

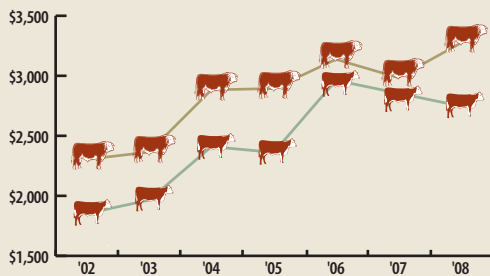


Herefords in Demand



2008 Annual Report

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



Herefords in Demand,

Hereford breeders are witnessing a shift in demand. The beef industry is recognizing the role that Herefords play in profitable beef operations. The increased demand for Hereford bulls and females and for Hereford and Hereford-influenced feeders and finished cattle reflects a renewed belief in the importance of Hereford genetics.

The Hereford breed has long been recognized as the efficiency experts because of its strengths in conversion, longevity, disposition, fertility and hardiness. These traits are even more important today as producers face dramatically increasing input costs.

As breeders we must continue our quest in developing more consistent, more profitable seedstock. As an Association we must continue our quest to provide services and programs that create opportunities for our members and their customers.

The growing demand for Hereford cattle will continue if Hereford breeders strive to offer the best product to their customers, work diligently to explain the Hereford advantages and support the programs that place the breed in a position for growth.

Fiscal year 2008 was a challenging time for the American Hereford Association (AHA) and its members. The numbers document 2008, despite being a year of financial adversity, was a year of increased demand for Hereford genetics. The breed continues to see increased use of Hereford genetics in the commercial beef industry.

That's why "Herefords in Demand" is the theme of this 2008 American Hereford Association Annual Report. In the pages ahead, you'll read about highlights from the year. Join us for a journey through fiscal year 2008 as we celebrate Hereford demand.



Unquestionably the exciting news this year is the continued increasing demand for Hereford cattle. Private treaty sales were stronger this year; the last four years of production sales have reflected an extremely strong bull demand, and the demand for Hereford females is unprecedented.

Prices paid for Hereford bulls this fiscal year increased by \$287 per head with the average price being \$3,272. That's an 11.5% increase during the last four years.

Also, breeders saw an increase in demand for purebred Hereford females. More than 3% more females were sold

this fiscal year than the previous year. The price Hereford breeders are receiving for their cattle also increased: the average price paid per head was up more than 4% or \$123.

Hereford feeder calves also experienced increased demand. Two multi-state sanctioned feeder calf sales featuring Hereford and Hereford-cross calves earned consignors more than \$75,000 in premiums. Tennessee Hereford Marketing Program Sale consignors Oct. 29, 2007, on average received an additional \$69.15 per head by participating in the organized marketing efforts, bringing together the numbers and



This national ad is the second ad in the Association's campaign promoting Hereford efficiency. The ad copy quoted the first-year results from the Harris Ranch study, which proved Hereford's strengths of gain and feed conversion showed a \$78 advantage per head compared to Angus-sired calves from start to finish.



Genglebach Farms, Plattsburg, Mo., AI bred 80 commercial Angus fall-calving cows to Hereford bulls. The calves have been weaned and are on feed efficiency test at the University of Missouri, Columbia.



Positioned for Growth

verification feeders demand. Similarly the 34 consignors to the Greater Midwest Certified Hereford Feeder Calf Sale Dec. 6, 2007, earned an additional \$57.50 per head.

All this progress was made during a year when the price of fuel and feed skyrocketed and many cattlemen felt the pinch. Because of inflating inputs, the Hereford breed's efficiency has never been more valued.

And, as an Association, we are committed to documenting the Hereford efficiency advantage with research projects and share that message through advertising and promotional efforts.

Advancing research

As we review fiscal year 2008, it can easily be summarized as a year of devoting energy to documenting the efficiency of the Hereford breed. The Association continues to fund ongoing research in heterosis, residual feed intake (RFI), heifer fertility and stayability.

The results from the first year of the Harris Ranch study quantified the value of Hereford genetics and heterosis. In this study Hereford bulls and Angus bulls were bred to predominately Angus cows, and the progeny were compared. The Hereford-sired calves carried the advantage in nearly every production phase from weaning to harvest. Ultimately, in the first calf crop, the Hereford-sired calves had about a \$78 per head advantage in profitability compared to the Angus-sired calves. During fiscal year 2008, the second calf crop was harvested and the third calf crop is being weaned. As this



AHA Board and staff hosted nine editors representing 27 agriculture and livestock publications Sept. 25, 2007, for the first media fly-in. The event included a news conference announcing the Harris Ranch heterosis study phase one results as well as an AHA state-of-the-industry report, breed improvement projects update and Certified Hereford Beef (CHB) LLC overview.

