	966
Oklahoma	Rausch Herefords, Hoven, S.D.	871
Nebraska	Van Newkirk Herefords, Oshkosh, Neb.	554
Kansas	Fawcetts Elm Creek Ranch, Ree Heights, S.D.	526
South Dakota	Wiese & Sons, Manning, Iowa	497
Missouri	Ned & Jan Ward, Sheridan, Wyo.	478
Montana	Upstream Ranch, Taylor, Neb.	449
North Dakota	Jamison Herefords, Quinter, Kan.	446
Iowa	Alexander Mih, Chanute, Kan.	409
Tennessee	W4 Ranch, Morgan, Texas	390

2019-20 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	1,003	896	1,260	68	33	26
Arizona	108	29	127	9	3	40
Arkansas	1,188	756	1,884	85	88	23
California	1,265	424	1,517	79	94	20
Colorado	1,387	783	1,898	74	50	17
Connecticut	64	40	123	9	8	41
Delaware	7	6	0	3	1	47
Florida	258	208	386	35	2	39
Georgia	1,912	1,313	3,281	85	37	14
Idaho	2,353	697	1,864	62	43	11
Illinois	2,338	1,602	4,232	174	245	12
Indiana	1,184	1,215	1,595	164	223	24
Iowa	2,438	1,461	2,788	181	229	9
Kansas	4,786	1,878	7,833	140	124	4
Kentucky	1,291	980	2,244	113	69	19
Louisiana	507	477	563	70	67	34
Maine	61	30	15	15	10	42
Maryland	480	406	620	54	88	36
Massachusetts	27	15	10	4	6	44
Michigan	545	498	744	89	42	33
Minnesota	1,602	802	2,825	123	83	15
Mississippi	1,216	950	1,113	68	70	22
Missouri	3,984	2,639	6,334	227	170	6
Montana	3,075	1,122	4,059	73	27	7
Nebraska	5,211	2,539	7,269	146	140	3
Nevada	492	178	812	17	6	35
New Hampshire	21	28	17	11	3	45
New Jersey	35	32	47	4	5	43
New Mexico	1,259	394	1,856	36	15	21
New York	435	183	591	61	41	37
North Carolina	694	445	1,709	68	32	32
North Dakota	2,523	610	4,396	61	21	8
Ohio	879	841	1,375	146	133	27
Oklahoma	5,588	3,298	8,612	202	274	2
Oregon	1,293	782	2,097	82	56	18
Pennsylvania	764	400	976	79	74	29
Rhode Island	0	0	0	0	0	48
South Carolina	363	267	961	31	9	38
South Dakota	4,495	1,440	8,244	113	90	5
Tennessee	2,371	1,822	4,414	177	101	10
Texas	9,528	6,961	11,690	542	610	1
Utah	703	117	1,708	35	4	31
Vermont	16	19	10	3	1	46
Virginia	789	599	1,064	75	71	28
Washington	1,036	356	1,438	66	44	25
West Virginia	718	463	1,175	60	29	30
Wisconsin	1,431	1,051	2,115	147	120	16
Wyoming	2,206	411	2,783	44	29	13
Total	75,929	42,463	112,674	4,210	3,720	

ADDING MARKETPLACE VALUE

With a marketplace proving to be as competitive as ever and a buyer base continuing to demand increased genetic quality and improved health and management practices, enhancements have been made to the American Hereford Association's (AHA) Hereford Advantage feeder cattle marketing program. Cattlemen using Hereford bulls can now provide value to the marketplace beyond genetic merit through health and management practice documentation and verification. A Beef Quality Assurance certification has also been included as one of the program components, which continues to be an industry-leading program to provide value in the marketplace as well as added buyer and consumer confidence. The program's genetic component requires a minimum of 50% Hereford genetics, a bull battery ranking in the top 50% of the breed for the CHB\$ profit index and transferred ownership.

