

THE HEREFORD

ADVANCE →



2014 Annual Report

Numbers Up in All Areas

Fiscal Year 2014 was a tremendous year of growth for the American Hereford Association (AHA), verifying the continuing resurgence of the breed. The Association witnessed increases in registrations, transfers, cows on inventory and membership while Hereford breeders enjoyed record-setting sale averages along with private treaty sales.

AHA reported 71,444 registrations (a 5.2% increase) and 40,295 transfers (a 12.1% increase) with 107,277 cows on inventory, up nearly 7%. The Association has 3,641 active adult members (a 4% increase) and 2,670 active junior members (a 7% increase).

A total of 188 Hereford production sales were reported by AHA field representatives during the fiscal year, which ended Aug. 31. Bull sales averaged \$5,089, up nearly \$400 per head, and females \$4,637, up nearly \$440 per head.

Hereford semen use in the commercial industry also continues to increase. According to the National Association of Animal Breeders (NAAB), domestic Hereford semen sales increased 7% compared to last year's sales. Hereford domestic semen sales have steadily increased since 2006, a testament to the increasing demand for Hereford genetics in the commercial industry.

As the Association kicked off a new year, it hosted a Hereford Genetic Summit in Springfield, Mo. A dynamic, thought-provoking set of industry leaders shared their insights and

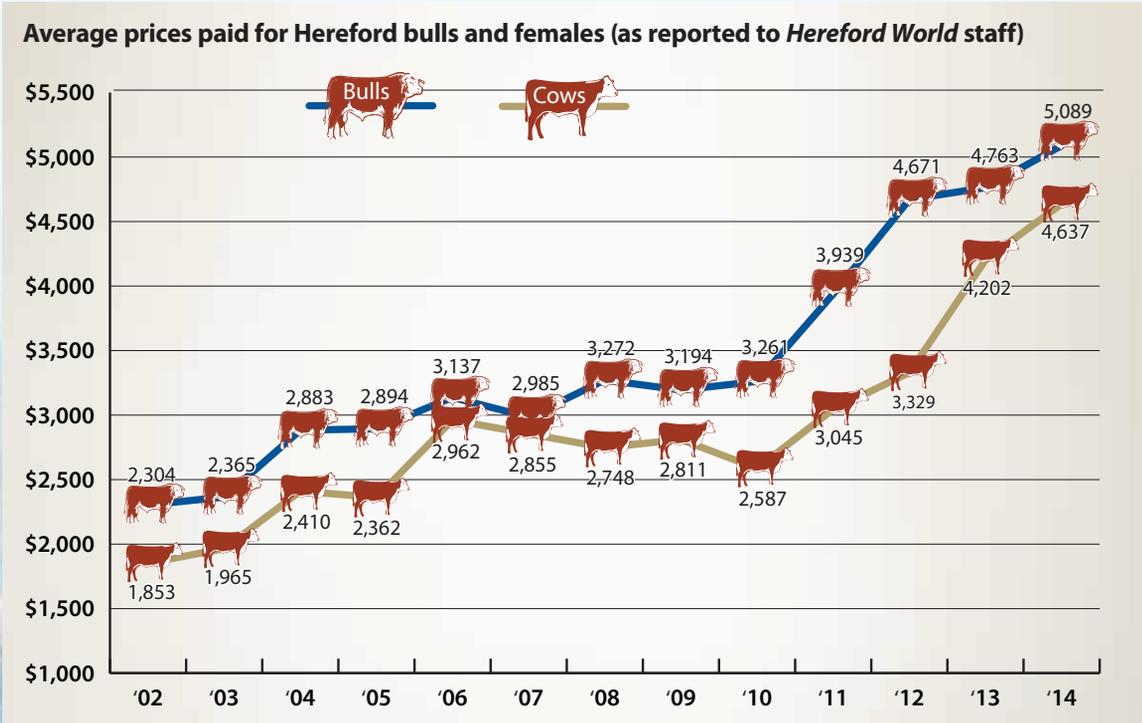
challenged attendees to embrace technology, to focus on the customer, and to concentrate on feed efficiency and end-product merit. The event served as a roadmap to continue the Hereford advance for years to come. Visit HerefordGeneticSummit.com for highlights of the event.

FY '14 stats



“Record sale prices for bulls and females and increases in registrations, transfers and cows on inventory indicate the market is vibrant for Hereford genetics. We’re excited about the increasing demand of Hereford genetics in the marketplace particularly as the industry is on the verge of moderate expansion. As a breed, we are committed to produce the cattle that will meet the needs of the commercial industry.”