Annual Report is in production, we are awaiting the results of the second year.

Also, in the Harris Ranch project, the heifer calves were retained, bred and, in the spring of 2008, calved. Data is being gathered to compare the fertility and longevity of these females. In late fiscal year 2009 or early 2010, we hope to have a full report on the three-year project documenting the Hereford-sired advantage.

Other research projects at Circle A Ranch and the University of Missouri are finding similar results that further prove Herefords are the efficiency experts. Combine this data with the strong national advertising and public relations programs, and the Hereford efficiency message is told time and time again through publications across the country, driving awareness and demand.

The National Reference Sire Program (NRSP) continues to facilitate the sampling of young sires and strengthens the

Association database through real-world commercial testing. This fiscal year eight herds participated in the program with a total of 2,000 cows used to test 35 sires.

The Board and staff also spent a lot of energy addressing policy regarding genetic defects and genomic



Circle A Ranch, Iberia, Mo., tested 10 Hereford bulls with the goal of comparing the best of the Angus herd to the best of the Angus-Hereford cross. The resulting heifers are being developed and bred at Circle A's Lineville, Iowa, ranch. The heifers will be tracked for conception rates, stayability and the maternal effect on birth and weaning weights. The steer mates are on feed efficiency test at the Circle A Feedlot and are expected to be harvested by the end of the year.



Amana Farms, Amana, Iowa, is testing young Hereford sires on its 2,500-head commercial herd. Birth, weaning and yearling data are being collected and submitted to the NRSP. In September 2008, the first set of calves were harvested and the second set of calves had DNA collected to identify sires. Amana is keeping the heifer mates and will be collecting calving ease scores and monitoring temperament and stayability.

testing. Early in 2008 Jon Beever, molecular geneticist at the University of Illinois, confirmed his finding of the causative gene for idiopathic epilepsy (IE) in Hereford cattle. As the fiscal year came to an end, the test was in the process of being commercialized.

The Association also continued its collaboration with the U.S. Department of Agriculture (USDA) Meat Animal Research Center (MARC) by participating in the industry-wide, 2,000 bull project, which is focusing on whole genome scanning. The goal of the project is to speed up the discovery of markers for meat quality, health, growth and genetic abnormalities as well as go a step further and look at ways to implement DNA markers into genetic evaluations. The Association also continues to work with DNA companies and universities on validating marker research.

It is so rewarding to see the improvements Hereford breeders have made in their cattle. These breeders are paying attention to their customers' needs, fixing problems and making genetic improvements in the areas that make a difference.

Helping with this progress has been the Whole Herd Total Performance Records (TPR™) program. Now eight years old, the program has helped the AHA and Hereford breeders build a database that documents the breed's strengths. This fiscal year 107,521 cows were enrolled in the program, and 84% of all calves registered were by Whole Herd TPR breeders.

Other key breed improvement highlights include:

- Continued increased use of artificial insemination (AI) with 19.4% of the total Hereford calf-crop being a result of AI, an increase of more than 5,000 head in the past five years.
- Witnessed increased acceptance and use of Hereford bulls by AI studs. ABS Global reported a 56% increase in Hereford semen sales.
- A change in the basis for carcass expected progeny differences (EPDs) to a carcass-trait scale instead of the previous ultrasound scale — from %IMF to U.S. Department of Agriculture (USDA) marbling score. This change was done to make Hereford carcass trait EPDs more useful and user-friendly for commercial producers. Collecting ultrasound data

remains extremely important because of high correlation between ultrasound and carcass measurements.

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National Beef is currently looking for Hereford and black, white-faced cattle to fill a growing market need. Qualifying cattle are eligible for:

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Or contact Chad Barker at cbarker@nationalbeef.com

National Beef Packing Company (LLC) is fully loaded the year previous, and a House Livestock Handler (JLH).

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What's New

Building today's beef industry is the work of a lifetime. Hereford cattle are the foundation of the beef industry. They are the best of the breed. They are the best of the breed. They are the best of the breed.

Our Product

Remember the days of naturally great tasting beef? When you knew what you were getting when you ate the grill? Hereford cattle are known for their great taste. Hereford cattle are known for their great taste. Hereford cattle are known for their great taste.

