

HEREFORD



It All Adds Up

Hereford — It All Adds Up

There's no doubt about it: the Hereford bull, the Hereford-sired momma, the Hereford-sired feeder calf and Certified Hereford Beef are all adding up to be profit drivers in the beef industry today.

- + The Hereford bull, or “profitabull” as he is touted in the 2012-14 national ad campaign, pays in so many ways. He's a user-friendly package of docility, fertility and calving ease.
- + There's nothing better than a Hereford momma, whether straightbred or crossbred. Research has proven the cheapest and most profitable technology available to cattle producers today is maternal heterosis. Fertility, longevity, efficiency, herd health and pounds of calf weaned are unquestionable advantages of the Hereford female.
- + Hereford-sired feeder calves have hybrid vigor and feed efficiency, and above all they demand a premium in the marketplace.

- + The Certified Hereford Beef (CHB) program has experienced more than 20% growth in the last two years, helping to create demand for Hereford-sired calves in the marketplace.

All of this adds up to increased demand for Hereford genetics. Much of this can be attributed to the progress Hereford breeders have made during the last decade, and the American Hereford Association Board's foresight to document the Hereford advantage in real-world commercial research projects.

On the following pages, you will see highlights of fiscal year 2012 and see for yourself how it all adds up. The year-end statistics prove it's a great time to be a Hereford breeder. Let's celebrate this year of growth, while continuing to stay focused on and committed to producing Hereford genetics that are “profitabull” for the commercial industry for many years to come.



Resurgence — The Numbers

Despite back-to-back years of drought and escalating production costs in the beef industry, the Hereford breed is making a mighty resurgence.

Hereford registrations were up more than 8% during the 2012 American Hereford Association (AHA) fiscal year that ended Aug. 31. This is the largest increase in more than 50 years. It is also interesting to note that the increase was achieved during a year when two of the top five states for registrations — Texas and Oklahoma — were down 10%.

Registered cow herd inventories are up 3% compared to the previous year — with more than 101,000 females reported this fiscal year.

Hereford breeders continue to experience a dramatic increase in production sale prices while reports of private-treaty sales continue to outpace the previous year reports.

A total of 182 Hereford production sales were reported by AHA field representatives this fiscal year. Bull sales averaged \$4,671, up nearly \$700, and females \$3,329, up almost \$300 per head.

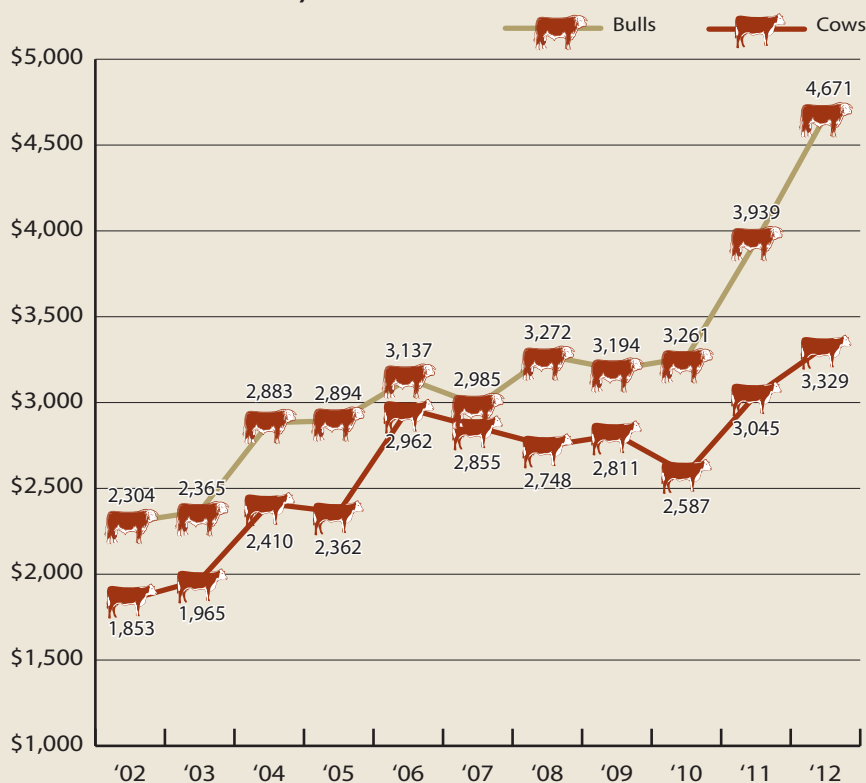
You'll notice in the graph below that Hereford bull prices have doubled in the last 10 years — from \$2,304 in 2002 to \$4,671 in 2012.



