

# Perceptions

2009 AHA Annual Report



# Hereford Perception

## Evolving as Demand Increases

Perception is about changing the way people see things, shifting attitudes and creating recognition. During fiscal year (FY) 2009 American Hereford Association (AHA) members witnessed Hereford perception continue to evolve in a positive direction.

FY 2009 was a year of growth for the breed. Hereford breeders continued to experience an increased demand for Hereford genetics while the Association had an increase in registrations and membership.

The year-end figures are exciting, especially considering the state of the economy and the decreasing national cow herd. As the second largest cattle breed in the U.S., AHA processed 64,293 registrations and 31,747 transfers during FY 2009 with 103,093 cows on inventory. The Association has 3,434 active adult members and 2,256 active junior members — both an increase compared to fiscal year 2008 (see Inside Back Cover [IBC]).

These numbers validate the evolving perception of Hereford in today's marketplace. AHA members are continuing to see a shift in demand as more and more commercial producers are realizing the benefits of heterosis and incorporating Hereford genetics into their breeding programs.



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# Changing Perceptions

It can be hard to change people's minds. First, you have to know what they're thinking. Second, you have to reach out to them through the channels they trust most. And third, you have to make a compelling case that's rooted in truth and offers value to them.

As we review this fiscal year, there's no doubt AHA members and staff devoted time and energy attempting to change the way people think about Herefords.

Stimulating breed progress during the last decade has been AHA's Whole Herd Total Performance Records (TPR™) program. Now nine 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.

Hereford breeders also continue to recognize the advantages of using artificial insemination (AI), thus, creating more predictability to Hereford genetics. Since 2003 the number of AI calves registered has increased by 33%.

In 2005 AHA Board and staff realized cattlemen who have been using Angus-influenced genetics for the last two decades want proof of what Herefords can bring to their breeding programs. To prove Hereford bulls are the best option to use on the nation's predominately black cow herd, AHA set out to document Hereford's genetic advantage for reducing production costs and increasing efficiency by



An economic analysis of the Circe A Ranch Heterosis Project results predicts the Hereford-Angus cross cow advantage of \$514 net per cow over a period of 10 years when compared to straight-Angus cows. That's \$51 difference per cow per year.

participating in various real-world research projects.

In April, results of the Circle A Ranch Heterosis Project were released documenting that Hereford-sired females have a 7% advantage in conception rate, resulting in a net income of \$51 more per cow per year and have a significantly higher selling price for bred heifers when compared to straight Angus females. Those are real numbers that AHA staff and members can use to change perceptions.

The third set of Lacey Livestock steers were harvested this summer as part of the Harris Ranch Heterosis Project. Results of the three-year project comparing Hereford and Angus bulls under commercial conditions is scheduled to be released in early 2010. The Harris project measured differences at the ranch, feedlot and packing plant. Data from

**"I think people's eyes are opening up because of the heterosis research project and we're going to see an increased demand for Hereford bulls during the next 10 years. Through the project, Hereford genetics added pounds to our calves, efficiency in the feedlot and our black-baldie females are more fertile than our straight Angus females."**

**— John Lacey**

the first two years show a \$45 advantage for the Hereford-sired steers compared to the Angus-sired steers. Consistent with the Circle A data, the Hereford-sired heifers from the first calf crop showed a 7% advantage in conception rate compared to the Angus-sired females.

**For more about the Circle A Ranch Heterosis Project: July *Hereford World*, Page 50**

## CHB LLC Transitions, Reorganized For Growth

Despite a U.S. economic downturn and resulting depressed beef demand, Certified Hereford Beef (CHB) LLC experienced growth in the marketplace and added new team members to increase opportunities during fiscal year (FY) 2009.

CHB LLC packing partners National Beef Packing Co. LLC and Greater Omaha Packing Co. Inc. harvested 379,282 CHB-eligible cattle and certified 250,266 total carcasses during FY 2009. A total of 36,810,360 lb. was marketed as Certified Hereford Beef®, which is up 900,000 lb., or about 2.5% compared to last year.