Producers

CHB and the American Hereford Association are now joint, membership organizations. We are committed to the future of Hereford cattle and the quality of our beef. Our programs support strong demand for high quality beef and keep our producers busy and healthy and profitable.

See Our Beef

CHB LLC relaunched a customer-focused Web site, *HerefordBeef.net*. The site is equipped with upgraded navigation software to make it more user friendly for CHB's three publics — consumers, customers (retail/foodservice) and producers.

HerefordBeef.net provides users an opportunity to locate where they can purchase CHB® product at both the retail and foodservice levels as well as where they can find distributors in their region. The new site offers visitors recipes, nutritional information, smart shopping techniques and other tips that help them better enjoy the great taste of CHB.

Also included is information on CHB producers including their stewardship of the land and care given to the animals they raise in order to provide consumers safe and nutritious beef.

- A plan to release the first Pan-American genetic evaluation in summer 2009.
- Publication of the Sire of Distinction (SOD) and Certified Hereford Beef Sire (CHBS) recipients for the first time.

Evolving our brand

Certified Hereford Beef (CHB) LLC also experienced an increase in demand this year. CHB LLC packing partner National Beef Packing Co. LLC had such a demand for Hereford-influenced beef it launched an ad campaign to find more Hereford and black-whiteface cattle eligible for the program.

CHB® sales were up about 1.4 million lb. with a large portion of that being on the foodservice side. Foodservice sales increased 50% from 2.9 million lb. last year to 4.4 million lb. this fiscal year.

Hereford Verified, the AHA's traceable program for Hereford-influenced calves that provides producer bonuses and data on cattle that meet CHB requirements, boasted a 58% increase in harvested cattle. A total of 12,260 head

National Beef launches advertising campaign seeking whiteface cattle

Increased demand for Hereford-influenced cattle was evident last winter when National Beef Packing Co. LLC developed an advertising program seeking Hereford and black-whiteface cattle. National Beef developed print, Internet and radio ads announcing its intention to buy more Hereford-influenced cattle to fill a growing market need.

were harvested through the program with 15,056 enrolled during the fiscal year.

Other CHB LLC program highlights include:

- Launching Nuestro Rancho™, a new brand targeting Hispanic shoppers.
- Introducing the redesigned Web site that targets CHB's three audiences — consumers, customers and producers.
- Creating Cut & Save labels for use by retailers on their primal and subprimal CHB® offerings. The labels are available for 13 different CHB products and instruct the consumer how to cut larger whole muscle meat cuts into meal-size portions.
- Kicking off the CHB Ground Beef Chub program in August. The chubs are 1-, 3- and 5-lb. packages with varying lean percentages in each size. Previously CHB ground beef was only available in 10-lb. tubes. The chubs program is expected to advance the sales of ground beef annually more than 1 million lb.



In June a new CHB brand targeting Hispanic shoppers was rolled out. By fiscal year end, shoppers in 31 stores throughout the Los Angeles area had the opportunity to buy Hereford beef labeled Nuestro Rancho™.

Developing relationships

Staff has spent energy building corporate and industry partnerships for the future. Because of these relationships, AHA is able to maintain and enhance the programs it offers to members.

This year three corporate sponsors helped offset the cost of the Junior National Hereford Expo (JNHE) and offered educational support. For the second year, VitaFerm®, a division of BioZyme Inc., committed more than \$30,000 toward the event. UMB Bank and RC Kemper Charitable Trust helped cover the cost of the facilities in Kansas City, and Fort Dodge Animal Health was an educational sponsor.

Other partners assisted with sponsoring events like the National Hereford Tour.

As another way to increase efficiency and enhance the Association's revenue opportunities, American Beef Records



Ken and Carolyn Larson, DeSoto, Texas, and Jim and Judy Blin along with Randy and Deb Blin, Independence, Iowa, purchased the first Foundation Female to sell in Denver during the Mile High Night National Sale Jan. 18 for \$100,000.



BR CSF Wallace 7055 ET topped the Mile High Night National Hereford Sale Jan. 18 as well as all other sales in Denver. Consigned by Barber Ranch, Channing, Texas, Wallace sold for \$122,500 for half interest.



June 22 a jumbo jet full of 253 Herefords left Chicago's O'Hare airport and 22 hours later arrived in Almaty, Kazakhstan. Dinara Ranch, owned by Ataibekov Bakyt, purchased the group of cattle, which was the first U.S. beef cattle to be imported to Kazakhstan.



Hereford leaders from around the globe met in Copenhagen, Denmark, June 29-July 1 for the 15th World Hereford Conference. Craig Huffhines, AHA executive vice president, gave an update to the Council as well as presented information about CHB LLC. Twenty Americans attended the conference and related tours.