Hereford semen demand in the commercial industry is also increasing. According to the National Association of Animal Breeders (NAAB), Hereford semen sales increased 23% compared to last year. Since 2006 Hereford domestic semen sales have increased 86%, a testament to the increasing demand for Hereford genetics in the commercial industry.



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



FY 2012 facts

- + 70,260 registrations.
- + 37,091 transfers.
- + 101,021 cows on inventory.
- + 3,455 active adult members.
- + 2,263 active junior members.
- + More than 6 million records in the genetic analysis.
- + Since 2003 the number of artificial insemination (AI) calves registered has increased 42%.
- + Since 2003 the number of embryo transfer calves has increased 94%.
- + The *Hereford World* included 829 pages of advertising, an increase of 48 pages.
- + The Creative Services team produced 59 sale catalogs and nine directories.
- + The National Junior Hereford Association hosted a record-setting Junior National Hereford Expo with 1,231 entries exhibited by 660 youth from across the U.S.

Breed Improvement — Progress Through Performance, Technology

Hereford breeders — along with strategic direction from the AHA Board of Directors and, specifically, the breed improvement committee — have engineered a product that fits today's industry.

Today the Hereford breed is poised to provide as much value to the commercial industry as any other breed with its combination advantages of fertility, feed efficiency, good disposition and an end product that will complement a vast array of quality beef programs across the country.

Helping with this progress has been the AHA's Whole Herd Total Performance Records (TPR™) program. Now 11 years old, the program has helped the AHA and Hereford breeders build a database that documents the breed's strengths. More and more Hereford breeders continue to go above status quo and submit ultrasound data, body condition scores, udder scores and cow weights, which all add to the integrity and accuracy of the AHA database.

Real-world research pays off

Because the AHA Board of Directors placed a resource emphasis on breed improvement and industry research, the Hereford breed now has the single largest database for cow fertility and productivity in the world. The Association has documented the inherent economic traits in the breed that can deliver efficiency to the industry at a time when the industry needs it most. More importantly, the AHA membership has adopted technology and made strides in genetic improvement that have positioned Hereford as a breed of choice for commercial producers looking to add heterosis to their Angus-based cow herds.

The AHA continues to cooperate with Olsen Ranches Inc., Stahly Ranch and Circle A Ranch to test young sires as part of the National Reference Sire Program (NRSP). The AHA is also participating in a long-term project with Simplot Livestock Co. to determine how Hereford bulls perform when bred to black heifers.

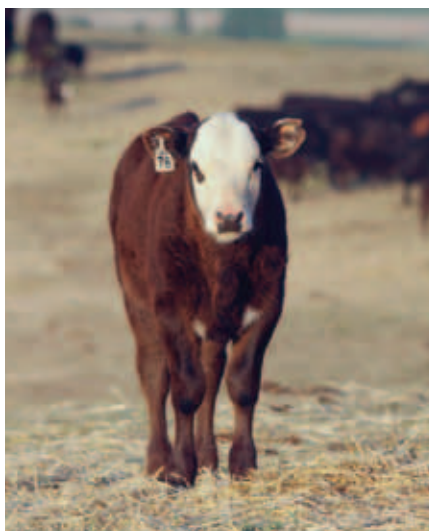
After the first year of data, low-birth-weight Hereford bulls stacked up to Angus-heifer bulls in calving ease and vigor scores when bred to Angus first-calf heifers. The calves will be followed through the entire production system.

On the cutting edge: genomic research, new EPDs released

This fiscal year, AHA released genomic-enhanced expected progeny differences (GE-EPDs). The AHA genomic approach is the first of its kind to work with the scientific community and the National Beef Cattle Evaluation Consortium (NBCEC) to build its own training and validation population.