AHA Executive Vice President Craig Huffhines says, "CHB LLC found ample opportunities for new business relationships and new growth in the program this year. A new management team led by beef marketing veteran Tom LeBeau has positioned CHB LLC for unique possibilities."

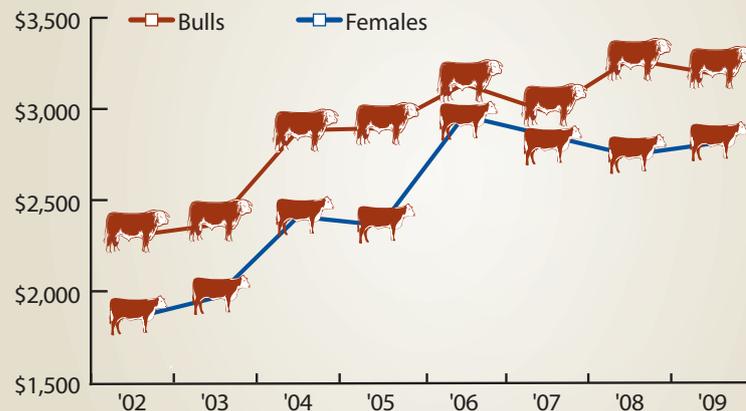
In FY 2009, CHB LLC staff launched two large foodservice distributor companies in the eastern U.S. Sysco Food Service distributors and Merchants Foodservice began distributing CHB products in nine states, adding approximately 900 new sales people to the program.

These new distributors aided the program in establishing 29% more restaurant business, bringing total restaurant sales to more than 5.5 million lb.

In addition to growth in distribution channels, CHB LLC has been working on value-added concepts. A case-ready beef program was developed with Superior Farms, Boston, Mass. Also developed by CHB LLC staff along with Klement's Co., Milwaukee, Wis., is an all-beef Chicago-style hot dog. "The goal of this high-quality beef frank program is to utilize a higher percentage of carcass trimmings, gaining a better carcass utilization, with the added bonus of a new profit center for CHB LLC," Huffhines says.

Also during FY 2009, Hereford Verified (HV) saw an increase in marketings. HV is the AHA's traceable program for Hereford-influenced calves that provides producer bonuses and data on cattle that meet CHB requirements. During the year, 15,940 head were certified and marketed through the program, up 30% from last year.

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



A total of 164 Hereford production sales were reported by AHA fieldmen this fiscal year. Bull sales averaged \$3,194 and females \$2,811, which is consistent with fiscal year 2008 numbers. Hereford breeders and fieldmen reported the biggest increase in the country was with private-treaty bull sales.



A total of 15,940 Hereford-influenced calves were marketed through Hereford Verified, AHA's traceable program for Hereford-influenced calves that provides producer bonuses and data on cattle that meet CHB requirements, a 30% increase compared to the previous year.



# Shifting Attitudes



AHA Board and staff hosted livestock editors and radio broadcasters for an event dedicated to sharing the Hereford message. Attending the Herefords, Heterosis and Headlines media event were 11 media professionals representing nearly 2 million subscribers plus radio affiliates in 12 states.

Using the data collected from the various research projects, AHA is setting out to shift attitudes. In April, Board members hosted 11 media professionals representing nearly 2 million subscribers plus radio affiliates in 12 states during the Herefords, Heterosis and Headlines Media Event. During the event, media professionals had a chance to hear about AHA's research projects as well as other Hereford-related story ideas.