More than 600 youth exhibited 1,091 entries and had the chance to participate in 22 skill-based competitions during the 2008 JNHE in Kansas City.

Association (ABRA), AHA's wholly owned subsidiary, began offering registry and performance recording services to five American breed associations including the American Brahman Breeders Association, Santa Gertrudis Breeders International, Beefmaster Breeders United, the American Red Brangus Association and United Braford Breeders.

With this project, we are able to utilize our staff talent to service other organizations and, in return, help us maintain a professional staff and cover overhead. The five breeds are expected to have a combined 35,000 registrations per year, generating an income for the Association of \$180,000.

Supporting youth

Our junior program enjoyed another successful year. More than 600 Hereford youth from across the U.S. participated in the 2008 JNHE July 12-19 in Kansas City, Mo. The show featured 1,091 entries, including 78 steers, 62 bulls, 38 pairs, 212 bred-and-owned heifers, 181 owned horned heifers and 520 owned polled heifers. The JNHE is much more than a cattle show: youth have a chance to participate in 22 skill-based contests, and during the event more than \$24,000 in scholarships was awarded to National Junior Hereford Association (NJHA) members.

Another annual event for Hereford youth is the Program for Reaching Individuals Determined to Excel (PRIDE) Convention. The 2008 PRIDE was July 31-Aug. 2 in Washington, D.C. Eighty-five NJHA members learned about our country's history and had a chance to get an up close look at national attractions and participate in leadership activities. The event helps shape the future leaders of the Hereford breed.

Supporting our Hereford youth is the No. 1 goal of the Hereford Youth Foundation of America (HYFA). In 2008 HYFA will distribute \$60,750 in scholarships to NJHA members. To help raise funds and awareness about HYFA, the organization hosted two events during fiscal year 2008.

Hereford enthusiasts put on their best for the fifth "Harvest Gala" Oct. 21, 2007, during the AHA Annual Meeting. The evening included the presentation of scholarships and a live and silent auction that raised more than \$70,000 for the foundation.

Randy and Kelly Owen and their family hosted "Music on the Mountain" May 23. The event raised \$200,000 for youth



"Music on the Mountain," hosted by Randy and Kelly Owen and family May 23, raised \$200,000 for Hereford youth. More than 560 attendees enjoyed the evening, which featured Randy Owen in concert with several up-and-coming Nashville stars.

and featured country music legend Randy Owen and up-and-coming Nashville stars in concert. Considered the Hereford entertainment event of the decade, the endeavor benefited the HYFA \$5 Million Capital Endowment Campaign.

Spreading the message

Hereford Publications Inc. (HPI) uses the power of communication to increase Hereford demand.

Four times each year the *Hereford World* is printed in tabloid form and distributed to *Hereford World* subscribers plus an additional 15,000 commercial producers. The tabloid is editorially focused to reach commercial producers interested in Hereford genetics and is an advertising vehicle for Hereford breeders to reach those potential customers.

In 2008 the tabloid was named the top livestock newspaper by the Livestock Publications Council.

Hereford World and Creative Services experienced growth this year. The magazine was up 10 pages of advertising

plus included four additional ride-along sale catalogs — 874 total pages of advertising and 12 ride-along catalogs. Creative Services produced 36 catalogs, six directories, three other publications and various brochures, newsletters and logos for clients.

AHA field representatives, who serve as the communication link between the AHA and Hereford breeders, attended more than 165 sales as well as other Hereford and beef industry events during the fiscal year.

Moving forward

The data are mounting for Hereford's efficiency, mothering ability and economic complementarity, which commercial cattlemen will so desperately need as input costs such as fuel, fertilizer and feed continue to squeeze profit margins.

It's an exciting time to be in the Hereford business, and your Association staff looks forward to working with you as we plan and build in order for our breed to account for a larger share of the commercial and registered beef cattle market in the years ahead.

Demand for Hereford genetics is evident; let's keep it growing. **HW**

New programs recognize sires

The American Hereford Association (AHA) Board implemented two new programs to recognize sires that have produced progeny that have excelled in both carcass and maternal characteristics. The two recognition programs are Certified Hereford Beef Sire of Distinction (CHBS) and Sire of Distinction (SOD).

The CHBS designation recognizes sires that are in the top 25% of the breed for the CHBS index and have an accuracy of at least .50 for both ribeye area (REA) and intramuscular fat (IMF) expected progeny differences (EPDs). The SOD designation recognizes sires that have produced at least seven Dams of Distinction (DOD).

