

HEREFORD

STEEPED IN TRADITION. GROWING STRATEGICALLY.

Committed to CATTLEMEN

The American Hereford Association (AHA) continues to strengthen its position in the industry. In fiscal year (FY) 2017, the AHA documented growth in all segments of the Association including registrations, transfers, cow inventories, memberships and pounds of Certified Hereford Beef (CHB®) sold.

This growth can be directly attributed to the focus of both membership and staff staying committed to producing the right kind of tools and genetics for commercial cattlemen, feedlot operators and packers.

Hereford breeders are committed to using tools to find cattle with strength for economically relevant traits. This dedication gives power to the Hereford breed as the commercial industry adds heterosis to its cow herd and builds a product that is profitable in all segments of the beef chain.

The foundation of these tools is Whole Herd Total Performance Records (TPR™). In its 17th year, this registration and performance tracking system has given the information to build tools for fertility and efficiency selection in the Hereford breed.

In addition, breeders have been committed to genomics, proven by the AHA's acquisition of more than 50,000 genotypes. These genotypes, along with the strength of phenotypic data and verified pedigrees, allow Hereford breeders to provide the industry with the most reliable genetics.

The AHA continues to work toward the release of the new genetic evaluation software, Biometric Open Language Tools (BOLT), which will be a game changer due to its ability to more effectively and efficiently run an evaluation.

Charting the course

The AHA must stay committed to being progressive in identifying the needs of the industry. Over the course of 2017, the AHA developed a Strategic Plan to set a path for the next five years.

The process was a bit different from the one used in the past — the AHA worked with Kevin Ochsner, AGcellerate LLC, to survey the membership, commercial cow-calf producers, feedlot operators and packers to get a comprehensive look at the strengths and weaknesses of the Hereford breed and Association.

The survey and facilitation, combined with discussions with a dynamic group of industry thought leaders, allowed the AHA Board of Directors to put together an aggressive Strategic Plan with updated mission and vision statements and a set of core strategies with specific goals in mind.

In addition, the AHA's commitment to marketing and communications in FY17 brought the development of a new website, the release of a new national ad campaign, a stronger presence on social media and a fresh design of the *Hereford World*.

The AHA has a great opportunity to provide the industry with genetics that play a vital role in the commercial industry with its advantages in efficiency, fertility, docility and structure with a focus on maternal and production traits.

With these goals in mind, the new national ad campaign, launched in August of 2017, focuses on "The Bald-Faced Truth About Hereford Genetics." This campaign will continue to show the commercial industry Hereford genetics add value and garner profit in all segments of production.



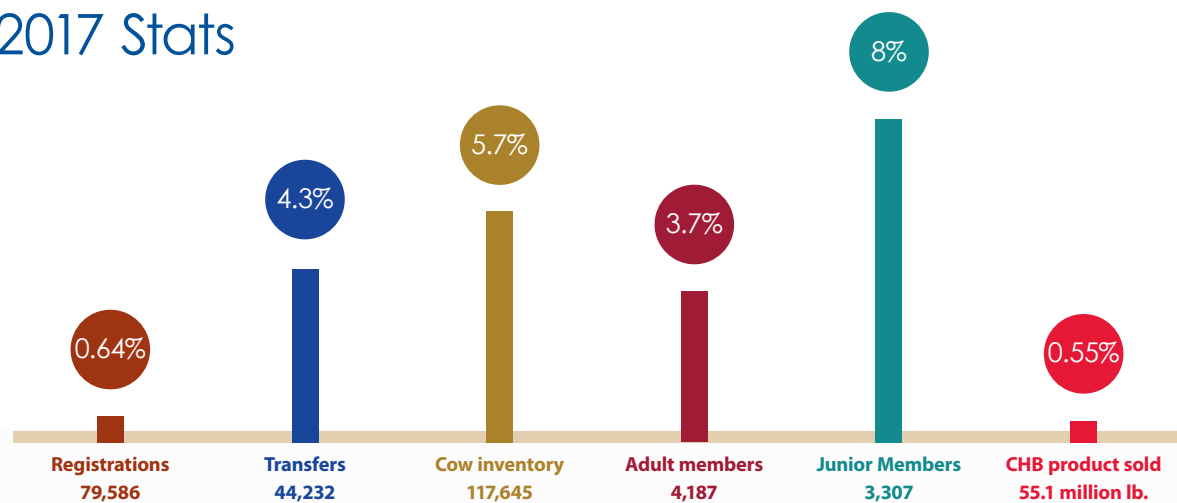
Jack Ward is the executive vice president of the American Hereford Association.

The opportunities for Hereford genetics in the industry are endless, and it is truly exciting to see the membership, AHA staff and the commercial industry work together to find genetics that fit the needs for each part of the industry.

FY17 was another great year for the Hereford breed, and the AHA has committed itself to continue to grow and identify genetics that will make cattlemen profitable and the beef industry sustainable.