— Craig Huffhines, AHA executive vice president



Data Pays Dividends

Data is power and the American Hereford Association's (AHA) commitment to the integrity and accessibility of information for its members has as much to do with the increase in breed popularity in recent years as anything else. As members work to improve the breed through individual herds, their records continue to be the Association's largest and most valuable resource.

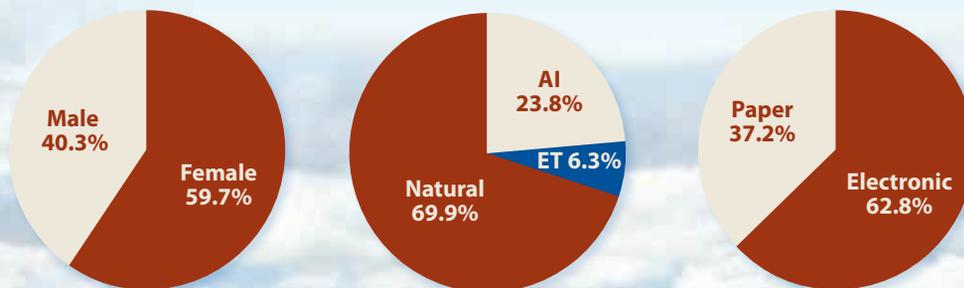
Helping facilitate this progress has been the AHA's Whole Herd Total Performance Records (TPR™) program. Now 14 years since its inception, the program has helped the AHA and Hereford breeders build the largest database in the industry for lifetime cow productivity. In an era when "sustainable agriculture" is the new buzzword, the Hereford breed stands poised to deliver on those traits that will sustain the profitability of the commercial industry.

"Fertility and cow longevity are the two most influential profit drivers of the commercial cow-calf industry," says Jack

Ward, AHA chief operating officer and director of breed improvement. "Through the dedication of our Hereford membership, we now have the data to develop selection tools that will finally help to positively influence those very important factors that influence ranch sustainability."

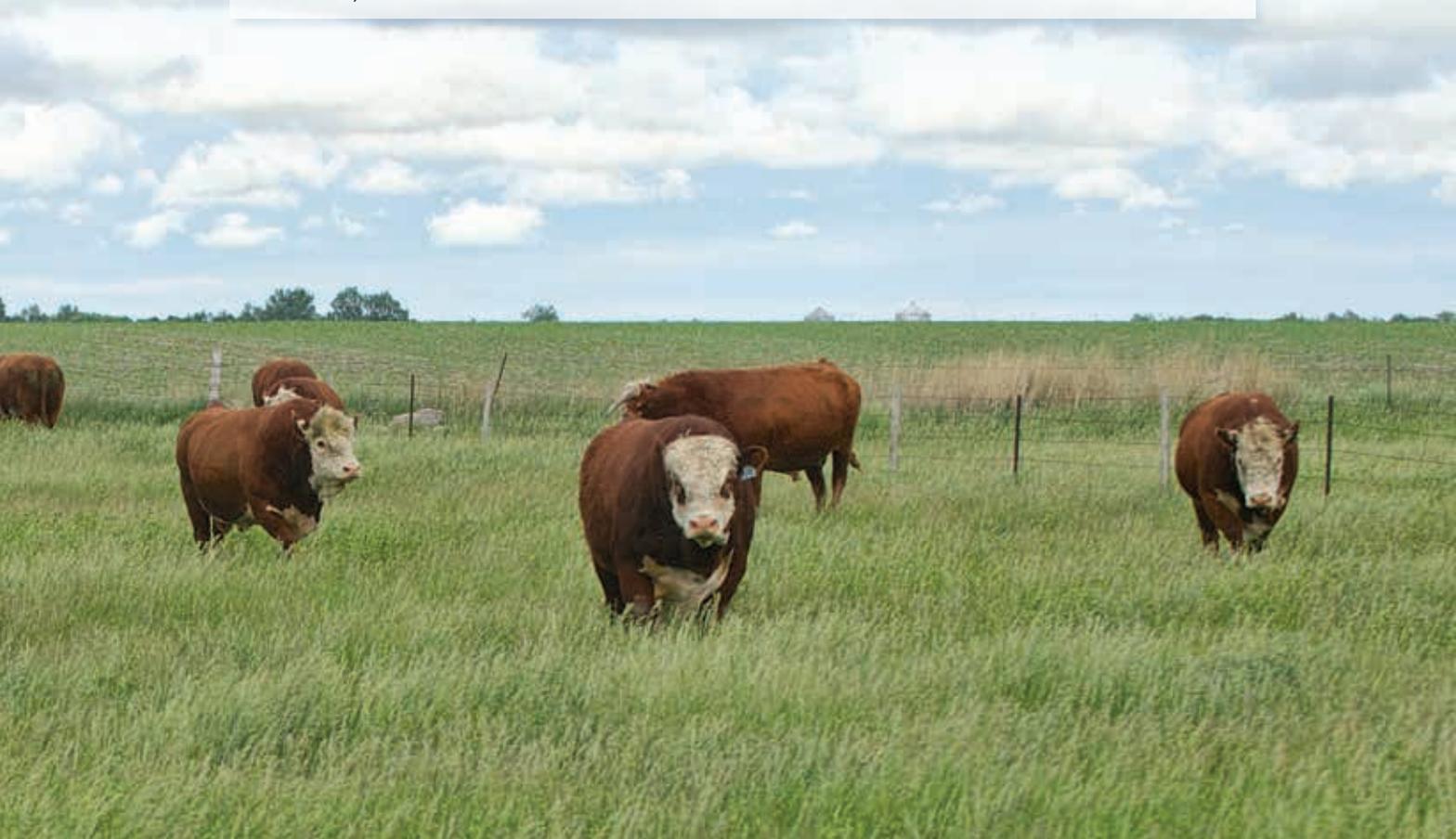
DNA testing technology continues to evolve, giving Hereford breeders even more predictive power when making genetic decisions. The AHA has taken a very scientific approach by collaborating with some of the brightest animal geneticists in the country to develop Hereford-specific genomic-enhanced expected progeny differences (GE-EPDs) through the national cattle evaluation (NCE). By blending pedigree, phenotypes and now genetic information, the Association has the ability to predict the breeding value of young unproven animals with new accuracy levels that equates to an animal having between three to eight progeny on record.