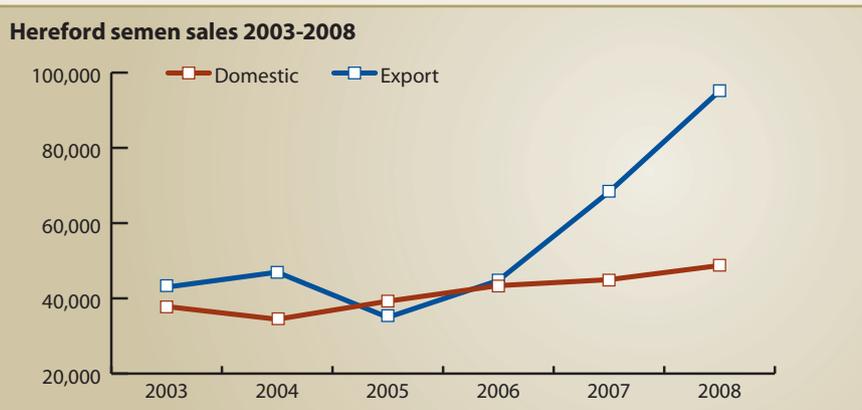
The AHA communication team continues to foster the relationships developed during the media event. To continue to share the positive Hereford message and complement the national ad campaign, press releases and feature stories with testimonials and research data have been distributed and printed in various state, regional and national beef and agricultural publications.

A large shift in industry attitude has been witnessed through increased Hereford semen demand. According to the National Association of Animal

Breeders (NAAB), Hereford semen sales increased 8.4% in 2008, despite an overall decrease in domestic beef semen sales.

"Hereford semen sales have been extremely good," says ABS Global Beef Sire Acquisition Manager Lorna Marshall. "Our Hereford sales are up about 20% this year, and Hereford has been our fastest-growing breed the last three years."

Marshall attributes much of this growing demand for Hereford semen to the cattleman's need for heterosis. "As we've seen the nation's cow herd become more straightbred, we've certainly heard from some of our commercial customers that they've experienced reduced fertility, as we've moved away from a cow herd that has some heterosis in it to more of a straightbred cow."



Hereford semen demand in the commercial industry is increasing according to NAAB reports. U.S. Hereford semen sales increased 8.4% in 2008, despite an overall drop in domestic semen sales for beef cattle. Sales of Hereford semen rose 39.3% in foreign countries, well above the overall increase of all breeds at 21.67%, according to the 2008 data from NAAB.

For more about Hereford semen demand: August *Hereford World*, cover

## Relationships Evolve

Building and strengthening relationships with related industries allows the American Hereford Association (AHA) to maintain and enhance the programs it offers members.

To increase efficiency and enhance the Association's revenue, American Beef Records Association (ABRA), AHA's wholly owned subsidiary, offers registry and performance recording services to other breed associations. This fiscal year ABRA processed 38,288 registrations for six other breeds, generating an additional \$218,638 income for the Association.

More than 640 Hereford youth from 38 states and Canada participated in this year's VitaFerm Junior National Hereford Expo (JNHE). A total of 1,132 entries including 90 steers, 57 bred-and-owned bulls, 32 cow-calf pairs, three junior AI heifers, 219 bred-and-owned heifers, 207 horned heifers and 524 polled heifers competed throughout the week. The event also included 22 skill-based contests, and youth were awarded more than \$15,000 in scholarship money.

For more JNHE highlights: September *Hereford World*



The 2009 Hereford Youth Foundation of America (HYFA) Foundation Female that sold during the Mile High Night Sale in Denver, Jan. 16, generated \$50,000 to benefit Hereford youth. National Junior Hereford Association board members are pictured with the representative of the 10 businesses and families who pooled their efforts to make the final bid. Purchasing the heifer were Red Hills Herefords, Clinton, Okla.; Sparks/Kimbrough, Connerville, Okla.; Little Creek Ranch, Parma, Idaho; Split Butte Livestock, Minidoka, Idaho; Frank & Margaret Rodgers, Buhl, Idaho; Starr Polled Herefords, Manawa, Wis.; Eva Hamman, Jacksboro, Texas; Pollard Farms, Waukomis, Okla.; MCS Cattle Co., Elgin, Okla.; and Wooden Shoe Farms, Blackfoot, Idaho. During FY 2009 HYFA awarded more than \$45,750 in scholarships to Hereford youth.