— *Jack Ward, AHA executive vice president*

Fiscal Year 2017 Stats



Driving PROGRESS

The American Hereford Association (AHA) is committed to growing demand for Hereford genetics and providing breeders tools backed by uncompromised data and sound research that drive profit. In fiscal year (FY) 2017, the AHA

focused on developing genetic tools and providing commercial cattlemen with information to advance their programs through heterosis. The Association has long been dedicated to offering its members the most robust genetic evaluation possible.

DNA frontier

Due to the Whole Herd Total Performance Records (TPR™) program and the current 53,000 genotypes on record, the AHA is poised for a stronghold in the DNA era, making Hereford cattle even more predictable.

In FY17 the AHA Board of Directors pursued a genetic evaluation overhaul — Biometric Open Language Tools (BOLT) — which allows for better use of genomics.

Rather than calculating molecular breeding values (MBVs) the AHA will be able to use the single nucleotide polymorphisms (SNPs), thus taking advantage of the informative markers that affect specific traits in the genetic evaluation.

BOLT provides a more robust evaluation by calculating true accuracy on animals. In the previous genetic evaluation software, estimating accuracy, particularly on young animals, was difficult considering all factors affecting accuracy. Utilizing BOLT, all factors associated with contemporary group makeup will be accounted for in the calculation of true accuracy.

With BOLT, the system moves away from a full multi-trait model, decoupling models to better estimate traits of interest as well as modifying contemporary group structure of the models to allow for as much data as possible to affect the evaluation.

BOLT also utilizes a cutoff strategy which only includes animals born after 2001 and animals related by three generations of pedigree. A genetic evaluation backed solely by Whole Herd TPR data strengthens the evaluation and takes out selection bias that occurred pre-Whole Herd TPR.

Genetics in demand

The AHA realizes progressive cattlemen have many challenges in today's market. The value of Hereford genetics and heterosis is documented to help them remain competitive in a challenging commercial and seedstock market. The Hereford breed has witnessed an increase in domestic and international semen sales.



An advisory committee was formed in April 2017 to review results of BOLT. Because of the steps taken in FY17, BOLT is poised to launch in the fall of 2017.

National Reference Sire Program

The AHA has a continued focus on the National Reference Sire Program (NRSP), a program which allows Hereford breeders to test young sires in real-world commercial settings.

In its 18th year, the NRSP has tested more than 345 bulls. This test program allows Hereford to lead the industry in breed improvement, and because of AHA members commitment to participating in the program, young sires have been identified and proved for all traits of economic relevance.

In the last fiscal year, the AHA was pleased to add two new test herds to the program — Sandrock Ranch, Benton, Wisc., and Doolittle-Wagner Ranch, Belle Fourche, S.D.

Hereford Advantage

The Hereford Advantage program allows commercial breeders to identify genetically backed, high-quality Hereford and Hereford-influenced feeder cattle and to build premiums in the cattle that meet the threshold.

The program saw significant growth in FY17 participation compared to FY16 with 61 more lots participating, a 120% increase. More commercial producers are utilizing this program to market their feeder cattle. This increased utilization also speaks

to the genetic progress that has been made as 42 more lots qualified over the previous fiscal year. The qualification is being in the top 20% for the CHB index, which is a 28.

Qualifying lots also enjoyed some increase in value, selling on average 70 cents more than the market average.

Predictable performance

Since the AHA transitioned its DNA testing to GeneSeek® in 2012, the Association has developed more than 53,000 genotypes that contribute to the genetic evaluation.



AHA research projects accelerate the development and use of genetic tools and technologies to help cattlemen be profitable.



Expanding EDUCATION

The American Hereford Association (AHA) is dedicated to developing and providing members more efficient means to record and receive information. In fiscal year (FY) 2017, the AHA focused on continued expansion of its online registry system, *MyHerd.org*, through additional features and a concentrated effort toward increased utilization through education.

Since MyHerd's launch in 2014, Hereford breeders have continued to adopt use of the system, generating more efficiency on the customer service level and providing cost-saving measures to the Association. FY17 documented 77.4% of animals were recorded electronically, up 3.4% from the previous year and approaching the 80% electronic recording goal.

MyHerd features and education

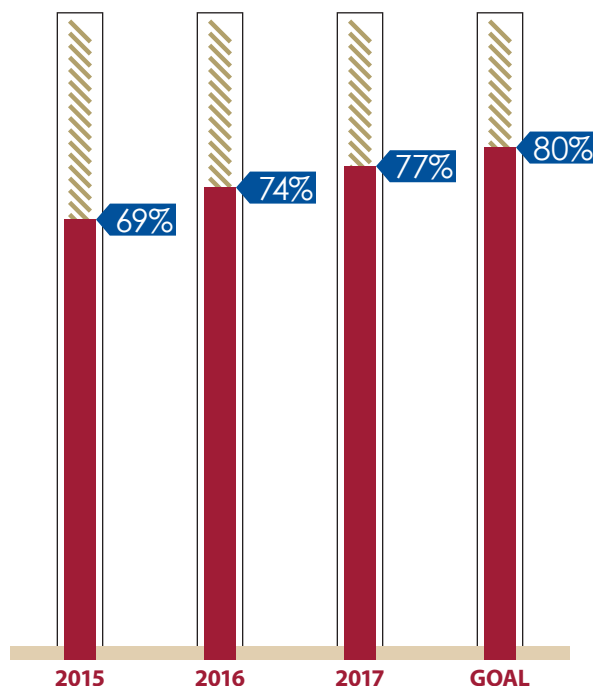
The most recent feature to MyHerd is online DNA test requests. With the increase in demand for DNA testing, the AHA knew a more streamlined process was possible. In response to member needs, the AHA added the ability for members to request DNA tests via their MyHerd account, to track the status of existing requests and to view completed test results.