With the credibility of IMI Global's third-party oversight, the Hereford Advantage is a vehicle to get information to buyers while giving producers using the best genetics and proper management techniques a voice in the marketplace. Over 4,000 head of cattle were enrolled in the program during its first year of including the newly added components. For more information and to get started with enrollment, visit HerefordAdvantage.com.



genetic quality, but also helps to strengthen the AHA's genetic evaluation and expected progeny difference accuracies. In its first year approximately 300 head, representing producers from eight states, were fed through the program.

Feeder cattle marketing

The AHA is now offering a unique opportunity for Hereford producers to access more marketing outlets for their feeder cattle through a partnership with S= Cattle Co., a cattle-buying business owned and operated by Nolan Stone and based in Eaton, Colo.

AHA field representatives will have the opportunity to locate and source Hereford-based feeder cattle to be marketed through Stone, with the aim to increase marketing avenues for commercial Hereford producers — and drive additional value for the breed. Both parties will also help locate backgrounding opportunities for feeder cattle and will work to organize locations across the country to pull small loads of cattle to get them weaned, vaccinated and sorted into marketable, uniform groups.



Hereford Feedout Program

To provide producers an opportunity to learn more about their genetic merit and to expand marketing avenues, the AHA has partnered with HRC Feed Yards, Scott City, Kan., to offer the Hereford Feedout Program. Participants in this program will have the ability to collect valuable carcass and performance data, while gaining first-hand experience in the cattle feeding industry. Participating cattle are also given the opportunity to be marketed through an industry-leading U.S. Premium Beef® marketing program as *Certified Hereford Beef* candidates, giving producers large and small a great avenue to directly connect with the brand. The information gained from this program not only helps the participants to improve their

Commercial Programs committee formed

With an ever-important focus on the Hereford breed's growth in the commercial industry, the Board of Directors formed the Commercial Programs committee for oversight and guidance of the growing number of commercial programs and marketing tools provided by the American Hereford Association.

ALLIED PARTNERS IN EDUCATION

The American Hereford Association (AHA) has partnered with industry-leading organizations to provide educational opportunities for members and cattle producers. These partnerships offer the latest information and tools to help operations develop strong animal health and genetic programs.



Health programs

Merck Animal Health (known as MSD Animal Health outside the U.S. and Canada) has committed to a five-year partnership with the AHA to educate cattle producers on the importance of animal health programs in maximizing cattle's genetic potential. Through the partnership, Merck Animal Health will lead educational sessions at the AHA's Annual Membership Meeting and

Conference, as well as at other Association events and online educational opportunities.

Look for the latest information on building animal health programs and protocols to improve cattle wellbeing and performance in the "Handle on Health" series in the *Hereford World* and the "Hereford Health" section of the *Hereford Headlines* blog. In these articles, veterinarians and technicians from the Merck Animal Health team

share tips and research on topics ranging from preconditioning, growth implants, antimicrobial stewardship and much more.

Genetic tools

AHA members will now have expanded access to expertise from Neogen's genomics team to make the best use of rapidly evolving genomic tools. Educational opportunities for producers will be available at AHA events and through online resources. There will also be opportunities for junior members to learn about the concept of genomic testing for genetic improvement.

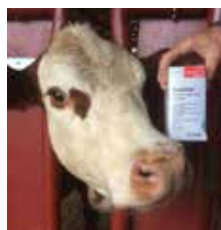
These efforts will help Hereford breeders stay current on proper DNA extraction and understand its value for genetic improvement, like utilizing genomic-enhanced expected progeny differences (GE-EPDs) to improve sale results, assist in seedstock selection and accelerate breed improvement.

The AHA is excited to work with Neogen as advancements are made to the genomic frontier and to evolve with the technology as a team to strengthen the AHA's genetic evaluation.



#HEREFORDSTRONG

EDUCATION



LEADERSHIP



SCHOLARSHIP

Supporting youth

To help kick off the new partnership between the American Hereford Association (AHA) and Merck Animal Health, cattle producers were encouraged to share a photo using a Merck Animal Health product with their own cattle. For every photo submitted to the AHA, Merck Animal Health donated \$100 to the Hereford Youth Foundation of America to support scholarship, leadership and educational efforts for Hereford youth.