Producers can find bulls recognized when doing an animal or EPD search on the Internet. Those sires meeting the criteria will have either a CHBS or SOD next to their name.

A list of CHBS can also be found in the March *Hereford World* and a list of SOD was printed in the April *Hereford World*.



A group of 45 seedstock and commercial producers and farmer feeders from 16 states participated in the High Plains Hereford Tour Sept. 10-13. The group spent four days traveling through South Dakota, Nebraska and Kansas visiting Hereford seedstock and commercial ranches, feedlots and packing plants. Aside from the tour stops, the 1,600 miles of travel time gave the diverse group of producers the opportunity to discuss beef industry issues and share knowledge.



The first national Hereford tour, Rollin' Through Dixie, showcased Southeast Hereford genetics May 20-23. Tour hosts in Tennessee, Georgia and Alabama welcomed both national and international visitors to their farms with true Southern hospitality.

American Hereford Association and Subsidiaries
Consolidated Statements of Financial Position
August 31, 2008 and 2007

Assets	2008	2007
Current Assets		
Cash and cash equivalents	\$249,922	\$293,224
Short-term investments	905,140	721,413
Accounts receivable, net	629,364	503,653
Accounts receivable - other	68,782	123,913
Prepaid expenses	40,968	21,739
Inventories	28,583	46,938
Total current assets	<u>1,922,759</u>	<u>1,710,880</u>
Investments	<u>445,176</u>	<u>829,357</u>
Property and Equipment		
Land	462,122	462,122
Building	2,252,268	2,250,776
Furniture and fixtures	344,285	338,876
Autos	186,571	192,224
Data processing equipment	382,590	371,559
Software	276,765	270,587
Total property and equipment	3,904,601	3,886,144
Accumulated depreciation/amortization	(1,678,794)	(1,548,733)
Property and equipment, net	<u>2,225,807</u>	<u>2,337,411</u>
Other Assets	<u>291,100</u>	<u>250,090</u>
Total Assets	<u>\$4,884,842</u>	<u>\$5,127,738</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ –	\$9,836
Line of credit	27,449	–
Prepayments from breeders	109,113	108,734
Accounts payable	124,926	166,824
Accrued expenses	205,919	318,839
Deferred subscription and advertising revenue	258,941	251,155
Due to Junior National Hereford Expo	38,384	–
Total current liabilities	<u>764,732</u>	<u>855,388</u>
Net Assets		
Temporarily restricted net assets	12,500	15,000
Unrestricted net assets	4,107,610	4,257,350
Total net assets	<u>4,120,110</u>	<u>4,272,350</u>
Total Liabilities and Net Assets	<u>\$4,884,842</u>	<u>\$5,127,738</u>

Consolidated Statements of Activities
for the Years Ended August 31, 2008 and 2007

Changes in Unrestricted Net Assets, Revenues and Support	2008	2007
AHA and ABRA services	\$2,235,341	\$2,185,394
HPI advertising and subscriptions	1,604,855	1,520,786
CHB program revenues	947,313	921,966
Other	553,516	587,495
Net assets released from restrictions	2,500	2,500
Total revenues and support	<u>5,343,525</u>	<u>5,218,141</u>
Expenses		
General and administrative	1,495,285	1,473,588
Board of Directors' expenses	23,198	34,660
Building expenses	107,626	113,360
Market development and information	617,841	607,742
Junior activities	218,969	219,452
Research and TPR activities	192,638	208,871
Program expenses	2,716,949	2,342,909
Depreciation expense	150,688	142,296
Total expenses	<u>5,523,194</u>	<u>5,142,878</u>
Other Income (Expense)		
Realized gain (loss) on sale of investments	(2,611)	(526)
Net appreciation (depreciation) in fair value of investments	8,275	16,152
Other income (expenses)	24,265	(6,888)
Gain (loss) on sale of property and equipment	–	16,250
Total other income (expense)	<u>29,929</u>	<u>24,988</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(149,740)</u>	<u>100,251</u>
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	(2,500)	(2,500)
Increase (Decrease) in Net Assets	<u>(152,240)</u>	<u>97,751</u>
Net Assets - Beginning of Year	<u>4,272,350</u>	<u>4,174,599</u>
Net Assets - End of Year	<u>\$4,120,110</u>	<u>\$4,272,350</u>

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

Consolidated Statements of Cash Flows for the Years Ended August 31, 2008 and 2007