Increasing member utilization of MyHerd has been a continued focus for the Association and AHA staff. A survey was conducted in FY17 to learn how members prefer to obtain educational material, what time of year is most convenient for educational opportunities and which topics are of interest.

In the spring of 2017, a four-week MyHerd webinar series was conducted to provide a MyHerd overview and to cover how to register animals, how

to transfer animals and how to make and to view the status of DNA requests. The webinars hosted 140 attendees, who were able to interact with AHA staff in real time.

Electronic registrations received by AHA members



Electronic recording of total items recorded to AHA

Animals recorded (registered & unregistered)	77.4%
Animal transfers	53.8%
Acct Balance Payments	50.6%
Inventory Updates	73.9%
Weaning Performance	82.7%
Yearling Performance	87.7%



Promoting the BREED

The American Hereford Association (AHA) strategically works to connect the Hereford breed with the beef industry. Through digital and print outlets, the Association shares the advantages Hereford offers to commercial cattlemen and provides relevant information to AHA members.

On March 1, 2017, the AHA launched a revised version of *Hereford.org*. The new site is an update from the previous website created in 2009, and it met the technology needs of AHA members.

A survey of members was conducted in the development stage which directed the focus of new features. *Hereford.org* is now mobile friendly through responsive technology — meaning the site will seamlessly format to whatever device (tablet, cell phone) is being used to access it. Also new to the revised site is an online membership form. Popular destinations on *Hereford.org* were kept on the new site, became more user-friendly and given a fresher look.

In August the Association unveiled a new national advertising campaign, “The Bald-Faced Truth About Hereford Genetics.” This campaign focuses on the commercial producer and brings a well-documented message to the forefront — Hereford genetics bring legendary hybrid vigor, improved fertility, feed efficiency and easy-handling docility to commercial programs.



Facebook likes   25%

In FY17, the AHA grew its presence on social media, and it increased digital communication with members and Hereford enthusiasts. In the last fiscal year, AHA Facebook posts reached 4,421,937, and Facebook page likes increased 25%. The Association’s Instagram account ended the year with 13,500 page likes, an increase of 83% over FY ’16.

Along with the revised *Hereford.org* came the *Hereford Headlines* blog, a platform for the Association to share timely information with Hereford breeders and commercial cattlemen. The *Hereford Headlines* eNewsletter is published weekly and emailed to an extensive list of breeders and beef industry members.

Creative growth

Hereford breeders saw another year of strong demand for Hereford genetics. AHA field representatives reported 201 production sales during the fiscal year.

Bull sales averaged \$4,899 and females averaged \$4,569. Hereford breeders moved a total of 6,889 bulls in FY17.

Together, Hereford Publications Inc. (HPI) and the *Hereford World* help profit-minded breeders promote their cattle and share their story.

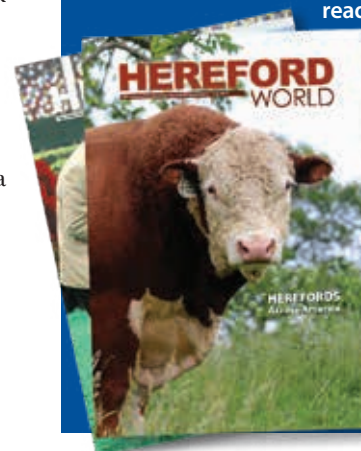
The *Hereford World* included 1,029 pages of advertising and 19 ride-along catalogs, recording a two-catalog increase.

Beyond the magazine and catalogs, Creative Services produced various marketing pieces for Hereford breeders including advertisements, posters, banner ads and logos.

In July 2017, the *Hereford World* launched its redesign. HPI staff along with direction from the Board, built upon the magazine’s foundation with fresh colors and a more open approach to design, all while keeping the most important information readers need easy to find.

The *Hereford World* reaches a broad audience and currently boasts 28 foreign subscribers from Canada, Argentina and Brazil.

The *Hereford World* launched its redesign in July 2017.



A Brand with INTEGRITY

Certified Hereford Beef (CHB®) continues the tradition of marketing and promoting the Hereford breed's superior genetics and performance.

The CHB program was established 22 years ago with science-based specifications to ensure quality and consistency to meet the needs of the consumer.

Today, the program continues to excel with brand integrity by earning the trust of consumers through product performance and providing a legacy of tender, great-tasting beef. The CHB logo represents a premium image and is recognized internationally as a symbol of high-quality beef.

As the beef industry continues to evolve, the CHB team is taking steps to ensure the program remains relevant in the market by continuing to focus on developing the program in a competitive marketplace.