This approach is important because AHA now has access to all of the

AHA has partnered with Simplot Livestock Co. on a research project to document the benefits of using calving ease Hereford sires in a large-scale, predominately Angus heifer program. In the project, young and unproven Hereford sires are being compared to Angus sires. During the first year of the project, eight Hereford sires were bred to nearly 500 virgin heifers. The first set of calves was born in the spring of 2012.



While the extreme drought conditions and escalating operating costs have many within the industry under a crunch, there is an increasing awareness that breed complementarity and hybrid vigor from crossbreeding are inexpensive decisions that can make an enormous difference in the profitability of a commercial operation.

genotypes, phenotypes and pedigrees, which will allow the Association and its members to continue to train and build the Hereford-specific panel. More than 1,200 Herefords have been 50k genotyped and eight sires whole-genome sequenced. This population has been used to train and validate the Hereford-specific panel. Dorian Garrick, Iowa State University Lush Chair in animal breeding and genetics and NBCEC executive director, has led the research and development.

According to Garrick, AHA took a proactive approach by testing and validating the tools available to make sure when releasing a Hereford genomic product it was reliable and useful to AHA members. During this process, the Association aligned itself with researchers and worked collaboratively with the NCBE, U.S. Department of Agriculture (USDA) Meat Animal Research Center and other global Hereford associations.

In late June AHA transitioned its DNA testing to GeneSeek Inc., located in Lincoln, Neb. Because of this move, Hereford breeders have the option to utilize a 50k panel to obtain genomic information to enhance the accuracy of Hereford EPDs. The genomic information obtained is blended with conventional EPDs to produce the GE-EPDs that are available on all traits reported by the AHA.

The Association's role is to give its members tools to make improvement in beef production. GE-EPDs are the next phase in breed improvement strategies that will allow members to continue to improve the genetics they produce.

Another new trait released this fiscal year was the mature cow weight (MCW) EPD. It is designed to allow breeders to select sires that will either increase or decrease mature size of cows in the herd.



The Hereford media event Sept. 19-20, 2011, focused on how Hereford is taking a global leadership role in developing genetic evaluation tools and included updates on heterosis research, breed improvement strategies and demand trends. Media professionals representing 350,000 magazine subscribers, thousands of unique website users, nearly 100,000 online e-newsletter subscribers and more than 300 radio affiliates in 12 states attended the event. The event was hosted at Olsen Ranches Inc., Harrisburg, Neb., a longtime National Reference Sire Program (NRSP) test herd.



The AHA communication team works to increase the awareness of the Hereford advantage. Utilizing the *Hereford World*, *Hereford.org*, national advertising and social media, the team's goal is to create top-of-mind awareness about how Herefords can add profit to a commercial producer's breeding program.



End Product Demand — CHB LLC Experiences Record Growth in 2012

Fiscal year 2012 was excellent for Certified Hereford Beef (CHB) LLC, despite a challenging economy. CHB LLC posted a record year in volume at 47 million lb. sold — a 17.5% increase and 2 million lb. higher than the previous record of 45 million lb.

This record volume translates to the program influencing the marketing of more than 350,000 head of cattle.

Foodservice was the big winner with 27% growth and a total of 14 million lb. sold. Retail increased by 14% for a total of 33 million lb. sold.

2012 proved to be a very successful year in both growth and exposure for the brand.