Cash Flows from Operating Activities	2008	2007
Increase (decrease) in net assets	(\$152,240)	\$97,751
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	150,688	142,296
Realized (gain) loss on sale of investments	2,611	526
Net (appreciation) depreciation in fair value of investments	(8,275)	(16,152)
(Gain) loss on disposal of property and equipment	—	(16,250)
(Increase) decrease in assets:		
Accounts receivable	(125,713)	(22,576)
Accounts receivable — other	55,130	(93,074)
Prepaid expenses	(19,230)	44,361
Inventories	18,354	6,656
Other assets	(41,010)	(242,051)
Increase (decrease) in liabilities:		
Prepayments from breeders	379	(8,040)
Accounts payable	(41,897)	(102,257)
Accrued expenses	(112,915)	114,875
Deferred subscription and advertising revenue	7,786	24,748
Due to Junior National Hereford Expo	38,384	—
Net Cash Provided by (used in) Operating Activities	(227,948)	(69,187)
Cash Flows from Investing Activities		
Purchases of property and equipment	(39,084)	(174,836)
Proceeds from sale of property and equipment	—	26,024
Purchases of investments	(1,215,307)	(209,485)
Proceeds from sale and maturity of investments	1,421,424	256,289
Net Cash Provided by (used in) Investing Activities	167,033	(102,008)
Cash Flows Used In Financing Activities		
Increase (decrease) in line of credit	27,449	—
Repayment of long-term debt	(9,836)	(11,281)
Net Cash Provided by (used in) Financing Activities	17,613	(11,281)
Net Increase (Decrease) in Cash and Cash Equivalents	(43,302)	(182,476)
Cash and Cash Equivalents, Beginning of Year	293,224	475,700
Cash and Cash Equivalents, End of Year	\$249,922	\$293,224
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$247	\$870

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

Notes to Consolidated Financial Statements August 31, 2008 and 2007

1 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

- Unrestricted net assets are funds available for any purpose.
- Temporarily restricted net assets represent contributions whose use by the Association is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. When a stipulated restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.
- Permanently restricted net assets — At August 31, 2008 and 2007, the Association had no permanently restricted net assets.

Cash and Cash Equivalents The Association considers all money market investments and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Investments amounting to \$106,516 and \$51,334 were considered to be cash equivalents as of August 31, 2008 and 2007, respectively.

Accounts Receivable Accounts receivable consist of amounts billed for magazine advertising, subscriptions and member services, but not received by year-end. Bad debts are provided on the allowance method based on management's evaluation of outstanding accounts receivable at the end of each year. HPI's policy states that accounts with outstanding balances beyond 60 days will accrue interest at 1.5% per month, balances beyond 90 days will no longer be provided with services and balances beyond 120 days will be turned over to a collection agency. The allowance for doubtful accounts was \$26,672 and \$25,108 as of August 31, 2008 and 2007, respectively.

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

Investments Investments are comprised of debt securities and are carried at fair value. The fair value of investments is based on quoted fair prices for those investments or similar investments as of August 31, 2008 and 2007. 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 value fluctuations.

Property and Equipment Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The assets are depreciated and amortized over periods ranging from 5 to 30 years. Additions and improvements of \$1,000 or more are capitalized, while maintenance and repairs which do not improve or extend the life of the asset are expensed in the year incurred. Depreciation charged against income amounted to \$150,688 and \$142,296 in 2008 and 2007, respectively.

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

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

Income Taxes The Association, ABRA and CHB are exempt from federal income taxes on their primary operations under paragraph 501(c)(5) of the Internal Revenue Code. They are, however, subject to income taxes on any net income from unrelated business activities. The Association, ABRA and CHB have been classified by the Internal Revenue Service as organizations that are not private foundations.

HPI is not exempt from federal income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

2 — Concentration of Credit Risk

The Association maintains cash accounts at a bank located in the Kansas City metropolitan area. The balances in the bank periodically exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of 100,000. The Association's uninsured cash balances totaled \$76,285 and \$178,474 on August 31, 2008 and 2007, respectively.

3 — Investments

Investments at August 31, 2008 and 2007, are summarized as follows:

August 31, 2008	Amortized Cost	Fair Value
Government bonds and notes	<u>\$1,335,752</u>	<u>\$1,350,316</u>
August 31, 2007		
Government bonds and notes	<u>\$1,564,480</u>	<u>\$1,550,770</u>

Investments consist of government bonds and notes which are carried at fair value in accordance with generally accepted accounting standards. Unrealized gains in the amount of \$8,275 and \$16,152 were recorded to adjust investments to fair value at August 31, 2008 and 2007, respectively.