Providing value to CHB's customers through education and marketing resources, the program remains strong in the demand for Hereford-influenced cattle. Driving demand for the CHB program has allowed for another successful year of growth. The demand for the CHB brand created more than 55 million lb. of product distributed in the market this fiscal year, an increase over last year.

The number of head harvested for the program totaled 398,906 head, showing an increase of 7.7% growth over last year. The program remains strong and continues to strengthen through product and brand integrity.

Leading with integrity

Providing exceptional customer service is at the forefront of CHB's initiative to increase awareness of the brand. Working together with industry partners to provide the tools and resources to enlist and engage in the sales and promotion of the program expands the opportunity for growth and performance.

The creation of educational and promotional materials continues to evolve, allowing CHB to properly promote the program and to utilize industry talent, further engaging the marketplace.



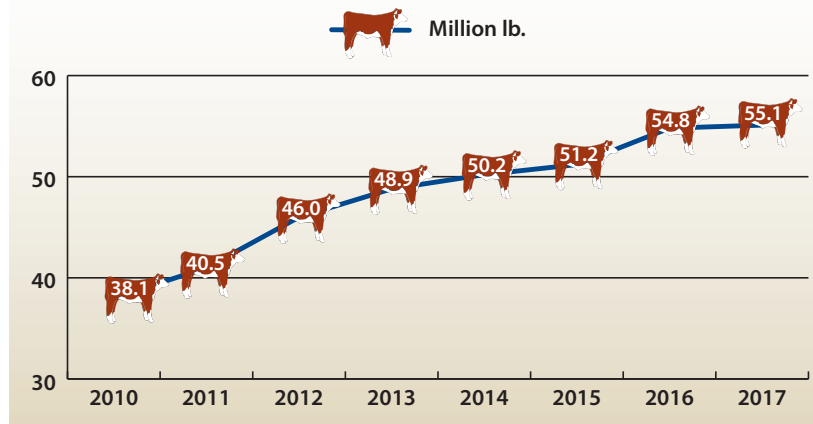


Collectively, the CHB team has more than 130 years of industry experience. The skill set and knowledge base is a foundation for sustainable and significant growth. This experience includes all dynamics of the industry and, coupled with the passion and dedication that each member of the CHB team possesses, is motivation to continue to excel in CHB promotion.

The rising popularity of the Hereford breed allows for a targeted approach in developing both domestic and international markets. The program is making a concentrated effort in capitalizing on its growing popularity to expand into additional markets.

The time-honored tradition and rich heritage of the Hereford breed allows the CHB team to communicate this story to restaurants, to grocery stores and directly to consumers.

CHB tonnage sold



The care and commitment Hereford producers put into the breed are important to share with customers. CHB takes pride in understanding that it provides food with a purpose — the purpose of supporting its local Hereford farmers and ranchers.

“The ability to introduce a local Hereford producer with a customer and share the story of the breed and program, connect both sides in a way that creates a bond and a passion for Certified Hereford Beef,” says CHB Regional Brand Manager Ron Santoro.

Program growth

Demand for the CHB program continues to grow, as does the need for high-quality, performing Hereford cattle.

Number of head harvested for the program

↑ 8%

CHB social media engagement

↑ 30%

A targeted and focused approach is being implemented into each market to support existing customers. The retail market showed the most growth over last year. Retail accounted for 54% of the market share for CHB. Updated and customized marketing materials available to retailers tell the Hereford story and connect consumers with their food.

Social media has been a significant tool in driving awareness for the CHB

program. CHB social media accounts have grown by more than 30% over the last fiscal year with a targeted focus on consumers with content emphasis on brand recognition, education, recipes and telling the Hereford story.

Connecting with consumers is one facet of growing the program, and the brand continues to form consumer relationships via social networking platforms. The CHB brand offers a unique and differentiated marketing strategy for licensed partners to compete and to excel in a competitive marketplace.

CHB is proud of the Hereford breed’s rich heritage and the uncompromising dedication to quality from Hereford cattlemen. These fundamentals allow CHB the time-honored traditions of providing great-tasting beef and bringing the highest-quality product to its customers. They are the reasons why CHB is “Excellence Built by Tradition.”

Engaging the NEXT GENERATION

The National Junior Hereford Association (NJHA) and the Hereford Youth Foundation of America (HYFA) continue to provide opportunities for leadership, education and valuable industry experience, ensuring a brighter future for youth and the cattle industry. Enthusiasm amongst young

Hereford breeders remains strong as membership increased 8% in the last fiscal year, bringing the total number of junior members to 3,307.

Hereford youth were off to the races at the 2017 VitaFerm® Junior National Hereford Expo (JNHE) July 15-21 in Louisville, Ky. The event proved to be

one of the largest JNHEs to date with more than 900 youth from 35 states exhibiting 1,513 head of cattle. Throughout the week, juniors competed in more than 20 contests outside the showing, and nearly \$30,000 in scholarships was awarded to outstanding members.