# Creating Recognition



## HEREFORDS — THE EFFICIENCY EXPERTS

Creating awareness about Hereford genetics and the Hereford brand is the goal of the AHA communication team in cooperation with Hereford Publications Inc. The Hereford message is distributed through media outlets such as the *Hereford World*, *Hereford eNews*, *The Whiteface* and *Hereford.org*.

The *Hereford World* tabloid, which is produced four times a year, won first-place newspaper honors in the Livestock Publications

Council Critique Contest. The tabloid is targeted toward the commercial producer and is distributed to the *Hereford World* subscription list and to an additional 20,000 commercial producers. Other honors won by HPI staff in the LPC Critique Contest included second-place color catalog, second-place black-and-white catalog and honorable mention instructional story.

Continuing to improve the perception of Hereford genetics

in the commercial industry is what the communication team strives to do each day. But shifting attitudes and creating recognition for the breed is a team effort that takes all Hereford breeders, the AHA Board and AHA staff.

With this focused effort and commitment, the result will be when people think Hereford; they think “The Efficiency Experts” — the right choice for today’s commercial cattle producer.

### PACE Strengthens Foreign Perception

The first Hereford genetic evaluation that includes cattle from more than one continent was released in July. To increase overseas marketing opportunities for Hereford breeders and strengthen the genetic evaluation, the American Hereford Association (AHA) worked closely with Hereford organizations in Uruguay, Canada and Argentina and created the Pan-American Cattle Evaluation (PACE).

“The intent of this evaluation is to broaden the horizons for Hereford breeders between continents,” says Jack Ward, AHA chief operating officer and director of breed

improvement. “This will link the countries and expand marketing opportunities and, thus, allow for more linkage as common genetics will be used throughout North and South America. U.S. breeders could market semen to large South American herds and get bulls proven in large contemporary groups.”

PACE is also one step closer to a global Hereford genetic evaluation, which is something that has been discussed at length at World Hereford Council meetings, and feasibility studies have been commissioned.

**American Hereford Association and Subsidiaries  
Consolidated Statements of Financial Position  
August 31, 2009 and 2008**

<b>Assets</b>	<b>2009</b>	<b>2008</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$777,058	\$249,922
Short-term investments	102,969	905,140
Accounts receivable, net	612,766	629,364
Accounts receivable - other	27,849	68,782
Prepaid expenses	10,114	40,968
Inventories	47,927	28,583
<b>Total current assets</b>	<u>1,578,683</u>	<u>1,922,759</u>
<b>Investments</b>	<u>921,879</u>	<u>445,176</u>
<b>Property and Equipment</b>		
Land	462,122	462,122
Building	2,255,117	2,252,268
Furniture and fixtures	347,311	344,285
Autos	237,916	186,571
Data processing equipment	396,567	382,590
Software	286,103	276,765
Accumulated depreciation/amortization	(1,745,146)	(1,678,794)
<b>Total Property and equipment, net</b>	<u>2,239,990</u>	<u>2,225,807</u>
<b>Other Assets</b>		
Collections (Note 9)	-	-
Other	261,889	291,100
<b>Total Other Assets</b>	<u>261,889</u>	<u>291,100</u>
<b>Total Assets</b>	<u>\$5,002,441</u>	<u>\$4,884,842</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$181,473	\$124,926
Accrued expenses	189,720	205,919
Current portion of long-term debt	30,064	-
Line of credit	-	27,449
Prepayments from breeders	92,499	109,113
Deferred subscription and advertising revenue	248,084	258,941
Due to Junior National Hereford Expo	77,681	38,384
<b>Total current liabilities</b>	<u>819,521</u>	<u>764,732</u>
Long Term Debt, net of current maturities	<u>70,191</u>	<u>-</u>
<b>Net Assets</b>		
Temporarily restricted net assets	10,000	12,500
Unrestricted net assets	<u>4,102,729</u>	<u>4,107,610</u>
<b>Total net assets</b>	<u>4,112,729</u>	<u>4,120,110</u>
<b>Total Liabilities and Net Assets</b>	<u>\$5,002,441</u>	<u>\$4,884,842</u>