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

4 — Retirement Plan

The Association established a defined contribution employee retirement plan for all eligible employees of the Association, HPI, CHB, and ABRA. The plan provides for employer and employee contributions based on a percentage of annual compensation. Employer contributions for the years ended August 31, 2008 and 2007, were \$85,167 and \$76,135, respectively.

5 — Line of Credit

In December 2007, the Association entered into a revolving line of credit agreement with UMB Bank. The line is unsecured with a maximum draw amount of \$250,000 and is payable on demand. Interest is payable monthly at an interest rate of 5%. The outstanding balance as of August 31, 2008 was \$27,449.

6 — Long-Term Debt

Long-term debt consists of the following at August 31:	2008	2007
Notes - vehicles, collateralized by related vehicles, interest from 5% to 5.85%, maturing from February 2007 through July 2008	\$ —	\$9,836
Current portion	—	9,836
	<u>\$ —</u>	<u>\$ —</u>

7 — Income Taxes

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

	2008	2007
Current	\$ —	\$ —
Deferred		
Temporary differences	64,595	65,984
Change in valuation allowance	<u>(64,595)</u>	<u>(65,984)</u>
	<u>\$ —</u>	<u>\$ —</u>

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

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of HPI's assets and liabilities. Differences are primarily attributable to depreciation, the allowance for doubtful

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accounts, and net operating loss carryforwards, resulting in deferred tax assets.

The components of the deferred tax assets at August 31 are as follows:

Deferred Tax Assets	2008	2007
Net operating loss carryforwards	\$205,504	\$270,099
Less: Valuation Allowance	<u>205,504</u>	<u>270,099</u>
	<u>\$ —</u>	<u>\$ —</u>

HPI utilized net operating losses of approximately \$198,160 and \$180,000 for the years ended August 31, 2008 and 2007, respectively.

HPI has net operating loss carryforwards of \$604,424 available to offset future federal and state taxable income that expire through 2023 as follows:

Year	Amount
2009	\$ —
2010	—
2011	—
2012	37,601
2013	168,100
2014	157,696
Thereafter	<u>241,027</u>
	<u>\$604,424</u>

8 — Temporarily Restricted Net Assets

Temporarily restricted net assets are funds donated for the purpose of awarding \$2,500 annually to the Supreme Champion Hereford of the Denver show.

9 — Collections

The Association has a collection of artwork, appraised at approximately \$308,600, that is on public display at the Association's headquarters. The Association has adopted a policy of not capitalizing the collection of artwork in its financial statement. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. No items were purchased for or removed from the collection during the years ended August 31, 2008 or 2007.

10 — Other Assets

On October, 4, 2006, the Association entered into an agreement with Seabiscuit Park, LLC to purchase approximately 10 acres of land for a purchase price of \$1,306,800. In 2007, the Association made a deposit of \$250,000 of earnest money which is included in other assets on the consolidated financial statements. Closing on the contract is contingent on survey and review of the property, as well as the accomplishment of certain construction projects within a specific timeline and allows the Association the right to terminate the contract and be refunded the earnest money under these circumstances.

As of August 31, 2008, the Association has not closed on the contract due to approval delays from the city planning commission and due to the developer missing key deadlines. Management is in the process of negotiating a fourth addendum to the agreement.

In July 2008, the Association purchased calves for a feedlot test at the University of Missouri. The calves purchased for \$27,449 were financed through the line of credit with UMB Bank. Additional costs of \$4,548 have been incurred on the calves. The Association intends to sell the cattle in January 2009 and recoup all of the costs related to the calves.

Independent Auditor's Report

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

We have audited the accompanying consolidated statement of financial position of American Hereford Association and its subsidiaries (collectively, the Association) as of August 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the Association as of and for the year ended August 31, 2007, were audited by other auditors whose report dated October 1, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of American Hereford Association and subsidiaries as of August 31, 2008, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

— Respectfully submitted Kennedy and Coe, LLC, October 3, 2008

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of this fiscal year ended August 31, 2008.

— American Hereford Association, Craig Huffhines, executive vice president



2008 AHA Board of Directors

(pictured seated, l to r) are: Hank DeShazer, Hearne, Texas, president; Bill King, Stanley, N.M., vice president; Bill Cox, Pomeroy, Wash.; Lee Haygood, Canadian, Texas; Craig Huffhines, Kansas City, Mo., executive vice president; and Paul Slayton, Bedford, Pa. Directors standing (l to r) are: James Milligan, Kings, Ill.; Marshall Ernst, Windsor, Colo.; Bob Harrell Jr., Baker City, Ore.; Jerry Huth, Oakfield, Wis.; Denny Hoffman, McArthur, Calif; and John Woolfolk, Jackson, Tenn. Not pictured is Director Wes Hudson, Harrison, Ark.