The NJHA's commitment to providing real-world industry experience led to the launching of the NJHA Fed Steer Shootout in fiscal year (FY) '17. In its first year, the program had 28 junior members from 11 states entering 72 head of steers. The contest provided an opportunity for NJHA members to gain cattle-feeding industry education and experience. Participants estimated feedlot performance and carcass merit and compared information to performance data. A series of webinars was also hosted for contest participants to interact with industry leaders and to learn more about the industry.

Leadership and scholarship

HYFA posted another strong year thanks to additional program support. In the last fiscal year, HYFA awarded \$163,500 in scholarships — the largest scholarship payout yet from the Hereford foundation — due in part to the Vanier Family Scholarship Fund and other scholarship donors.

This year 89 NJHA members attended the Faces of Leadership conference Aug. 1-4 in Kansas City, Mo. Rick Malir and Bonnie Coley-Malir's \$500,000 leadership endowment to HYFA helped make this year's event possible. Hereford youth gained leadership and communication skills from prestigious speakers and traveled to Kansas State University (K-State) for team building exercises and to participate in workshops at the new K-State Purebred Unit led by department of animal science faculty.

Hereford youth and the Lot 1 Foundation Female brought excitement to the Mile High Night Sale Jan. 13 at the National Western Stock Show in Denver. BR Kate Rielle 5532 ET sold for

Junior membership
3,307

↑ 8%



\$75,000 to benefit HYFA's "Growing a Lasting Legacy" campaign. Barber Ranch, Channing, Texas, donated the Foundation Female, and purchasing Lot 1 were Kolt Cattle Co. and kids, Carly, Michael and Maren, Garland, Neb.; JB Show Cattle, Joe and Dee Braman, Refugio, Texas; King Ranch, Bill King, Moriarty, N.M.; and David Shelburg, Jacksonville, Fla.

HYFA partnered with BioZyme® Inc. to launch the "Feed the Future" program to support the youth program. BioZyme contributes \$1 to HYFA for every bag/tub of eligible BioZyme supplement that any American Hereford Association member has purchased through 2017.



The Faces of Leadership program brought 89 NJHA members to Kansas City, Mo., to gain leadership and communication skills.



The Lot 1 Foundation Female raised \$75,000 to benefit Hereford youth during the Mile High Night Sale on Jan. 13, 2017, in Denver.



NJHA is committed to providing youth real-world industry experience launching the NJHA Fed Steer Shootout.

American Hereford Association and Subsidiaries

Consolidated Statements of Financial Position August 31, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash and cash equivalents	\$846,112	\$796,045
Short-term investments	1,362	76,976
Accounts receivable, net	687,973	610,075
Prepaid expenses	14,141	5,858
Inventories	96,369	104,563
Due from Hereford Youth Foundation of America (HYFA)	4,897	—
Total Current Assets	1,650,854	1,593,517
Property and Equipment, net	2,114,406	2,187,780
Investments	3,182,148	2,526,811
Deferred income tax	19,000	—
Other noncurrent assets	25	—
Total Assets	\$6,966,433	\$6,308,108
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$289,531	\$282,043
Accrued expenses	282,807	272,447
Prepayments from breeders	99,258	110,085
Deferred subscription and advertising revenue	149,432	149,787
Due to HYFA	—	7,961
Due to JNHE	5,413	800
Income tax payable	2,138	—
Total Liabilities	828,579	823,123
Net Assets		
Unrestricted net assets	6,137,854	5,484,985
Total Liabilities and Net Assets	\$6,966,433	\$6,308,108

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

Consolidated Statements of Activities for the Years Ended August 31, 2017 and 2016

	2017	2016
Changes in Unrestricted Net Assets		
Revenues and Support		
Services	\$3,565,688	\$3,385,424
Advertising and subscriptions	2,110,084	2,139,617
Program revenues	1,093,146	977,853
Other revenue	707,398	704,446
Total Revenue and Support	7,476,316	7,207,340
Expenses		
General and administrative expense	1,896,767	2,358,252
Board of directors' expenses	52,890	49,37,621
Building expenses	127,730	123,114
Market development and information expense	703,604	626,907
Junior activities expense	309,235	292,904
Research and TPR activities expense	752,959	208,019
Program expenses	2,992,976	2,875,123
Depreciation	182,980	178,331
Total Expenses	7,019,141	6,700,271
Other Income (Expense)		
Gain (Loss) on sale of investments	(8,827)	(73,294)
Gain (Loss) on sale of assets	14,000	10,000
Net appreciation (depreciation) in fair value of investments	202,437	165,896
Other income (expense)	(28,778)	(14,790)
Total Other Income (Expense)	178,832	87,812
Net Changes in Unrestricted Net Assets Before Tax	636,007	594,881
Income tax benefit (expense)	16,862	—
Change in Net Assets	652,869	594,881
Net Assets - Beginning Of Year	5,484,985	4,890,104
Net Assets - End Of Year	\$6,137,854	\$5,484,985

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

Consolidated Statements of Cash Flows for the Years Ended August 31, 2017 and 2016