CELEBRATING 25 YEARS

This year we celebrate 25 years of providing wholesome, high-quality Certified Hereford Beef® (CHB) products to consumers nationwide. We also honor Hereford producers for their diligence in continuing to advance the breed. Your management practices give Team Hereford the confidence to believe in and stand behind the integrity of the breed and brand.



Milestones

As market dynamics evolve, we can adapt quickly and efficiently to provide tools and resources to support our industry partners in marketing and promoting the brand. We are proud to have the experience and expertise to accommodate the demands of consumers to positively influence the industry. In 2017, the brand created the CHB Premium program which markets an upper two-thirds United States Department of Agriculture (USDA) Choice and higher product. This program is a great example of how the brand

has evolved and adapted to consumer demand for a higher-quality product. More than 10 million pounds of product have been distributed into the market through the program since its inception.

Through continuous genetic improvement, the CHB brand took a bold leap to elevate the overall quality of the brand. In 2018 after extensive research, it was determined the quality of cattle far surpassed the original USDA Select quality grade standard that was set when the program was established. This once again is a testament to the attention paid by Hereford breeders across the country to improve the performance quality of the Hereford breed. This move to a USDA Choice and higher product added relevance to the brand and has allowed entry into the marketplace as a competitive high-quality beef option for the industry. Even with the changes that have been made, the brand has stayed true to its heritage, story and breed integrity.

Because of the improvements made to the brand and the demand that has followed those improvements, added premiums for cattle are now available. These premiums reward producers who are producing high-quality cattle meeting the CHB Premium program requirements. As demand continues to grow, we look forward to seeing an increase in premiums paid to our hard-working Hereford producers.

We are encouraged there are additional Hereford brands being introduced into the market today to bring additional awareness to the breed. We are proud to be the leader and pioneer for Hereford branded beef and the foundational brand supporting the dedicated members of the American Hereford Association.



Taste the Tradition

25 years of success

In its 25th year, the Certified Hereford Beef® brand has collectively supplied consumers nearly 900 million pounds of beef and harvested more than 7 million head of cattle to supply the brand. We celebrate this milestone as we look to the future for continued growth, innovation and demand for Hereford genetics.

Fiscal year 2020 progress

The CHB team navigated the challenges COVID-19 imposed on the market and continued to develop strategies to improve partner relationships and drive brand awareness.

Customer relationship management — This year we implemented a customer relationship management platform to store, manage and analyze interactions with past, current and potential industry partners. This management strategy will allow the CHB team to collectively engage in data processing, track progress and gather information for customer retention and program growth. This historical achievement will provide information sharing for the advancement of the brand for years to come.

National advertising campaign — This year we began the process to create a national advertising campaign to strategically target specific industry segments to bring awareness to the *Certified Hereford Beef* brand. This strategic partnership will utilize creative talent, consumer insights and social platform expertise to further the initiative towards brand awareness and drive demand for the CHB brand.

Industry partner marketing assets — Providing exceptional customer service is at the forefront of *Certified Hereford Beef's* initiative to increase brand awareness. The tools and resources used in the industry to effectively market and promote the brand and breed are updated regularly to accommodate the evolving marketplace.

Educational platforms — The CHB team implemented educational programs to elevate



industry partners' knowledge of the CHB brand and of the beef industry. These experiences provide a platform for personal and professional growth. Meat labs held this past year gave sales professionals firsthand experience in understanding the various cuts derived from the animal and how to market and promote them. The ability to identify and effectively communicate how these muscle cuts can translate into profitability for the end user is invaluable in creating longstanding partnerships. Farm tours also gave sales professionals insight into beef production and an understanding of the life cycle of beef production and how it affects the consumer industry. The addition of a meat scientist to the CHB team has provided additional credibility to training courses that provide long-term, sustainable results to our brand partners.