Registrations FY '14



Member service, breed improvement update

- ➔ *MyHerd.org* — a real-time online registry data system that provides online access to the majority of AHA record services — was released in September. Utilizing MyHerd, breeders can register and transfer cattle online, and view and pay accounts, as well as keep up-to-date on Whole Herd TPR data entry.
- ➔ DNA testing continues to increase and improve. At fiscal year's end, the AHA had collected more than 10,000 genotypes. This figure includes 6,500 registered animals plus those in the National Reference Sire Program (NRSP) and research project animals, which also have feed intake and carcass phenotypes collected.
- ➔ AHA has leveraged its feed intake database to participate in the U.S. Department of Agriculture's (USDA) \$4 million national program for genetic improvement of feed efficiency in beef cattle.
- ➔ AHA has contributed to the genetic sequencing of 15 highly proven Hereford bulls as part of a multi-year USDA National Institute of Food and Agriculture funded study at the University of Missouri. This project is investigating genomic technologies to enhance fertility in beef cattle.
- ➔ Since 2003 the AHA has had a 51% increase in artificial insemination (AI) use, and the number of calves born by embryo transfer (ET) has doubled.
- ➔ The Association continues to focus its research on feed efficiency as well as a multi-year project with Simplot Livestock Co. that is documenting the benefits of using calving-ease Hereford sires in a large-scale, predominately Angus program.



CHB Volume Surpasses 50 million lb.



CHB program highlights

- ➔ 74% certification rate.
- ➔ 304 retail supermarkets in 35 states.
- ➔ More than 40 foodservice distribution centers.
- ➔ Welcomed Mike Mitchem, director of food service sales.
- ➔ Developed a strategic marketing plan involving business-to-business target communication, training and salesmanship, and a business-to-consumer message and communication plan. Commissioned new product photography to give point-of-sale materials a facelift.
- ➔ Conducted several sales force and merchandiser trainings with Sysco Minnesota, Sysco St. Louis, Jake's in Houston and Yokes in Spokane.
- ➔ Signed ground beef and steak cutting licenses with Wolverine, Detroit; Buckhead, Chicago; and Burger Maker, New Jersey.
- ➔ Focused efforts on building international marketing opportunities. Hosted two days of office tours, presentations and product sampling for 120 international buyers from around the world.

Certified Hereford Beef (CHB) LLC experienced a record year of growth during fiscal year 2014 with 50.2 million lb. of product sold — a 2% increase compared to the previous year's total.