The CHB® brand continues to increase in recognition with



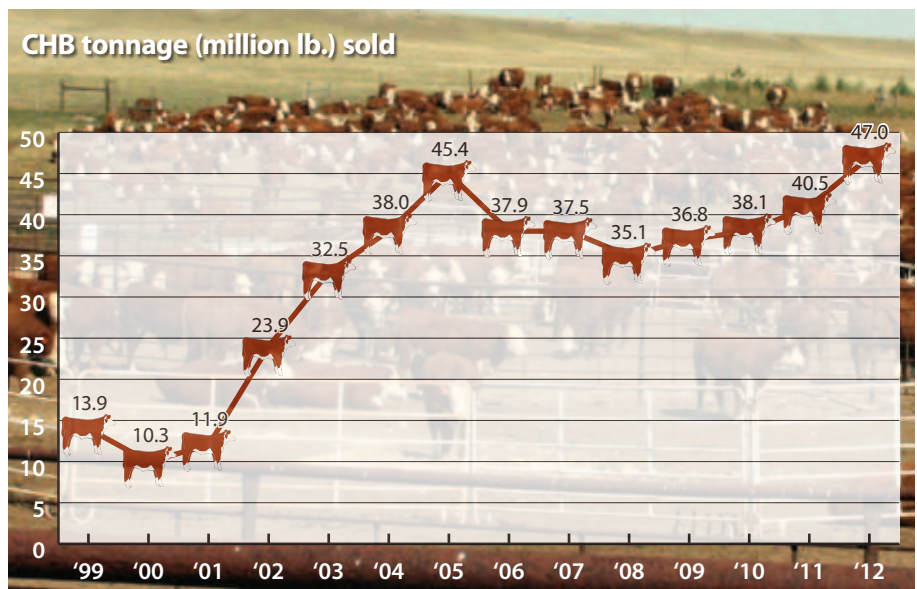
the consumer. This recognition translates to increased benefits to CHB retailers and distributors who feature the CHB name and logo.

One of the greatest areas of growth occurred with The Fresh Market, a specialty grocery retailer, currently with 124 locations in 24 states.

Furthermore, retail growth of CHB occurred among many independent retailers in the west Texas, New Mexico and Oklahoma markets, which are supplied by Affiliated Foods Inc., Amarillo, Texas.

In addition, 244,624 head of cattle were certified through the program this fiscal year.

Currently CHB is offered in 253 retail supermarkets in 37 states as well as 37 foodservice distribution centers serving restaurants in 25 states. Since the inception of CHB, 4.2 million head of cattle have been identified through licensed packing plants as meeting the live animal specifications to carry the CHB name.



Youth — Developing Future Leaders



Sixty Hereford youth from 23 states and Canada participated in the 2012 Program for Reaching Individuals Determined to Excel (PRIDE) Convention July 30-Aug. 2 in East Lansing, Mich. A highlight of the event was visiting Michigan State University and the historic Purebred Beef Barn.



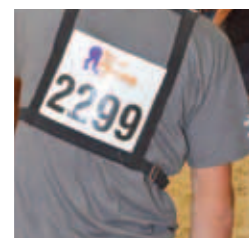
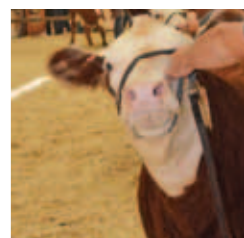
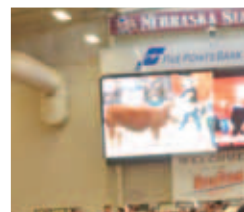
The McMahon family of Belle Point Ranch, Ft. Smith, Ark., generously supported the Hereford Youth Foundation of America (HYFA) by purchasing the embryo package for \$20,000 during the Mile High Night Sale in Denver. The McMahon family graciously donated the 20 embryos back to HYFA, and another \$8,752 was raised for Hereford youth during the BuyHereford.com auction March 8.

During the year, more than \$51,000 was distributed to



Hereford youth in scholarship monies provided through HYFA.

During fiscal year 2012, HYFA approved a new strategic plan and launched a new website — Hereforyouthfoundation.org. The new mission statement is to “Encourage, recognize and reward the development of life skills and values in the next generation of leaders by providing education, scholarship and leadership opportunities for Hereford youth.” The vision statement is to be “Recognized as the world’s premier foundation for creating growth and development opportunities for youth in the cattle industry.”



More than 660 Hereford youth and their families traveled to Grand Island, Neb., July 2-8 for the 2012 VitaFerm® Junior National Hereford Expo (UNHE). A record-setting 1,231 entries were exhibited. During the week, Hereford youth also participated in 23 contests outside the showing. Owned female judge Eldon Krebs, Gordon, Neb., said about the show, “No woman or man has ever had the distinct privilege of witnessing an event like this. I’ve judged a lot of shows; I’ve judged a lot of breed events, and I’ve never seen this many good heifers under one roof.”