**Consolidated Statements of Activities  
for the Years Ended August 31, 2009 and 2008**

<b>Changes in Unrestricted Net Assets, Revenues and Support</b>	<b>2009</b>	<b>2008</b>
AHA and ABRA services	\$2,337,782	\$2,235,341
HPI advertising and subscriptions	1,516,726	1,604,855
CHB program revenues	954,305	947,313
Other	557,662	553,516
Net assets released from restrictions	2,500	2,500
<b>Total revenues and support</b>	<u>5,368,975</u>	<u>5,343,525</u>
<b>Expenses</b>		
General and administrative	1,501,270	1,495,285
Board of Directors' expenses	34,161	23,198
Building expenses	116,173	107,626
Market development and information	474,143	617,841
Junior activities	146,717	218,969
Research and TPR activities	264,618	192,638
Program expenses	2,717,149	2,716,949
Depreciation expense	137,699	150,688
<b>Total expenses</b>	<u>5,391,930</u>	<u>5,523,194</u>
<b>Other Income (Expense)</b>		
Realized gain (loss) on sale of investments	(10,995)	(2,611)
Net appreciation (depreciation) in fair value of investments	19,742	8,275
Other income (expenses)	1,543	24,265
Gain (loss) on sale of property and equipment	7,784	-
<b>Total other income (expense)</b>	<u>18,074</u>	<u>29,929</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>(4,881)</u>	<u>(149,740)</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Net assets released from restrictions	(2,500)	(2,500)
<b>Increase (Decrease) in Net Assets</b>	<u>(7,381)</u>	<u>(152,240)</u>
<b>Net Assets - Beginning of Year</b>	<u>4,120,110</u>	<u>4,272,350</u>
<b>Net Assets - End of Year</b>	<u>\$4,112,729</u>	<u>\$4,120,110</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, 2009 and 2008

Cash Flows from Operating Activities	2009	2008
Increase (decrease) in net assets	\$(7,381)	(\$152,240)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	137,699	150,688
Realized (gain) loss on sale of investments	10,995	2,611
Net (appreciation) depreciation in fair value of investments	(19,742)	(8,275)
(Gain) loss on disposal of property and equipment	(7,784)	—
(Increase) decrease in assets:		
Accounts receivable	16,598	(125,713)
Accounts receivable — other	40,933	55,130
Prepaid expenses	30,854	(19,230)
Inventories	(19,344)	18,354
Other assets	29,211	(41,010)
Increase (decrease) in liabilities:		
Prepayments from breeders	(16,614)	379
Accounts payable	56,547	(41,897)
Accrued expenses	(16,199)	(112,915)
Deferred subscription and advertising revenue	(10,857)	7,786
Due to Junior National Hereford Expo	39,297	38,384
Total adjustments	271,594	(75,708)
<b>Net Cash Provided by (used in) Operating Activities</b>	<b>264,213</b>	<b>(227,948)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(28,223)	(39,084)
Proceeds from sale of property and equipment	2,500	—
Purchases of investments	(831,059)	(1,215,307)
Proceeds from sale and maturity of investments	1,165,275	1,421,424
<b>Net Cash Provided by (used in) Investing Activities</b>	<b>308,492</b>	<b>167,033</b>
<b>Cash Flows Used In Financing Activities</b>		
Increase (decrease) in line of credit	(27,449)	27,449
Repayment of long-term debt	(18,120)	(9,836)
<b>Net Cash Provided by (used in) Financing Activities</b>	<b>(45,569)</b>	<b>17,613</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>527,136</b>	<b>(43,302)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>249,922</b>	<b>293,224</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$777,058</b>	<b>\$249,922</b>
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$1,320	\$247
Vehicles purchased with bank debt financing	\$118,375	—

## Notes to Consolidated Financial Statements August 31, 2009 and 2008

### 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 the Association and its wholly owned subsidiaries, Hereford Publications Inc. (HPI), Certified Hereford Beef® LLC (CHB) and American Beef Records Association (ABRA). All material intercompany transactions have been eliminated in consolidation.