“CHB continues to gain market share despite tight cattle supplies, record high beef prices and somewhat stagnant beef promotion due to the wide price spreads between beef and competing proteins,” says Craig Huffhines, American Hereford Association (AHA) executive vice president.

CHB LLC staff, along with the program's marketing partners, tout the advantages of CHB product in marketing differentiation when compared to “Angus brands,” along with the fact that it is a consistently tender, juicy and flavorful beef product. These advantages are fueling the brand's advance in both food service and retail markets.

Food service continues to provide the most growth opportunity for CHB LLC. Newly licensed distributorships include: Sysco, St Louis, Mo.; Ocean Beauty, Boise, Idaho; Santa Rosa Meat Co., Santa Rosa, Calif.; Ameristar/FSA, Spokane, Wash.; Sysco International, Fla. (exports to the Caribbean, Central and South America); and Agri-Foods, Miami, Fla. (export consolidator).

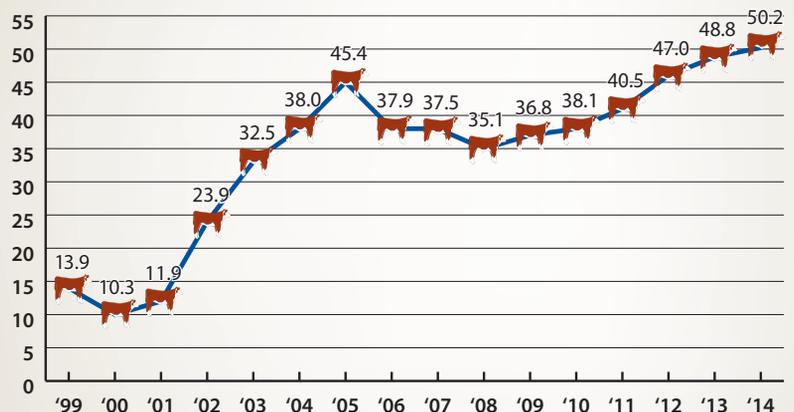
To help get more cattle into the program, CHB LLC staff focused on developing a feeding network and supply chain communication program. This effort has helped increase Greater Omaha Packing Co. LLC cattle volume by 15.4% identified and 18.2% certified. Greater Omaha boasts of

harvesting 2,000 head in one week for the CHB program with the goal of reaching 2,300 per week on a regular basis.

Cattle numbers required to supply the CHB program continue to create demand for Hereford and Hereford-English baldie cattle. A total of 362,624 cattle were identified through CHB-licensed packing facilities during FY 2014 as eligible from a live specification standpoint, while more than 267,967 carcasses were certified for the program — a certification rate of 74% for FY 2014.

Since the inception of CHB, 4.7 million cattle have been identified through licensed packing plants as meeting the live animal specifications, and 2.9 million carcasses have been certified to carry the CHB name.

CHB tonnage (million lb.) sold



Developing the Next Generation

NJHA, HYFA FY '14 highlights

- ➔ The National Junior Hereford Association (NJHA) hosted the Junior National Hereford Expo (JNHE) in Harrisburg, Pa., with 1,128 entries exhibited by 610 juniors from 36 different states.
- ➔ During the JNHE, youth had the chance to participate in 24 contests outside the showing.
- ➔ Throughout the year, more than \$42,000 in scholarships was presented to Hereford youth.
- ➔ More than 65 Hereford junior leaders participated in the 2014 Program for Reaching Individuals Determined to Excel (PRIDE) Convention hosted in Arkansas. The “Faces of Leadership” event was co-hosted with the American Junior Maine-Anjou and American Junior Shorthorn Associations.
- ➔ The Hereford Youth Foundation of America (HYFA) kicked off its “Growing a Lasting Legacy” campaign to support Hereford youth and future JNHEs. During the inaugural fundraising event \$144,000 was raised.
- ➔ HYFA’s Lot 1 Foundation Female raised \$125,000 for Hereford youth during the Mile High Night Sale on Jan 17. Purchasing the lot was Colyer Herefords, Bruneau, Idaho; Bar One Ranch, Eugene, Ore.; Elm Tree Farm, Paris, Ky.; and GKB Cattle Co., Waxahachie, Texas. Lot 1 — GKB 8144 Notice Me Too B19 ET — was donated by Gary and Kathy Buchholz of GKB Cattle.
- ➔ The Dave McMahon family of Belle Point Ranch, Ft. Smith, Ark., purchased Lot 19 in the Mile High Night Sale in Denver. Donating the lot was P&R Herefords, Leedey, Okla.