In closing

Celebrating 25 years is a momentous occasion and we are encouraged and inspired by the strides made over the years. We will continue to look to the future on how we can better service the consumer marketplace, better represent the Hereford breed and, more importantly, tell the story of Hereford and the value the breed and brand has in the industry. Cheers to another 25 years of brand innovation and breed advancement!



COME HOME TO EDUCATION

The National Junior Hereford Association (NJHA) is a welcoming home for students wanting more. The NJHA along with the Hereford Youth Foundation of America (HYFA) provides more opportunities for Hereford youth to share their passion for agriculture, develop additional leadership training and grow in their professional development.

The future depends on today's experiences and even amidst social distancing guidelines and a global pandemic, Hereford youth continued to take advantage of scholarship and educational opportunities through the NJHA in fiscal year (FY) 2020. At times, we as an Association had to get creative and think outside the box, but with today's technology, Hereford youth were able to reap the rewards of their hard work.

In spite of all the challenges of 2020, Hereford youth came home to Kansas City, Mo., and gathered this summer at the VitaFerm® Junior National Hereford Expo (JNHE), one of the industry's biggest stages. But it was much more than a cattle show. It was the strength of rural America on display and the commitment of the Hereford breed to the next generation. In total there were 1,082 entries, hailing from 37 states and Canada. More than 8,000 individuals tuned in to Walton Webcasting throughout the week to watch the Hereford shows and the virtual awards ceremonies.



Despite the mandates in place due to COVID-19, the show went on and amidst a shortened schedule and taking some of the week's events virtual, the Hereford breed will always remember coming home to Hereford and the 2020 JNHE.

Shootout brings education to the forefront

BioZyme® Inc. and VitaFerm continued to expand their sponsorship outside the showring to include the NJHA Fed Steer Shootout, and in FY 2020 education was brought to the forefront of this up-and-coming program for Hereford youth. With 111 head of purebred and commercial pens and individual Herefords on feed, contestants expanded their knowledge of the feedlot industry. The comprehensive educational program included a performance portfolio, quizzes and new this year, participants had to complete the online Beef Quality Assurance course to be eligible for the top-five and NJHA Fed Steer Shootout Junior of the Year awards.

Young leadership takes global stage

In March, six NJHA members took the journey of a lifetime and traveled to New Zealand to compete in the Young Breeders Competition during the 2020 World Hereford Conference. Team USA brought home a third-place overall finish, just two points shy of second place. A highlight was the team's first place honors in the presentation module of the competition with a speech about bridging the gap between urban and rural populations. The team's victory earned the opportunity to share their presentation with the 400 attendees at the World Hereford Conference. This global experience is sure to open doors for future networking opportunities with Hereford breeders and junior members from other countries.



AND LEADERSHIP

Scholarship payouts soar to new heights

The scholarship fund is the cornerstone of the HYFA and countless youth are the benefactors of the mission. Scholarship disbursements soared to a whole new level and as HYFA turned the page on FY 2020, scholarships made headlines with an impressive \$225,000. This allowed junior members to further their education and to travel abroad and represent the U.S. at the World Hereford Conference.

In addition to the travel scholarships, new this year was the inaugural National Hereford Queen scholarship. This was made possible with a joint fundraising effort between the National Hereford Women and HYFA. Last fall, the first MGM/Merry Family Scholarship was awarded to a student pursuing a veterinary degree.

Foundation female nears million-dollar mark

The Hereford breed is rich with history and the Lot 1 Foundation Female that headlines the Mile High Night sale in Denver is one of HYFA's long-standing traditions. In January, PCC New Mexico Lady 8170 sold for \$70,000 to benefit HYFA's Growing a Lasting Legacy Campaign at the Mile High Night Sale during the National Western Stock Show.