**American Hereford Association and Subsidiaries
Consolidated Statements of Financial Position
August 31, 2012 and 2011**

Assets	2012	2011
Current Assets		
Cash and cash equivalents	\$222,540	\$270,078
Short-term investments	101,213	332,076
Accounts receivable, net	626,684	556,736
Accounts receivable - other	26,986	46,560
Prepaid expenses	45,209	36,940
Inventories	27,982	27,746
Total current assets	<u>1,050,614</u>	<u>1,264,207</u>
Investments	<u>1,829,834</u>	<u>1,315,819</u>
Property and Equipment		
Land	462,122	462,122
Building	2,275,928	2,275,928
Furniture and fixtures	395,373	355,176
Vehicles	207,700	204,092
Data processing equipment	517,929	455,896
Software	470,159	437,223
Accumulated depreciation/amortization	(1,990,047)	(1,876,979)
Total Property and equipment, net	<u>2,339,164</u>	<u>2,313,458</u>
Other Assets		
Cash temporarily restricted for the National Western Stock Show (NWSS) award	5,008	5,000
Other	90	90
Total Other Assets	<u>5,098</u>	<u>5,090</u>
Total Assets	<u>\$5,224,710</u>	<u>\$4,898,574</u>

Liabilities and Net Assets	2012	2011
Current Liabilities		
Accounts payable	\$184,198	\$230,262
Accrued expenses	263,738	213,768
Current maturities of long-term debt	46,023	41,937
Prepayments from breeders	98,036	91,846
Deferred subscription and advertising revenue	172,801	261,789
Due to Hereford Youth Foundation of America (HYFA)	55,563	44,338
Due to Junior National Hereford Expo (JNHE)	39,339	—
Total current liabilities	<u>859,698</u>	<u>883,940</u>
Long Term Debt, net of current maturities	<u>45,081</u>	<u>49,616</u>
Net Assets		
Temporarily restricted net assets	5,008	5,000
Unrestricted net assets	<u>4,314,923</u>	<u>3,960,018</u>
Total net assets	<u>4,319,931</u>	<u>3,965,018</u>
Total Liabilities and Net Assets	<u>\$5,224,710</u>	<u>\$4,898,574</u>

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

**Consolidated Statements of Activities
for the Years Ended August 31, 2012 and 2011**

	2012	2011
Changes in Unrestricted Net Assets		
Revenues and Support		
Services	\$2,522,262	\$2,333,889
Advertising and subscriptions	1,683,363	1,435,980
Program revenues	1,000,493	900,601
Other	591,961	543,403
Net assets released from restrictions	<u>2,500</u>	<u>2,500</u>
Total revenues and support	<u>5,800,579</u>	<u>5,216,373</u>
Expenses		
General and administrative	1,687,990	1,488,884
Board of Directors' expenses	32,766	36,099
Building expenses	210,446	126,776
Market development and information	591,910	541,926
Junior activities	183,251	182,459
Research and TPR activities	232,964	210,539
Program expenses	2,357,128	2,404,370
Depreciation expense	<u>157,162</u>	<u>128,469</u>
Total expenses	<u>5,453,617</u>	<u>5,119,522</u>
Other Income (Expense)		
Realized gain (loss) on sale of investments	2,474	2,382
Net appreciation (depreciation) in fair value of investments	9,349	(333)
Other income (expenses)	(3,880)	4,242
Gain (loss) on sale of property and equipment	—	11,504
Total other income (expense)	<u>7,943</u>	<u>17,795</u>
Increase (Decrease) in Unrestricted Net Assets	<u>354,905</u>	<u>114,646</u>
Changes in Temporarily Restricted Net Assets		
Contributions	(2,508)	—
Net assets released from restrictions	<u>(2,500)</u>	<u>(2,500)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>8</u>	<u>(2,500)</u>
Increase (Decrease) in Net Assets	<u>354,913</u>	<u>112,146</u>
Net Assets - Beginning of Year	<u>3,965,018</u>	<u>3,852,872</u>
Net Assets - End of Year	<u>\$4,319,931</u>	<u>\$3,965,018</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, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$354,913	\$112,146
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	157,162	128,469
Realized (gain) loss on sale of investments	(2,474)	(2,382)
Net (appreciation) depreciation in fair value of investments	(9,349)	333
(Gain) loss on disposal of property and equipment	—	(11,504)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(69,948)	67,866
(Increase) decrease in accounts receivable — other	19,574	(22,532)
(Increase) decrease in prepaid expenses	(8,269)	(1,114)
(Increase) decrease in inventories	(6,165)	5,930
(Increase) decrease in prepayments from breeders	6,190	506
(Increase) decrease in accounts payable	(46,064)	14,459
(Increase) decrease in accrued expenses	49,970	(19,033)
(Increase) decrease in deferred subscription and advertising revenue	(88,988)	12,828
(Increase) decrease in due to HYFA	11,225	51,159
(Increase) decrease in due to JNHE	39,339	(58,858)
Total adjustments	52,203	166,127
Net Cash Provided by (used in) Operating Activities	407,116	278,273
Cash Flows from Investing Activities		
Cash temporarily restricted for NWSS award	(8)	2,500
Purchases of property and equipment	(182,868)	(233,906)
Proceeds from sale of property and equipment	—	22,000
Purchases of investments	(1,051,370)	(410,513)
Proceeds from sale and maturity of investments	780,041	322,864
Net Cash Provided by (used in) Investing Activities	(454,205)	(297,055)
Cash Flows Used In Financing Activities		
Net proceeds (payments) UMB car loan	63,803	80,516
Repayments on long-term debt	(64,252)	(59,359)
Net Cash Provided by (used in) Financing Activities	(449)	21,157
Net Increase (Decrease) in Cash and Cash Equivalents	(47,538)	2,375
Cash and Cash Equivalents, Beginning of Year	270,078	267,703
Cash and Cash Equivalents, End of Year	\$222,540	\$270,078
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$3,423	\$4,304