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

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

- Unrestricted net assets are funds available for any purpose.
- Temporarily restricted net assets represent contributions whose use by the Association is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. When a stipulated restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.
- Permanently restricted net assets — At August 31, 2009 and 2008, 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 \$564,429 and \$106,516 were considered to be cash equivalents as of August 31, 2009 and 2008, 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 \$31,364 and \$24,891 as of August 31, 2009 and 2008, 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, 2009 and 2008. 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 5 to 30 years. Additions and improvements of \$1,000 or more are capitalized, while maintenance and repairs which do not improve or extend the life of the asset are expensed in the year incurred. Depreciation charged against income amounted to \$137,699 and \$150,688 in 2009 and 2008, respectively.

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

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

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

The Association's wholly owned subsidiary, HPI, Inc., is a taxable entity and is, therefore, subject to federal income taxes. The Association has elected to defer the provisions of FIN 48, Accounting for Income Taxes, under the provisions of FSP FIN 48-3. The Association uses a FAS 5, Loss Contingencies, approach for evaluating

uncertain tax positions and continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the difference are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

## 2 — Concentration of Credit Risk

The Association maintains cash accounts at a bank located in the Kansas City metropolitan area. The balances in the bank periodically exceed the Federal Deposit Insurance Corporation (FDIC) limits. The FDIC insured limits were \$250,000 and \$100,000 at August 31, 2009 and 2008, respectively. The Association's uninsured cash balances totaled \$96,206 and \$76,285 at August 31, 2009 and 2008, respectively.

## 3 — Investments

Investments at August 31, 2009 and 2008, are summarized as follows:

	Amortized Cost	Fair Value
<b>August 31, 2009</b>		
Government bonds and notes	\$935,272	\$947,632
Corporate bonds	\$75,270	\$77,216
<b>August 31, 2008</b>		
Government bonds and notes	\$1,335,752	\$1,350,316
Corporate bonds	\$ -	\$ -

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 in the amount of \$19,742 and \$8,275 were recorded to adjust investments to fair value at August 31, 2009 and 2008, respectively.

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

## 4 — Retirement Plan

The Association established a defined contribution employee retirement plan for all eligible employees of the Association, HPI, CHB, and ABRA. The plan provides for employer and employee contributions based on a percentage of annual compensation. Employer contributions for the years ended August 31, 2009 and 2008, were \$81,289 and \$85,167, respectively.

## 5 — Line of Credit

In December 2007, the Association entered into a revolving line of credit agreement with UMB Bank. The line is unsecured with a maximum draw amount of \$250,000 and is payable on demand. Interest is payable monthly at an interest rate of 5%. The outstanding balance was \$0 and \$27,449 as of August 31, 2009 and 2008, respectively.

## 6 — Long-Term Debt

Long-term debt consists of the following at August 31:	2009	2008
Notes - vehicles, collateralized by related vehicles, interest fixed at 4.99%, maturing from July 2012 through April 2013	\$100,255	\$ -
Current portion	30,064	
Total Long-Term Debt	<u>\$70,191</u>	<u>\$ -</u>

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

Year	Amount	Year	Amount
2010	\$30,064	2013	\$5,980
2011	31,599	2014	-
2012	32,611	Thereafter	-
			<u>\$100,255</u>

## 7 — Income Taxes

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

	2009	2008
Current	\$ -	\$ -
Deferred		
Temporary differences	5,906	64,595
Change in valuation allowance	(5,906)	(64,595)
	<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 at August 31 are as follows:

Deferred Tax Assets	2009	2008
Net operating loss carryforwards	\$199,598	\$205,504
Less: Valuation Allowance	199,598	205,504
	<u>\$ -</u>	<u>\$ -</u>

HPI utilized net operating losses of approximately \$17,371 and \$198,160 for the years ended August 31, 2009 and 2008, respectively.