2007-08 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	775	547	1,530	27	24	27
Arizona	356	43	959	14	0	37
Arkansas	936	674	1,032	61	39	23
California	1,335	629	2,315	110	92	14
Colorado	1,025	451	2,029	64	13	22
Connecticut	104	74	195	14	11	41
Delaware	16	2	15	3	3	47
Florida	204	67	355	18	4	40
Georgia	2,037	1,295	4,212	74	49	10
Idaho	2,176	1,130	3,379	74	44	9
Illinois	2,285	1,206	4,670	163	194	8
Indiana	1,287	972	2,208	145	151	16
Iowa	1,292	469	2,486	94	75	15
Kansas	3,613	1,675	7,177	124	76	5
Kentucky	1,113	823	2,202	67	38	20
Louisiana	463	382	785	41	39	34
Maine	32	20	49	8	3	45
Maryland	368	224	781	41	57	36
Massachusetts	20	28	87	5	0	46
Michigan	651	569	1,063	63	58	31
Minnesota	1,216	516	2,553	93	34	18
Mississippi	776	484	1,187	37	40	26
Missouri	2,900	1,875	4,578	170	120	6
Montana	2,691	875	3,344	61	20	7
Nebraska	4,548	1,894	7,262	128	84	3
Nevada	317	120	861	16	12	39
New Hampshire	47	33	74	11	6	43
New Jersey	39	18	47	8	13	44
New Mexico	931	182	1,296	32	5	24
New York	345	171	452	45	39	38
North Carolina	665	501	1,247	63	27	29
North Dakota	2,014	654	3,068	53	24	11
Ohio	1,054	886	1,841	117	62	21
Oklahoma	3,927	2,578	5,522	147	119	4
Oregon	1,450	511	2,443	78	42	13
Pennsylvania	660	501	1,072	64	66	30
Rhode Island	3	3	0	1	1	48
South Carolina	456	326	777	34	8	35
South Dakota	4,600	1,526	7,923	83	44	2
Tennessee	1,833	1,217	3,121	120	55	12
Texas	8,361	4,765	12,348	383	235	1
Utah	547	94	949	19	0	32
Vermont	52	76	123	6	3	42
Virginia	722	497	1,252	75	41	28
Washington	809	420	1,748	77	58	25
West Virginia	495	304	847	54	12	33
Wisconsin	1,164	800	2,134	131	83	19
Wyoming	1,233	805	1,923	38	16	17
TOTAL	63,943	33,912	107,521	3,354	2,239	

TOP TEN

REGISTRATIONS

Top 10 States

Texas	8,361
South Dakota	4,600
Nebraska	4,548
Oklahoma	3,927
Kansas	3,613
Missouri	2,900
Montana	2,691
Illinois	2,285
Idaho	2,176
Georgia	2,037

Top 10 Breeders

Rausch Herefords	605
<i>Hoven, S.D.</i>	
Courtney Herefords	583
<i>Belle Fourche, S.D.</i>	
Upstream Ranch	482
<i>Taylor, Neb.</i>	
Star Lake Cattle Ranch	444
<i>Skiatook, Okla.</i>	
Stuber Ranch	425
<i>Bowman, N.D.</i>	
W4 Ranch	420
<i>Morgan, Texas</i>	
Dudley Bros.	371
<i>Comanche, Texas</i>	
Bill King	369
<i>Stanley, N.M.</i>	
B&D Herefords	333
<i>Clafin, Kan.</i>	
Van Newkirk Herefords	318
<i>Oshkosh, Neb.</i>	

Vision Statement

To be the preferred beef breed for producers and consumers.

Mission Statement

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

Core Strategies

- I. Continue to grow the Certified Hereford Beef program
- II. Develop a more aggressive and targeted industry marketing plan to positively influence the perceptions and value of Hereford cattle
- III. Increase the quality, consistency and reliability of Hereford genetics
- IV. Continue to grow AHA net revenue through current/new products, programs, services or partnerships
- V. Increase the educational opportunities for our members, prospective members and customers
- VI. Continue to grow and emphasize our youth development programs and create a young breeder development program
- VII. Invest in developing global markets for our Hereford genetics



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