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

Notes to Consolidated Financial Statements August 31, 2012 and 2011

1 — Summary of Significant Accounting Policies

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

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

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

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

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

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

Advertising Costs The Association expenses advertising costs as they are incurred. Advertising expense was \$358,973 and \$478,702 as of August 31, 2012 and 2011.

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, 2012 and 2011, 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 \$91,580 and \$83,986 were considered to be cash equivalents as of August 31, 2012 and 2011, 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 \$5,979 and \$5,566 as of August 31, 2012 and 2011, 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, 2012 and 2011. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market values.

Property and Equipment Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The assets are depreciated and amortized over periods ranging from 3 to 30 years. Additions and improvements of \$1,000 or more are capitalized, while maintenance and repairs which do not improve or extend the life of the asset are expensed in the year incurred. Depreciation charged against income amounted to \$157,162 and \$128,469 in 2012 and 2011, respectively.

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

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

Income Taxes AHA, ABRA, and CHB are exempt from federal income taxes on their primary operations under paragraph 501(c)(5) of the Internal Revenue Code, and therefore have made no provision for federal or state income taxes in the accompanying financial statements. They are, however, subject to income taxes on any net income from unrelated business activities. AHA, ABRA, and CHB have been classified by the Internal Revenue Service as organizations that are not private foundations. HPI is a taxable entity and is, therefore, subject to federal income taxes. It is HPI's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At August 31, 2011 and 2010, HPI believes it has appropriately accounted for any unrecognized tax benefits. To the extent HPI prevails in matters for which a liability for unrecognized tax benefit is established or is required to pay amounts in excess of the liability, HPI's effective tax rate in a given financial statement period may be affected.

2 — Concentration of Credit Risk

The Association maintains cash accounts at a bank located in the Kansas City metropolitan area. The balances in the bank periodically exceed the Federal Deposit Insurance Corporation (FDIC) limits. The FDIC insured limits were \$250,000 at August 31, 2012 and 2011. The Association's uninsured cash balances totaled \$0 at August 31, 2012 and 2011.