Cash Flows From Operating Activities	2017	2016
Change in net assets	\$652,869	\$594,881
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided By (Used In) Operating Activities:		
Depreciation	182,980	178,330
(Gain) Loss on sale of investments	8,827	73,294
(Gain) Loss on sale of assets	(14,000)	(7,000)
Net (appreciation) depreciation in fair value of investments	(202,437)	(165,896)
Deferred income tax	(19,000)	-
(Increase) decrease in:		
Accounts receivable – net	(77,898)	104,835
Prepaid expenses	(8,283)	8,835
Inventories	8,194	(24,056)
Other noncurrent assets	(25)	90
Due to/from HYFA	(12,858)	10,914
Due to/from JNHE	4,613	11,344
(Increase) decrease in:		
Accounts payable	7,488	95,831
Accrued expenses	10,360	56,493
Prepayments from breeders	(10,827)	(3,565)
Deferred subscription and advertising revenue	(355)	(5,239)
Income tax payable	2,138	-
Total Adjustments	(121,083)	334,210
Net Cash Provided By (Used In) Operating Activities	531,786	929,091
Cash Flows From Investing Activities		
Purchases of investments	(782,453)	(1,694,466)
Purchases of property and equipment	(120,606)	(145,787)
Proceeds from sale of investments	396,340	1,263,891
Proceeds from sales of property and equipment	25,000	7,000
Net Cash Provided By (Used In) Investing Activities	(481,719)	(569,362)
Cash Flows From Financing Activities		
Payments on long-term obligations	-	(62,774)
Net Increase (Decrease) in Cash And Cash Equivalents	50,067	296,955
Cash and Cash Equivalents – Beginning of Year	796,045	499,090
Cash and Cash Equivalents – End of Year	\$846,112	\$796,045

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

Notes to Consolidated Financial Statements August 31, 2017 and 2016

1 — Summary of Significant Accounting Policies

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) 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.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of AHA and its wholly-owned subsidiaries: HPI, CHB, and ABRA. All significant intercompany transactions have been eliminated in the consolidation. Collectively, the consolidation of AHA, HPI, CHB, and ABRA are hereafter referred to as the Association.

Consolidated Financial Statement Presentation The Association classifies its information regarding net assets and revenues, expenses, gains, and losses based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and report as follows:

- **Unrestricted Net Assets:** Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets:** Net assets subject to donor-imposed stipulations that may or will be met, by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. The Association does not have any temporarily restricted net assets.
- **Permanently Restricted Net Assets:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. The Association does not have any permanently restricted net assets.

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 \$304,598 and \$414,076 were considered to be cash equivalents at August 31, 2017 and 2016, respectively.

Accounts Receivable Receivables are presented at face value, net of the allowance for doubtful accounts and consist of amounts billed for magazine advertising, subscriptions and member services, but not received by year-end. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on historical experience. The Association's receivables are considered past due based upon contractual terms and are automatically charged off after three years. HPI's policy states that accounts with outstanding balances beyond 60 days will accrue interest at 1.5% per month, balances beyond 90 days will no longer be provided with services, and balances beyond 120 days may be turned over to a collection agency.

Inventories Inventories are stated at the lower of cost or market 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, 2017 and 2016. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market values and are reported in the consolidated statement of activities as increases or decreases in net assets.

Fair Value Measurement The accounting standards define a fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

The Association determines the fair value of investments using three broad levels of input as defined by related accounting standards.

- Level 1: Observable inputs — unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2: Observable inputs — other than quoted prices included in level 1 that are observable for the asset or liability through corroboration with market data; and
- Level 3: Unobservable inputs — include amounts derived from valuation models where one or more significant inputs are unobservable.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the years ended August 31, 2017 and 2016.

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, and municipal bonds and fixed income securities are generally valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value.

Exchange Traded Funds: These assets are valued at the net asset value reported on the active market on which the securities are traded. The valuation occurs throughout the day based on the market value of the underlying securities as well as the market supply and demand for the particular exchange traded fund.

Mutual Funds: Each investor in the mutual fund will typically receive units of participation in the mutual fund. These units are valued daily, based on the underlying securities owned by the mutual fund, which are usually publicly traded debt or equity securities.

Property and Equipment Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful life of each asset. The estimated useful life of assets ranges from 3 to 30 years for consolidated financial statement purposes. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of activities for the period. The Association capitalizes all assets, major replacements, and betterments with a useful life greater than one year and cost in excess of \$1,000. Maintenance and repairs are charged to expenses as incurred.

Long-lived assets to be held and used are tested for recoverability whenever events or changes in the circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be disposed of by sales are reported at the lower of carrying amount or fair value, less cost to sell.

Compensated Absences Employees are entitled to one week of paid time off each year. Unused paid time off cannot be carried over from one year to the next and is not paid out upon termination. Accordingly, no liability for accrued paid time off has been recorded. The Association's policy is to recognize the costs of compensated absences when actually used by employees.

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

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

Advertising Costs Advertising costs are charged to expense when incurred. The amounts expensed during the years ended August 31, 2017 and 2016, were \$238,417 and \$259,729, respectively.