The Lot 1 Foundation Female has highlighted the national Hereford sale in Denver for more than a decade and has raised a total of \$960,000 to support HYFA's mission of leadership and education. New Mexico Lady was donated by Pérez Cattle Co., Nara Visa, N.M., and when the gavel fell for the last time, the female was purchased by Whitey and Weyman Hunt of Innisfail Farm, Madison, Ga.



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, 2020 and 2019; 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, 2020 and 2019, 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.

— K. Coe Isom, LLP
October 5, 2020
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, 2020 and 2019.

— American Hereford Association, Jack Ward, executive vice president

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – August 31

ASSETS	2020	2019
Current Assets		
Cash and cash equivalents	\$972,067	\$157,271
Short-term investments	895,607	1,374,957
Accounts receivable – net	583,274	654,565
Prepaid expenses	13,172	8,132
Inventories	111,039	159,046
Due from Hereford Youth Foundation of America	—	10,888
Income tax receivable	6,371	5,533
Total Current Assets	2,581,530	2,370,392
Property and Equipment – Net	420,404	644,235
Other Assets		
Investments	12,947,409	11,308,408
Operating lease right-of-use assets	1,830,040	2,053,204
Deferred income tax	64,000	—
Total Other Assets	14,841,449	13,361,612
TOTAL ASSETS	\$17,843,383	\$16,376,239
LIABILITIES AND NET ASSETS		
Current Liabilities		
Checks written in excess of deposits	\$ —	\$21,415
Accounts payable	154,575	197,790
Accrued expenses	291,749	342,933
Prepayments from breeders	104,141	124,731
Prepayments for subscription and advertising	151,699	173,518
Due to Hereford Youth Foundation of America	6,924	—
Due to Junior National Hereford Expo	2,780	2,170
Long-term debt – current portion	179,000	—
Operating lease liabilities – less current portion	270,349	266,649
Total Current Liabilities	1,161,217	1,129,206
Noncurrent Liabilities		
Long-term debt – less current portion	356,600	—
Operating lease liabilities – less current portion	1,595,162	1,811,089
Total Noncurrent Liabilities	1,951,762	1,811,089
Total Liabilities	3,112,979	2,940,295
Net Assets		
Without donor restrictions	14,730,404	13,435,944
TOTAL LIABILITIES AND NET ASSETS	\$17,843,383	\$16,376,239

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	2020	2019
Revenue and Support		
Services	\$3,684,487	\$3,525,762
Advertising and subscriptions	1,816,914	2,087,613
Program revenues	415,443	679,963
Other revenue	736,029	791,461
Total Revenue and Support	6,652,873	7,084,799
Expenses		
Program expenses	4,872,022	5,764,911
General and administrative expenses	1,983,169	1,981,575
Total Expenses	6,855,191	7,746,486
Other Income (Expense)		
Gain (Loss) on sale of investments	(37,591)	13,755
Gain (Loss) on sale of assets	—	6,028
Net appreciation (depreciation) in fair value of investments	1,277,158	216,673
Other income (expense)	193,736	160,197
Total Other Income (Expense)	1,433,303	396,653
Change in Net Assets Without Donor Restrictions Before Tax	1,230,985	(265,034)
Income tax benefit (expense)	63,475	(9,178)
Net Change in Net Assets	1,294,460	(274,212)
Net Assets – Beginning of Year	13,435,944	13,710,156
Net Assets – End of Year	\$14,730,404	\$13,435,944