Lot 1 Foundation Female sold during the Mile High Night Sale in Denver.



Lot 19 sold during the Mile High Night Sale to support HYFA.



Sue and the late Jim Rowland of G&R Polled Herefords, Marysville, Kan., contributed the inaugural gift kicking off the “Growing a Lasting Legacy” campaign.

Hereford youth from across the U.S. attended “A Sweet Family Tradition” July 5-12 in Harrisburg, Pa.



**American Hereford Association and Subsidiaries
Consolidated Statements of Financial Position
August 31, 2014 and 2013**

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$320,196	\$180,411
Short-term investments	175,335	50,785
Accounts receivable, net	679,990	631,615
Accounts receivable - other	22,682	51,939
Prepaid expenses	17,495	9,450
Inventories	30,400	35,292
Due from Hereford Youth Foundation of America (HYFA)	8,639	-
Due from Junior National Hereford Expo (JNHE)	17,351	-
Total Current Assets	<u>1,272,088</u>	<u>959,492</u>
Investments	<u>2,123,997</u>	<u>2,037,943</u>
Property and Equipment		
Land	462,122	462,122
Building	2,338,975	2,290,047
Furniture and fixtures	353,518	441,809
Vehicles	253,270	229,076
Data processing equipment	211,602	535,281
Software	245,007	474,471
Deduct accumulated depreciation and amortization	<u>(1,634,728)</u>	<u>(2,114,973)</u>
Total Property and Equipment	<u>2,229,766</u>	<u>2,317,833</u>
Other Assets		
Cash temporarily restricted for the National Western Stock Show (NWSS) award	112	2,585
Other	90	90
Total Other Assets	<u>202</u>	<u>2,675</u>
Total Assets	<u>\$5,626,053</u>	<u>\$5,317,943</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$316,586	\$261,360
Accrued expenses	312,319	243,669
Current maturities of long-term debt	26,740	41,751
Prepayments from breeders	107,979	89,163
Deferred subscription and advertising revenue	139,777	146,429
Due to HYFA	-	29,971
Due to JNHE	-	28,535
Total Current Liabilities	<u>903,401</u>	<u>840,878</u>
Long Term Debt, net of current maturities	<u>15,937</u>	<u>43,278</u>
Net Assets		
Temporarily restricted net assets	112	2,585
Unrestricted net assets	<u>4,706,603</u>	<u>4,431,202</u>
Total Net Assets	<u>4,706,715</u>	<u>4,433,787</u>
Total Liabilities and Net Assets	<u>\$5,626,053</u>	<u>\$5,317,943</u>

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

**Consolidated Statements of Activities
for the Years Ended August 31, 2014 and 2013**

	2014	2013
Changes in Unrestricted Net Assets		
Revenues and Support		
Services	\$2,870,984	\$2,607,481
Advertising and subscriptions	1,892,543	1,771,865
Program revenues	1,072,912	1,033,380
Other	600,853	598,590
Net assets released from restrictions	<u>2,500</u>	<u>2,500</u>
Total Revenues and Support	<u>6,439,792</u>	<u>6,013,816</u>
Expenses		
General and administrative	1,955,763	1,938,522
Board of directors' expenses	49,060	40,944
Building expenses	148,239	119,278
Market development and information	530,235	588,513
Junior activities	271,266	238,583
Research and TPR activities	245,988	246,808
Program expenses	2,783,374	2,476,414
Depreciation	<u>178,424</u>	<u>177,807</u>
Total Expenses	<u>6,162,349</u>	<u>5,826,869</u>
Other Income (Expense)		
Realized gain on sale of investments	(26,238)	24,175
Loss on sale of assets	(6,767)	-
Net appreciation (depreciation) in fair value of investments	42,600	(87,597)
Other (expense)	<u>(11,637)</u>	<u>(7,246)</u>
Total Other Income (Expense)	<u>(2,042)</u>	<u>(70,668)</u>
Increase in Unrestricted Net Assets	<u>275,401</u>	<u>116,279</u>
Changes in Temporarily Restricted Net Assets		
Contributions	27	77
Net assets released from restrictions	<u>(2,500)</u>	<u>(2,500)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(2,473)</u>	<u>(2,423)</u>
Increase in Net Assets	<u>272,928</u>	<u>113,856</u>
Net Assets - Beginning Of Year	<u>4,433,787</u>	<u>4,319,931</u>
Net Assets - End Of Year	<u>\$4,706,715</u>	<u>\$4,433,787</u>