3 — Fair Value Measurements

Fair values of assets measured on a recurring basis at August 31, 2012 and 2011 are:

August 31, 2012	Fair Value	Quoted prices in active markets for identical assets (Level 1)
Government bonds and notes	\$848,380	\$848,380
Corporate bonds	\$906,055	\$906,055
Fixed Income Securities	\$176,612	\$176,612
Total	<u>\$1,931,047</u>	<u>\$1,931,047</u>
August 31, 2011		
Government bonds and notes	\$985,140	\$985,140
Corporate bonds	\$662,755	\$662,755
Total	<u>\$1,647,895</u>	<u>\$1,647,895</u>

Investments consist of government and corporate bonds and notes which are carried at fair value using quoted prices in active markets for identical assets (Level 1), in accordance with generally accepted accounting standards. Unrealized gains/losses in the amount of \$9,349 and (\$333) were recorded to adjust investments to fair value for the years ended August 31, 2012 and 2011, respectively.

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

4 — Retirement Plan

The Association established a defined contribution employee retirement plan for all eligible employees. The plan provides for employer and employee contributions based upon a percentage of annual compensation. Employer contributions for the years ended August 31, 2012 and 2011 were \$77,452 and \$78,307, respectively.

5 — Long-Term Debt

Long-term debt consists of the following at August 31:	2012	2011
Notes - vehicles, collateralized by related vehicles, interest fixed at 4.99%, maturing from September 2012 through August 2015	\$91,104	\$91,553
Current portion	<u>46,023</u>	<u>41,937</u>
Total Long-Term Debt	<u>\$45,081</u>	<u>\$49,616</u>

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

Year	Amount	Year	Amount
FYE 2013	\$46,023	FYE 2016	—
FYE 2014	30,827	FYE 2017	—
FYE 2015	14,254	Thereafter	—
			<u>\$91,104</u>

Interest expense was \$3,423 and \$4,304 for the years ended August 31, 2012 and 2011, respectively.

6 — Income Taxes

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

	2012	2011
Current	\$ —	\$ —
Deferred		
Temporary differences	13,184	13,203
Change in valuation allowance	<u>(13,184)</u>	<u>(13,203)</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 the net operating loss carryforwards, resulting in deferred tax assets. The components of the deferred tax assets are as follows:

Deferred Tax Assets	August 31, 2012	August 31, 2011
Net operating loss carryforwards	\$162,999	\$176,183
Less: Valuation Allowance	<u>(162,999)</u>	<u>(176,183)</u>
	<u>\$ —</u>	<u>\$ —</u>

HPI utilized net operating losses of approximately \$96,052 and \$0 for the years ended August 31, 2012 and 2011, respectively.

HPI has net operating loss carryforwards of \$479,408 available to offset future federal and state taxable income that expire through 2023 as follows:

Year	Amount	Year	Amount
2013	\$ 62,233	2016	116,294
2014	157,696	2017	29,681
2015	95,052	Thereafter	<u>18,452</u>
			<u>\$479,408</u>

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

7 — Temporarily Restricted Net Assets

Temporarily restricted net assets are funds donated for the purpose of awarding \$2,500 annually to the champion of the National Western Stock Show in Denver. The balance of temporarily restricted net assets was \$5,008 and \$5,000 as of August 31, 2012 and 2011, respectively.

8 — Collections

The Association has a collection of artwork, appraised at approximately \$640,500, at August 31, 2012 and 2011, that is on public display at the Association's headquarters. The most recent appraisal is as of August 2011. The Association has adopted a policy of not capitalizing the collection of artwork in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. No items were purchased for or removed from the collection during the years ended August 31, 2012 or 2011.

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

9 — Reclassifications

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

10 — Subsequent Events

Management has evaluated subsequent events through October 4, 2012, the date which the financial statements were available for issue. There have been no events which require disclosure.

Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of American Hereford Association and subsidiaries as of August 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of American Hereford Association and subsidiaries as of August 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

— Respectfully submitted, Kennedy and Coe, LLC, October 4, 2012

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2012 and 2011.

— American Hereford Association, Craig Huffhines, executive vice president



2011-12 AHA Board – Pictured seated (l to r) are: **David Breiner**, Alma, Kan., president; **Cliff Copeland**, Nara Visa, N.M., vice president; **Jimmie Johnson**, Clinton, Okla.; **Paul Funk**, Copperas Cove, Texas; and **Craig Huffhines**, Kansas City, Mo., executive vice president. Directors standing (l to r) are: **David Trowbridge**, Tabor, Iowa; **Keith Fawcett**, Ree Heights, S.D.; **Dale Micheli**, Ft. Bridger, Wyo.; **Dale Venhuizen**, Manhattan, Mont.; **Steve Lambert**, Oroville, Calif.; **Eric Walker**, Morrison, Tenn.; **Marty Lueck**, Mountain Grove, Mo.; and **Fred Larson**, Spring Valley, Wis.