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES – Years Ended August 31

	2020			2019		
	Program Expenses	General and Administrative	Total	Program Expenses	General and Administrative	Total
Salaries and wages	\$1,372,887	\$1,067,896	\$2,440,783	\$1,544,242	\$1,100,411	\$2,644,653
Employee benefits	257,997	190,916	448,913	289,702	186,378	476,080
Accounting and professional fees	34,256	124,818	159,074	47,566	90,293	137,859
Supplies	8,141	29,216	37,357	14,031	26,441	40,472
Telephone and utilities	757	25,665	26,422	108	29,712	29,820
Postage and Shipping	64,150	62,390	126,540	77,101	57,944	135,045
Equipment rental	2,588	15,920	18,508	2,586	13,936	16,522
Printing	237,636	21,533	259,169	318,455	19,015	337,470
Travel	246,282	86,148	332,430	415,369	103,275	518,644
Moving	—	—	—	1,522	—	1,522
Office rent	244,441	27,160	271,601	240,607	26,734	267,341
Meeting and conferences	83,884	24,299	108,183	158,569	17,572	176,141
Dues and subscriptions	18,179	19,405	37,584	30,975	18,362	49,337
Insurance	16,475	29,403	45,878	18,742	39,946	58,688
Publicity and promotional materials	142,929	—	142,929	204,360	—	204,360
Credit card fees	—	133,687	133,687	—	128,829	128,829
Janitorial and building services, maintenance, and repairs	38,898	70,783	109,681	11,839	76,359	88,198
DNA	731,000	—	731,000	736,605	—	736,605
Advertising	240,134	—	240,134	204,421	—	204,421
Premiums	44,148	—	44,148	48,921	—	48,921
Genetic evaluation	97,950	—	97,950	119,275	—	119,275
Research and development	22,952	—	22,952	30,095	—	30,095
Miscellaneous	19,207	44,632	63,839	27,490	42,961	70,451
NJHA expenses	43,749	—	43,749	129,184	—	129,184
Creative services	441,639	—	441,639	539,017	—	539,017
Consumer marketing	214,020	—	214,020	304,765	—	304,765
Export	4,771	—	4,771	10,433	—	10,433
Depreciation expenses	239,000	—	239,000	234,089	—	234,089
Taxes	3,952	9,298	13,250	4,842	3,407	8,249
Total Functional Expenses	\$4,872,022	\$1,983,169	\$6,855,191	\$5,764,911	\$1,981,575	\$7,746,486

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

CONSOLIDATED STATEMENTS OF CASH FLOWS – Years Ended August 31

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and subscribers	\$6,529,504	\$6,916,721
Cash paid to vendors and employees	(6,584,685)	(7,311,908)
Interest and dividends received	292,407	354,360
Income taxes paid	(1,363)	(11,480)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	235,863	(52,307)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,586,552)	(7,212,662)
Purchases of property and equipment	(15,168)	(268,222)
Proceeds from sale of investments	3,666,468	4,646,697
Proceeds from sales of property and equipment	—	9,500
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	64,748	(2,824,687)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	535,600	—
Check written in excess of deposits	(21,415)	21,415
NET CASH PROVIDED BY FINANCING ACTIVITIES	514,185	21,415
Net Increase (Decrease) in Cash and Cash Equivalents	814,796	(2,855,579)
Cash and Cash Equivalents – Beginning of Year	157,271	3,012,850
Cash and Cash Equivalents – End of Year	\$972,067	\$157,271

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 in 2018 and makes distributions to parent for a portion of 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 reported 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 with 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 \$564,597 and \$101,719 were considered to be cash equivalents at August 31, 2020 and 2019, respectively.

Accounts Receivable Accounts receivable are presented at face value, net of the allowance for doubtful accounts and consist of amounts billed for, but not received by year-end for magazine advertising, subscriptions, and member services. 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, 2020 and 2019. 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 statements 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, 2020 and 2019.

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.

Revenue Recognition Revenues from member dues, subscriptions and advertising, and hosting database services are recognized over the term of the contract. The contracts are generally for a term of 1 to 3 years. Subscription and advertising revenue is deferred and included in prepayments for subscription and advertising in the consolidated balance sheets. Revenue is deferred at the time of sale to the customer and is recognized monthly as outlined in the contract. At the end of the subscription period, the remaining balance is recognized as revenue reported as advertising and subscription revenue on the consolidated statements of income. The balances of the prepayments for subscription and advertising revenues were \$151,699 and \$173,518 for the years ended August 31, 2020 and 2019, respectively.