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

**Consolidated Statements of Cash Flows
for the Years Ended August 31, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Increase in net assets	\$272,928	\$113,856
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	178,424	177,807
Realized (gain) loss on sale of investments	26,238	(24,175)
Loss on sale of assets	6,767	-
Net (appreciation) depreciation in fair value of investments	(42,600)	87,597
Change in assets and liabilities:		
(Increase) in accounts receivable	(48,375)	(4,931)
(Increase) in accounts receivable – other	29,257	(24,953)
(Increase) decrease in prepaid expenses	(8,045)	35,759
(Increase) decrease in inventories	4,892	(7,310)
Increase (decrease) in prepayments from breeders	18,816	(8,873)
Increase in accounts payable	55,226	77,162
(Increase) decrease in accrued expenses	68,650	(20,069)
(Decrease) in deferred subscription and advertising revenue	(6,652)	(26,372)
(Decrease) in due to HYFA	(38,610)	(25,592)
(Decrease) in due to JNHE	(45,886)	(10,804)
Total Adjustments	<u>198,102</u>	<u>225,246</u>
Net Cash Provided By Operating Activities	<u>471,030</u>	<u>339,102</u>
Cash Flows Used In Investing Activities		
Cash temporarily restricted for NWSS award	2,473	2,423
Purchases of property and equipment	(97,124)	(156,476)
Purchases of investments	(1,107,493)	(1,608,133)
Proceeds from sale and maturity of investments	<u>913,251</u>	<u>1,387,030</u>
Net Cash (Used In) Investing Activities	<u>(288,893)</u>	<u>(375,156)</u>
Cash Flows Used In Financing Activities		
Net proceeds UMB car loan	-	46,545
Repayments on long-term debt	<u>(42,352)</u>	<u>(52,620)</u>
Net Cash (Used In) Financing Activities	<u>(42,352)</u>	<u>(6,075)</u>
Net Increase (Decrease) in Cash And Cash Equivalents	139,785	(42,129)
Cash and Cash Equivalents, Beginning of Year	<u>180,411</u>	<u>222,540</u>
Cash and Cash Equivalents, End of Year	<u>\$320,196</u>	<u>\$180,411</u>

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

**Notes to Consolidated Financial Statements
August 31, 2014 and 2013**

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 magazine periodically. 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 27, 2000. 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 of various breeds.

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

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

Advertising Costs The Association expends advertising costs as they are incurred. Advertising expense was \$415,238 and \$396,021 for the years ended August 31, 2014 and 2013, respectively.

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, 2014 and 2013, 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 \$45,740 and \$37,970 were considered to be cash equivalents as of August 31, 2014 and 2013, 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 \$6,417 and \$5,930 as of August 31, 2014 and 2013, respectively.

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

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, 2014 and 2013. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market values.

Property and Equipment Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The assets are depreciated and amortized over periods ranging from 3 to 30 years. Additions and improvements of \$1,000 or more are capitalized, while maintenance and repairs which do not improve or extend the life of the asset are expensed in the year incurred. Depreciation charged against income amounted to \$178,424 and \$177,807

for the years ended August 31, 2014 and 2013, respectively. During 2014, \$665,437 of fixed assets and \$658,670 of related accumulated depreciation were retired and removed from the August 31, 2014 consolidated statement of financial position. These retired assets included computer equipment and software, office furniture and equipment, and certain building improvements.

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

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

Income Taxes AHA, ABRA, and CHB are exempt from federal income taxes on their primary operations under paragraph 501(c)(5) of the Internal Revenue Code, and therefore have made no provision for federal or state income taxes in the accompanying financial statements. They are, however, subject to income taxes on any net income from unrelated business activities. AHA, ABRA, and CHB have been classified by the Internal Revenue Service as organizations that are not private foundations.

HPI is a taxable entity and is, therefore, subject to federal income taxes. It is HPI's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At August 31, 2014 and 2013, HPI believes it has appropriately accounted for any unrecognized tax benefits. To the extent HPI prevails in matters for which a liability for unrecognized tax benefit is established or is required to pay amounts in excess of the liability, HPI's effective tax rate in a given financial statement period may be affected.

2 — Concentration of Credit Risk

The Association maintains cash accounts that are secured by the Federal Deposit Insurance Corporation (FDIC) to the insured limits of the FDIC. The Association's bank balances may exceed this limit from time to time.