HPI has net operating loss carryforwards of \$587,053 available to offset future federal and state taxable income that expire through 2023 as follows:

Year	Amount	Year	Amount
2009	\$ -	2013	168,100
2010	-	2014	157,696
2011	-	Thereafter	241,027
2012	20,230		<u>\$587,053</u>

## 8 — Temporarily Restricted Net Assets

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

## 9 — Collections

The Association has a collection of artwork, appraised at approximately \$308,600, that is on public display at the Association's headquarters. The Association has adopted a policy of not capitalizing the collection of artwork in its financial statement. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. No items were purchased for or removed from the collection during the years ended August 31, 2009 or 2008. The Association insures these collections with a policy that has a face value consistent with the appraised values.

## 10 — Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" in order to establish a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles that is intended to result in increased consistency and comparability in fair value measurements. SFAS No.

157 also expands disclosures about fair value measurements. SFAS No. 157 applies whenever other authoritative literature requires (or permits) certain assets and liabilities to be measured at fair value, but does not expand the use of fair value. SFAS No. 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007.

In early 2008, the FASB issued Staff Position (FSP) FAS-157-2, "Effective Date of FASB Statement No. 157", which delayed by one year, the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay pertained to items including, but not limited to, non-financial assets and non-financial liabilities initially measured at fair value in a business combination, non-financial assets (such as real estate or donations in kind) recorded at fair value at the time of donation, and long-lived assets measured at fair value for impairment assessment under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

The Association adopted the portion of SFAS No. 157 that has not been delayed by FSP FAS-157-2 as of September 1, 2008, and plans to adopt the balance of its provisions as of September 1, 2009. Items carried at fair value on a recurring basis (to which SFAS No. 157 applies in 2009) consist of investments described in Note 3, which are valued based on quoted prices inactive or brokered markets for identical assets. The Association is continuing to evaluate the impact the standard will have on the determination of fair value needed to non-financial assets and non-financial liabilities beginning September 1, 2009.

## 11 — Other Assets

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

As of August 31, 2009, the Association has not closed on the contract due to approval delays from the city planning commission and due to the developer missing key deadlines. Management is in the process of negotiating a fifth addendum to the agreement.

## 12 — Subsequent Events

Management has evaluated subsequent events through October 6, 2009, 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 its subsidiaries (collectively, the Association) as of August 31, 2009 and 2008, 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 provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of American Hereford Association and subsidiaries as of August 31, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

— Respectfully submitted, Kennedy and Coe, LLC, October 6, 2009

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2009 and 2008.

— American Hereford Association, Craig Hufflines, executive vice president



**2009 AHA Board of Directors**  
 Pictured seated (l to r) are: **Bill King**, Stanley, N.M., president; **Bob Harrell Jr.**, Baker City, Ore., vice president; **Marshall Ernst**, Windsor, Colo.; **Paul Slayton**, Bedford, Pa.; and **Craig Huffhines**, Kansas City, Mo., executive vice president. Directors standing (l to r) are: **James Milligan**, Kings, Ill.; **Jimmie Johnson**, Clinton, Okla.; **Jerry Huth**, Oakfield, Wis.; **David Breiner**, Alma, Kan.; **Denny Hoffman**, McArthur, Calif.; **Paul Funk**, Copperas Cove, Texas; and **John Woolfolk**, Jackson, Tenn. Not pictured is Director **Wes Hudson**, Harrison, Ark.