Publication and advertising, genetic services, creative services, retail and marketing services are recognized when the service is provided.

Effective in the first quarter of fiscal year 2020, the Association adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, and all subsequent amendments to the ASU (collectively, Accounting Standards Codification 606). The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. A five-step model is used to determine the amount and timing of revenue recognized. The ASU also requires expanded disclosures to include disaggregated revenue by geographic regions and major product lines. The Association has elected to not apply the quantitative disaggregation disclosures. There were no significant changes affecting the timing of revenue recognition from the adoption. The Association's additional disclosures are included in note 13.

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 elected to early adopt ASU No. 2016-02, Leases (Topic 842), effective September 1, 2017.

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.

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 expensed during the years ended August 31, 2020 and 2019, were \$240,134 and \$204,421, 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 Effective in the first quarter of fiscal year 2020, the Association adopted FASB issued ASU 2018-08, *Not-for-Profit Entities – Clarifying the Scope and the Guidance for Contributions Received and Contributions Made*. The ASU provides clarification on the determination of 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. The Association has determined that there are no significant changes affecting the timing of revenue recognition from the adoption although the Association has classified and reported member assessments as exchange transactions.

Evaluation of Subsequent Events The Association has evaluated subsequent events through October 5, 2020, 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 registered cattle and current economic conditions. The following represents the Association's financial assets:

August 31	2020	2019
Financial Assets – End of Year		
Cash and cash equivalents	\$972,067	\$157,271
Accounts receivable - net	583,274	654,565
Investments	13,843,016	12,683,365
Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year		
	\$15,398,357	\$13,495,201

The Association has \$15,398,357 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	2020	2019
Trade receivables	\$509,967	\$623,589
Allowance for doubtful accounts	(11,423)	(11,462)
Subtotals	498,544	612,127
Other receivables	84,730	42,438
Total Accounts Receivable	\$583,274	\$654,565

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, 2020	August 31, 2019
Mutual funds	\$196,264	\$27,739
Exchange traded funds	175,763	55,458
Equity securities	9,597,326	8,090,299
Municipal bonds	—	25,161
Government agency bonds	1,248,193	921,931
Corporate bonds	1,763,120	2,796,214
Fixed income securities	862,350	766,563
Totals	\$13,843,016	\$12,683,365

There were no level 2 or 3 for either year

6 — PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

August 31	2020	2019
Leasehold Improvements	\$91,773	\$91,773
Furniture and fixtures	337,203	337,203
Vehicles	241,060	241,060
Data processing equipment	256,038	246,359
Software	444,770	439,281
Subtotals	1,370,844	1,355,676
Accumulated depreciation	(950,440)	(711,441)
Total Property and Equipment – Net	\$420,404	\$644,235

7 — LEASES

The Association 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 Association 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 Association 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 March 2023.

The Association 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 31, 2020 and 2019 was \$21,404 and \$21,096, respectively, with a termination or renewal date of March 2028.

Amounts recorded as lease expenses were \$290,109 and \$283,863, respectively, for the years ended August 31, 2020 and 2019. Amounts paid through cash were \$254,638 and \$259,328, respectively, for the years ended August 31, 2020 and 2019.

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

Years Ending August 31	Amount
2021	\$270,349
2022	274,050
2023	276,132
2024	271,958
2025	273,501
Thereafter	699,482
Total	\$2,065,472

8 — LONG-TERM DEBT

On April 21, 2020, the Association was granted an unsecured loan from UMB Bank in the amount of \$535,600, pursuant to the PPP under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The loan, dated April 21, 2020, matures on April 10, 2022, and bears interest at a rate of 1% per annum, payable monthly, commencing on March 21, 2021. The loan may be prepaid by the Association at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group healthcare benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020. Under the terms of the PPP, certain amounts of the loan and accrued interest may be forgiven if they are used for qualifying expenses as described in the CARES Act within the time frame outlined by the U.S. Small Business Administration. The Association currently believes that the use of the loan proceeds will meet the conditions for forgiveness of significantly all of the loan.