Income Taxes The Association follows the provisions of an accounting standard for accounting for uncertainty in income taxes. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

The Association files income tax returns in the U.S. federal jurisdiction, the state of Missouri jurisdiction, and U.S. city jurisdictions. Income tax returns of the Association are subject to U.S. federal or state income tax examinations by tax authorities generally for three years after they were filed.

The AHA, ABRA, and CHB are exempt from federal income tax under section 501(c)(5) of the Internal Revenue Code and, therefore, have made no provision for federal or state income taxes in the accompanying consolidated financial statements. 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 under Section 509(a)(2).

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, 2017 and 2016, 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 consolidated financial statement period may be affected.

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.

Supplemental Disclosure of Cash Flow Information The Association paid cash for interest in the amount of \$-0- and \$2,275 for the years ended August 31, 2017 and 2016, respectively.

Reclassifications Certain amounts in the prior-year comparative information have been reclassified for comparative purposes to conform to presentation in the current-year consolidated financial statements.

Subsequent Events The Association has evaluated subsequent events through October 6, 2017, the date which the consolidated financial statements were available for issue.

2 — Accounts Receivable

Accounts receivable consists of the following:

	2017	2016
August 31		
Trade receivables	\$670,872	\$612,796
Less: Allowance for doubtful accounts	(10,696)	(12,352)
Subtotals	660,176	600,444
Other receivables	27,797	9,631
Total Accounts Receivable	<u>\$687,973</u>	<u>\$610,075</u>

3 — 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, 2017	August 31, 2016
Mutual Funds	\$ 35,353	\$ 34,949
Exchange traded funds	95,224	20,018
Equity Securities	1,825,983	1,435,685
Municipal Bonds	25,582	25,381
Government agency bond	400,269	376,522
Corporate bonds	570,560	510,135
Fixed Income Securities	230,539	201,097
Total	<u>3,183,510</u>	<u>\$2,603,787</u>

4 — Property and Equipment

Property and equipment consists of the following:

	2017	2016
August 31		
Land	\$ 462,122	\$ 462,122
Buildings	2,353,368	2,353,371
Furniture and fixtures	368,641	367,142
Vehicles	217,283	240,585
Data processing equipment	317,102	275,992
Software	354,054	301,056
Subtotals	4,072,570	4,000,268
Less: Accumulated depreciation	(1,958,164)	(1,812,488)
Total Property and Equipment – Net	<u>\$2,114,406</u>	<u>\$2,187,780</u>

5 — Operating Leases

The Company leases a copier from an unrelated third party under an operating lease. The lease requires monthly lease payments of \$465 with a termination or renewal date of March 2019.

The Company leases another copier from an unrelated third party under an operating lease. The lease requires monthly lease payments of \$313 with a termination or renewal date of July 2020.

Amounts recorded as equipment lease expense were \$14,872 and \$15,575, respectively, for the years ended August 31, 2017 and 2016.

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

Year	Amount
FYE 2018	\$9,337
FYE 2019	\$7,012
FYE 2020	\$3,443
Total	<u>\$19,792</u>

6 — Income Taxes

The provisions for income taxes consist of the following components:

Current Income Tax Expense	2017	2016
Federal	\$ 1,515	\$ -
State	623	-
Total Current Income Tax Expense	2,138	-
Deferred Income Tax Expense (Benefit)		
Relating to:		
Net operating loss	-	80,782
Change in valuation allowance	-	(80,782)
Depreciation	(15,000)	-
Allowance for bad debt	(4,000)	-
Total Deferred Income Tax Expense (Benefit)	(19,000)	-
Total Provision for Income Tax Expense (Benefit)	<u>(16,862)</u>	<u>-</u>

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 in 2016 were primarily attributable to the net operating loss carryforward, resulting in deferred tax assets.

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 are as follows at:

Deferred Tax Assets	August 31, 2017	August 31, 2016
Depreciation	\$15,000	\$ -
Bad debt	4,000	-
Net operating loss carryforwards	-	34,965
Valuation Allowance	-	(34,965)
Net Deferred Tax Assets	<u>\$ 19,000</u>	<u>\$ -</u>

HPI utilized net operating losses of approximately \$116,678 and \$210,225 in the years ended August 31, 2017 and 2016, respectively.

7 — Collections of Artwork

The Association has a collection of artwork, appraised at approximately \$639,200 at August 31, 2017 and 2016, 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, 2017 and 2016. There were no pieces disposed of during the years ended August 31, 2017 and 2016.

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

8 — Concentration of Credit Risk

The Association maintains cash accounts that are insured by the Federal Deposit Insurance Corporation. The Association's bank balances may exceed this insurance from time to time.

9 — 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, 2017 and 2016, were \$94,307 and \$90,333, respectively.

10 — Subsequent Events

The City of Kansas City, Missouri (the City), has announced that, in their efforts to continue the revitalization of the downtown Kansas City area, plans have been approved to build a new hotel and convention center to be built on the block of property that includes the current location of the Association's headquarters. This new hotel would be managed by Hyatt Hotels and will be funded mostly by private investors with some support from the City.