## 2008-09 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	787	592	959	28	23	27
Arizona	460	44	920	14	2	34
Arkansas	1,022	667	1,175	68	53	23
California	1,320	477	2,183	113	91	16
Colorado	1,316	458	1,766	66	11	17
Connecticut	83	70	171	17	14	43
Delaware	29	19	7	6	9	47
Florida	197	90	206	19	8	40
Georgia	1,924	1,673	3,556	77	45	10
Idaho	1,788	1,246	2,952	72	44	11
Illinois	1,945	1,215	4,373	161	196	8
Indiana	1,316	896	1,889	142	141	17
Iowa	1,226	475	2,251	98	92	19
Kansas	4,101	1,349	7,347	127	70	3
Kentucky	1,065	629	1,764	75	39	22
Louisiana	332	433	732	45	30	38
Maine	48	13	35	13	2	45
Maryland	371	267	655	38	56	36
Massachusetts	39	30	44	4	1	46
Michigan	637	610	1,054	72	45	32
Minnesota	1,199	466	2,127	84	36	20
Mississippi	1,169	581	1,734	41	42	21
Missouri	2,644	1,507	4,781	172	116	6
Montana	2,421	949	3,643	57	24	7
Nebraska	5,125	1,528	7,758	141	78	2
Nevada	262	83	829	13	16	39
New Hampshire	91	46	124	13	4	42
New Jersey	53	31	120	10	11	44
New Mexico	850	162	1,291	32	3	26
New York	442	218	651	54	34	35
North Carolina	694	299	1,183	66	33	31
North Dakota	1,664	517	3,471	44	19	12
Ohio	1,021	994	1,939	122	52	24
Oklahoma	3,719	2,033	4,468	146	136	5
Oregon	1,349	427	2,456	75	48	15
Pennsylvania	757	507	1,198	75	75	28
Rhode Island	12	1	0	2	1	48
South Carolina	371	193	899	30	10	36
South Dakota	3,804	1,390	7,381	90	45	4
Tennessee	1,933	1,172	3,010	111	57	9
Texas	8,707	4,998	10,905	395	230	1
Utah	717	125	1,018	28	0	30
Vermont	101	44	109	9	6	41
Virginia	733	519	1,160	64	40	29
Washington	948	277	1,349	72	59	25
West Virginia	558	219	1,189	59	13	33
Wisconsin	1,412	831	2,252	137	78	14
Wyoming	1,531	377	2,009	37	18	13
<b>TOTAL</b>	<b>64,293</b>	<b>31,747</b>	<b>103,093</b>	<b>3,434</b>	<b>2,256</b>	

# TOP 10

## REGISTRATIONS

### Top 10 States

<b>Texas</b>	<b>8,707</b>
<b>Nebraska</b>	<b>5,125</b>
<b>Kansas</b>	<b>4,101</b>
<b>South Dakota</b>	<b>3,804</b>
<b>Oklahoma</b>	<b>3,719</b>
<b>Missouri</b>	<b>2,644</b>
<b>Montana</b>	<b>2,421</b>
<b>Illinois</b>	<b>1,945</b>
<b>Tennessee</b>	<b>1,937</b>
<b>Georgia</b>	<b>1,928</b>

### Top 10 Breeders

<b>W4 Ranch</b>	<b>742</b>
<i>Morgan, Texas</i>	
<b>Rausch Herefords</b>	<b>643</b>
<i>Hoven, S.D.</i>	
<b>Upstream Ranch</b>	<b>594</b>
<i>Taylor, Neb.</i>	
<b>Imig Herefords</b>	<b>469</b>
<i>Lakeside, Neb.</i>	
<b>Star Lake Cattle Ranch</b>	<b>406</b>
<i>Skiatook, Okla.</i>	
<b>Dudley Bros.</b>	<b>389</b>
<i>Comanche, Texas</i>	
<b>Coates Ranch Co.</b>	<b>370</b>
<i>Mertzon, Texas</i>	
<b>Van Newkirk Herefords</b>	<b>336</b>
<i>Oshkosh, Neb.</i>	
<b>Jamison Herefords</b>	<b>323</b>
<i>Quinter, Kan.</i>	
<b>Langford Herefords</b>	<b>319</b>
<i>Okmulgee, Okla.</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.

### Core Strategies

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



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