Future maturities of the note payable, if not forgiven, are \$179,000 and \$356,600 for the years ended August 31, 2021 and 2022, respectively.

9 — INCOME TAXES

The provisions for income taxes consist of the following components:

Current Income Tax Expense Benefit (Expense)	August 31, 2020	August 31, 2019
Federal	\$ —	\$ —
State	—	—
City	(525)	(178)
Total Current Income Tax Benefit (Expense)	(525)	(178)
Deferred Income Tax Benefit (Expense)		
Relating to:		
Depreciation	64,000	(8,000)
Allowance for bad debt	—	(1,000)
Total Deferred Income Tax Benefit (Expense)	64,000	(9,000)
Total Provision for Income Tax Benefit (Expense)	\$63,475	\$(9,178)

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

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

The components of the deferred tax assets were as follows:

Deferred Tax Assets	August 31, 2020	August 31, 2019
Depreciation	\$64,000	\$ —
Allowance for bad debt	3,000	3,000
Total Deferred Tax Assets	67,000	3,000
Deferred Tax Liability		
Depreciation	(3,000)	(3,000)
Allowance for bad debt	—	—
Total Deferred Tax Assets	(3,000)	(3,000)
Net Deferred Tax Asset (Liability)	\$64,000	\$ —

10 — COLLECTIONS OF ARTWORK

The Association has a collection of artwork, appraised at approximately \$639,200 at August 31, 2020 and 2019, 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, 2020 and 2019. There were no pieces disposed of during the years ended August 31, 2020 and 2019.

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

11 — CONCENTRATION OF CREDIT RISK

The Association maintains cash on deposit in various financial institutions. Due to the nature of the Association's cash flow, amounts on deposit in individual banks may temporarily exceed the applicable coverage of the Federal Deposit Insurance Corporation throughout the year.

A majority of the Companies' business activities are with customers in the cattle industry. Therefore, a substantial portion of their debtors' ability to honor their commitments is dependent upon the cattle economic sector.

12 — 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, 2020 and 2019, were \$93,969 and \$104,278, respectively.

13 — REVENUE RECOGNITION

The Association's major revenues are all within the United States of America and recognized as follows:

Membership Services Includes registrations, dues, and service fees that fund research, advertising, and software development, as well as discounts for subscriptions and genetic services for the current fiscal year. Revenues are recognized over the term of the contract.

Subscriptions and Advertising Includes revenues earned from catalog and magazine subscriptions and advertising generally for a term of 12 months. Revenues are recognized over the term of the contract.

Publication and Advertising Services Includes fees from advertising in Hereford World, as well as annual publications and banner ads on the website. Revenues are recognized as the services are performed at a point in time.

Genetic Services Includes revenues from improving the Hereford breed, DNA testing, blood typing, and genomic services. Revenues are recognized as the services are performed at a point in time.

Hosting Database Services Includes fees from hosting database services on the Association's servers generally for a term of 1 to 3 years. Revenues are recognized over the term of the contract.

Creative Services Includes revenues from promotional media services. Revenues are recognized as the services are performed at a point in time.

Marketing Services Includes revenues from certifications and retail sales. Revenues are recognized as the services are performed at a point in time.

14 — CONTINGENCIES COVID-19

The ongoing COVID-19 pandemic has caused an economic downturn on a global scale, disrupted global supply chains, and created significant uncertainty, volatility, and disruption across economies and financial markets.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Company's business and financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which the Company operates and the related impact on consumer confidence and spending, all of which are highly uncertain.



President
Joel Birdwell



Vice president
Mark St. Pierre



Tommy Mead



Bruce Thomas



Nate Frederickson



Joe Waggoner



Craig Beran



Bruce Everhart



Andrew Matheny



Bill Goehring



Whitey Hunt



Becky
King-Spindle

American Hereford Association

AHA Mission

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

AHA Vision

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

Core Strategies

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



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