The Association's Board of Directors has taken steps to protect the interests of the Association and its membership. The current headquarters building has served the Association for many years and could continue to do so for the foreseeable future; however, the Association also recognizes the importance of the project to the City, and the inevitability of their ultimate decision. The Board has formed a building committee and is working with the Association's legal counsel through the proper due diligence for the potential sale and relocation of the Association's headquarters.

As of the date of issuance of these consolidated financial statements, there is no agreement in place or in negotiation with the City or Hyatt Hotels.

Independent Auditor's Report

To the Board of Directors American Hereford Association Kansas City, Missouri

We have audited the accompanying consolidated financial statements of American Hereford Association, a nonprofit organization, and its subsidiaries (collectively, the Association), which comprise the consolidated statements of financial position as of August 31, 2017 and 2016; the related consolidated statements of activities, 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

— Respectfully submitted, K. Coe Isom, LLP, October 6, 2017

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2017 and 2016.

— American Hereford Association, Jack Ward, executive vice president

2016-17 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	1,216	1,289	1,515	46	32	23
Arizona	109	43	306	11	2	41
Arkansas	1,526	831	2,019	103	69	18
California	1,512	588	2,300	89	80	19
Colorado	1,400	599	1,926	65	36	21
Connecticut	126	94	167	15	16	40
Delaware	20	12	18	3	2	47
Florida	393	151	586	22	8	38
Georgia	1,962	1,340	4,012	77	39	12
Idaho	1,932	940	2,877	57	39	13
Illinois	2,847	1,869	4,875	212	267	8
Indiana	1,606	1,400	1,874	174	207	16
Iowa	2,404	1,291	3,323	168	193	9
Kansas	5,145	2,375	8,702	148	138	4
Kentucky	1,379	1,148	1,854	103	73	22
Louisiana	560	486	774	60	50	33
Maine	69	19	28	12	4	42
Maryland	471	370	582	65	79	35
Massachusetts	20	22	41	4	9	47
Michigan	628	576	949	81	50	32
Minnesota	1,618	741	2,532	117	87	15
Mississippi	1,149	681	1,055	71	57	26
Missouri	4,448	2,753	7,151	219	151	6
Montana	3,030	1,195	4,486	78	24	7
Nebraska	6,978	2,346	8,766	162	109	2
Nevada	418	147	620	10	3	36
New Hampshire	55	25	29	11	4	43
New Jersey	52	42	41	11	11	44
New Mexico	1,178	425	1,391	33	10	24
New York	348	208	673	67	38	39
North Carolina	819	466	1,465	63	43	29
North Dakota	2,385	1,050	3,894	78	25	10
Ohio	1,167	828	1,495	171	117	25
Oklahoma	4,751	3,356	6,758	212	219	5
Oregon	1,402	743	2,241	74	57	20
Pennsylvania	742	567	1,018	90	83	31
Rhode Island	26	2	13	2	2	46
South Carolina	411	199	764	30	15	37
South Dakota	5,427	1,682	8,705	114	83	3
Tennessee	2,168	1,925	3,660	153	81	11
Texas	9,197	6,257	11,513	475	429	1
Utah	494	94	1,132	23	1	34
Vermont	40	21	66	6	1	45
Virginia	880	597	1,207	73	52	28
Washington	1,048	373	1,968	65	37	27
West Virginia	756	460	1,310	59	34	30
Wisconsin	1,710	1,066	2,688	154	115	14
Wyoming	1,564	540	2,276	51	26	17
Total	79,586	44,232	117,645	4,187	3,307	

Top 10 Registrations

State	Breeders	
TX 9,197	Upstream Ranch, Taylor, Neb.	1,011
NE 6,978	Rausch Herefords, Hoven, S.D.	975
SD 5,427	Alexander Mih, Chanute, Kan.	525
KS 5,145	Van Newkirk Herefords, Oshkosh, Neb.	522
OK 4,751	Fawcetts Elm Creek Ranch, Ree Heights, S.D.	460
MO 4,448	Hoffman Herefords, Thedford, Neb.	415
MT 3,030	Dudley Bros., Comanche, Texas	378
IL 2,847	Mrnak Herefords, Bowman, N.D.	372
IA 2,404	Holden Herefords, Valier, Mont.	349
ND 2,385	Colyer Herefords, Bruneau, Idaho	339



Pictured is the **2017 American Hereford Association (AHA) Board of Directors**. Seated (l to r) are: **Terri Barber**, Channing, Texas, president; **Kevin Schultz**, Haviland, Kan., vice president; **Dave Bielema**, Grand Rapids, Mich.; **Joe Van Newkirk**, Oshkosh, Neb.; and **Jack Ward**, Kansas City, Mo., executive vice president. Directors standing (l to r) are: **Bruce Thomas**, Gold Creek, Mont.; **Bob Thompson**, Rolla, Mo.; **Jim Bellis**, Aurora, Mo.; **Kyle Perez**, Nara Visa, N.M.; **Joel Birdwell**, Kingfisher, Okla.; **Jim Mickelson**, Santa Rosa, Calif.; **Tommy Mead**, Midville, Ga.; and **Peter Atkins**, Tea, S.D.

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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