2011-12 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	1,137	676	1,284	30	26	23
Arizona	281	30	591	9	4	39
Arkansas	894	593	789	68	59	27
California	1,333	464	2,002	110	75	19
Colorado	1,498	590	2,195	67	19	16
Connecticut	94	81	190	12	11	41
Delaware	5	7	3	2	2	48
Florida	222	129	144	19	3	40
Georgia	1,998	1,179	3,053	75	40	12
Idaho	2,080	1,008	3,426	61	35	11
Illinois	2,545	1,683	4,310	166	203	9
Indiana	1,787	909	2,944	151	135	13
Iowa	1,577	597	2,379	114	112	15
Kansas	4,534	1,921	6,660	124	76	4
Kentucky	1,275	722	1,580	75	59	20
Louisiana	405	584	263	36	36	35
Maine	53	21	78	17	4	43
Maryland	315	213	550	41	49	38
Massachusetts	33	14	47	5	8	46
Michigan	557	537	880	65	43	32
Minnesota	1,222	525	2,089	98	47	21
Mississippi	1,022	803	975	46	37	24
Missouri	3,684	2,235	5,141	178	118	6
Montana	2,878	1,231	3,331	65	22	8
Nebraska	5,289	2,069	8,418	152	94	2
Nevada	430	116	569	14	6	34
New Hampshire	44	62	94	7	4	44
New Jersey	54	42	109	11	13	42
New Mexico	899	262	1,121	30	6	26
New York	457	335	473	63	35	33
North Carolina	821	365	1,523	60	27	28
North Dakota	3,395	1,009	3,808	57	20	7
Ohio	905	814	1,770	127	50	25
Oklahoma	3,869	2,508	4,949	156	111	5
Oregon	1,441	638	2,025	81	47	18
Pennsylvania	741	517	1,111	68	55	29
Rhode Island	12	1	0	2	1	47
South Carolina	360	293	718	29	10	37
South Dakota	4,651	1,716	7,229	86	52	3
Tennessee	2,202	1,564	3,490	129	56	10
Texas	7,156	5,116	9,612	374	247	1
Utah	398	80	871	22	4	36
Virginia	715	431	861	56	35	30
Vermont	44	30	62	7	3	44
Washington	1,188	472	1,720	72	34	22
West Virginia	646	371	987	44	14	31
Wisconsin	1,487	1,042	2,193	134	95	17
Wyoming	1,627	486	2,404	40	21	14
TOTAL	70,260	37,091	101,021	3,455	2,263	

TOP 10 REGISTRATIONS

Top 10 States

Texas	7,156
Nebraska	5,289
South Dakota	4,651
Kansas	4,534
Oklahoma	3,869
Missouri	3,684
North Dakota	3,395
Montana	2,878
Illinois	2,545
Tennessee	2,202

Top 10 Breeders

Rausch Herefords	840
<i>Hoven, S.D.</i>	
Upstream Ranch	646
<i>Taylor, Neb.</i>	
M-M Ranch	543
<i>Chanute, Kan.</i>	
Topp Herefords	492
<i>Grace City, N.D.</i>	
Mrnak Herefords	431
<i>Bowman, N.D.</i>	
Van Newkirk Herefords	416
<i>Oshkosh, Neb.</i>	
Langford Herefords	391
<i>Okmulgee, Okla.</i>	
Debter Hereford Farm	377
<i>Horton, Ala.</i>	
Dudley Bros.	327
<i>Comanche, Texas</i>	
Jamison Herefords	321
<i>Quinter, Kan.</i>	

AMERICAN HEREFORD ASSOCIATION

Vision Statement

To be the preferred beef breed for producers and consumers.

Mission Statement

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

Strategic Intent Statement

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

Core Strategies

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



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