3 — Fair Value Measurements

Fair values of assets measured on a recurring basis at August 31, 2014 and 2013 are as follows:

August 31, 2014	Fair Value	Quoted prices in active markets for identical assets (Level 1)
Equity Securities	\$ 88,203	\$ 88,203
Municipal Bonds	24,695	24,695
Government agency bonds	1,029,033	1,029,033
Corporate bonds	839,822	839,822
Fixed Income Securities	317,579	317,579
Total	<u>\$2,299,332</u>	<u>\$2,299,332</u>
August 31, 2013		
Equity Securities	\$ 62,855	\$ 62,855
Municipal Bonds	23,636	23,636
Government agency bonds	\$ 986,879	\$ 986,879
Corporate bonds	742,010	742,010
Fixed Income Securities	273,348	273,348
Total	<u>\$2,088,728</u>	<u>\$2,088,728</u>

Investments consist of government bonds and notes, corporate bonds and notes, and equity securities which are carried at fair value using quoted prices in active markets for identical assets (Level 1), in accordance with generally accepted accounting standards. Unrealized gains/(losses) on investments were \$42,600 and \$(87,597) for the years ended August 31, 2014 and 2013, respectively. These investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

4 — Retirement Plan

The Association established a defined contribution employee retirement plan for all eligible employees. The plan provides for employer and employee contributions based upon a percentage of annual compensation. Employer contributions for the years ended August 31, 2014 and 2013 were \$86,395 and \$85,734, respectively.

5 — Long-Term Debt

Long-term debt consists of the following at August 31:	2014	2013
Notes - vehicles, collateralized by related vehicles, interest from 2.74% to 5.89%, maturing from January 2015 through November 2017.	\$42,677	\$85,029
Less: Current portion	26,740	41,751
Total Long-Term Debt	<u>\$15,937</u>	<u>\$43,278</u>

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

Year	Amount	Year	Amount
FYE 2015	\$26,740	FYE 2018	\$308
FYE 2016	\$9,855	FYE 2019	-
FYE 2017	\$5,774	Thereafter	-
			<u>\$42,677</u>

Interest expense was \$2,586 and \$4,275 for the years ended August 31, 2014 and 2013, respectively.

6 — Income Taxes

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

	2014	2013
Current	\$ -	\$ -
Deferred		
Temporary differences	36,388	11,796
Change in valuation allowance	(36,388)	(11,796)
	<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 carryforward, resulting in deferred tax assets. The components of the deferred tax assets are as follows at:

Deferred Tax Assets	August 31, 2014	August 31, 2013
Net operating loss carryforwards	\$114,815	\$151,203
Less: Valuation Allowance	(114,815)	(151,203)
	<u>\$ -</u>	<u>\$ -</u>

HPI utilized net operating losses of approximately \$107,025 and \$34,692 for the years ended August 31, 2014 and 2013, respectively.

HPI has net operating loss carryforward of \$337,691 available to offset future federal and state taxable income that expire beginning in 2019 as follows:

Year	Amount	Year	Amount
2019	\$78,212	2022	\$29,681
2020	\$95,052	Thereafter	\$18,452
2021	\$116,294		<u>\$337,691</u>

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

7 — Temporarily Restricted Net Assets

Temporarily restricted net assets are funds donated for the purpose of awarding \$2,500 annually to the champion of the National Western Stock Show in Denver. The balance of temporarily restricted net assets was \$112 and \$2,585 as of August 31, 2014 and 2013, respectively.

8 — Collections

The Association has a collection of artwork, appraised at approximately \$640,500, at August 31, 2014 and 2013, that is on public display at the Association's headquarters. The most recent appraisal is as of August 2011. The Association has adopted a policy of not capitalizing the collection of artwork in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. No items were purchased for or removed from the collection during the years ended August 31, 2014 or 2013.

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

9 — Subsequent Events

Management has evaluated subsequent events through October 3, 2014, 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 financial statements of American Hereford Association (a nonprofit organization) and subsidiaries, which comprise the consolidated statements of financial position as of August 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial position of American Hereford Association and subsidiaries as of August 31, 2014 and 2013, 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.

— Respectfully submitted, Kennedy and Coe, LLC, October 3, 2014

Pursuant to its bylaws, AHA submits the above financial information for its members as of the close of the fiscal years ended August 31, 2014 and 2013.

— American Hereford Association, Craig Huffhines, executive vice president

2013-14 Registrations, Transfers and Memberships

State	Registrations	Transfers	Cow Inventory	Members		Registration Rank
				Active	Juniors	
Alabama	1,037	758	1,310	37	29	24
Arizona	238	12	661	13	6	39
Arkansas	1,049	695	1,414	88	67	23
California	1,534	520	1,511	96	79	18
Colorado	1,245	665	1,907	64	23	21
Connecticut	118	87	230	16	16	41
Delaware	11	16	12	4	1	47
Florida	230	133	249	18	8	40
Georgia	1,865	970	3,022	76	46	11
Idaho	1,624	1,059	2,221	57	40	15
Illinois	2,609	1,948	4,354	190	225	8
Indiana	1,669	1,035	4,111	152	172	13
Iowa	1,726	845	2,725	131	134	12
Kansas	4,801	2,149	5,951	136	90	3
Kentucky	1,403	1,011	2,240	84	62	20
Louisiana	483	435	438	40	39	35
Maine	60	26	29	18	7	43
Maryland	395	266	555	46	86	36
Massachusetts	28	25	35	6	15	45
Michigan	619	622	997	66	50	30
Minnesota	1,561	846	2,862	104	53	17
Mississippi	609	1,363	689	54	45	31
Missouri	3,821	2,420	5,780	196	134	6
Montana	3,217	708	3,804	69	21	7
Nebraska	6,237	2,431	8,333	140	80	2
Nevada	285	174	624	13	6	38
New Hampshire	53	58	39	10	4	44
New Jersey	73	48	94	15	13	42
New Mexico	756	293	1,042	29	7	28
New York	489	178	668	58	41	34
North Carolina	760	444	1,352	58	38	27
North Dakota	2,582	961	4,547	63	20	9
Ohio	929	841	1,578	142	81	25
Oklahoma	4,062	2,269	5,826	168	162	5
Oregon	1,441	1,274	2,119	69	55	19
Pennsylvania	765	586	1,393	79	78	26
Rhode Island	7	0	0	1	0	48
South Carolina	321	332	746	21	9	37
South Dakota	4,528	1,534	7,323	95	54	4
Tennessee	2,047	1,600	3,539	126	71	10
Texas	7,945	5,467	11,355	414	276	1
Utah	516	78	953	23	2	33
Vermont	24	10	94	4	1	46
Virginia	709	665	1,086	59	47	29
Washington	1,194	560	1,644	76	38	22
West Virginia	532	515	1,021	49	28	32
Wisconsin	1,641	905	2,311	128	92	14
Wyoming	1,596	458	2,483	40	19	16
TOTAL	71,444	40,295	107,277	3,641	2,670	

TOP 10

REGISTRATIONS

Top 10 States

Texas	7,945
Nebraska	6,237
Kansas	4,801
South Dakota	4,528
Oklahoma	4,062
Missouri	3,821
Montana	3,217
Illinois	2,609
North Dakota	2,582
Tennessee	2,047

Top 10 Breeders

Upstream Ranch	1,019
<i>Taylor, Neb.</i>	
Rausch Herefords	855
<i>Hoven, S.D.</i>	
Stuber Ranch	463
<i>Bowman, N.D.</i>	
Van Newkirk Herefords	439
<i>Oshkosh, Neb.</i>	
B&D Herefords	424
<i>Clafin, Kan.</i>	
Fawcetts Elm Creek Ranch	406
<i>Ree Heights, S.D.</i>	
MM Ranch	378
<i>Chanute, Kan.</i>	
Holden Herefords	360
<i>Valier, Mont.</i>	
Langford Herefords	351
<i>Okmulgee, Okla.</i>	
Topp Herefords	349
<i>Grace City, N.D.</i>	



Pictured is the 2014 AHA Board of Directors. Seated (l to r) are: **Steve Lambert**, Oroville, Calif., president; **Eric Walker**, Morrison, Tenn., vice president; **Keith Fawcett**, Ree Heights, S.D.; **Dale Venhuizen**, Manhattan, Mont.; and **Craig Huffhines**, Kansas City, Mo., executive vice president. Directors standing (l to r) are: **Joe Van Newkirk**, Oshkosh, Neb.; **David Trowbridge**, Tabor, Iowa; **Jonny Harris**, Screven, Ga.; **Curtis Curry**, McAlester, Okla.; **Dave Bielema**, Grand Rapids, Mich.; **Fred Larson**, Spring Valley, Wis.; **Sam Shaw**, Caldwell, Idaho; and **Terri Barber**, Austin, Texas.

American Hereford Association

Vision Statement

To be the preferred beef breed for producers and consumers.

Mission Statement

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

Strategic Intent Statement

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

Core Strategies

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



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