

FINANCIAL STATEMENTS

AMERICAN SIMMENTAL ASSOCIATION
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 820,606	\$ 1,178,729
Certificates of deposit	-	252,995
Accounts receivable, net of allowance for doubtful accounts of \$12,088 and \$11,789, respectively	559,145	431,488
Inventory	-	8,356
Prepaid expenses	69,567	104,210
Prepaid income tax	8,060	5,361
Deferred income tax assets	10,879	10,972
Total current assets	<u>1,468,257</u>	<u>1,992,111</u>
Foundation Investments	<u>326,469</u>	<u>311,284</u>
Investments	<u>5,503,253</u>	<u>5,373,565</u>
Property and Equipment		
Land	417,768	417,768
Building and improvements	3,555,859	683,126
Computer hardware	44,203	218,282
Office furniture and fixtures	115,010	356,979
Construction in progress	-	1,028,904
Computer system in progress	-	166,802
Less: Accumulated depreciation	<u>(704,969)</u>	<u>(1,128,451)</u>
Total property and equipment, net	<u>3,427,871</u>	<u>1,743,410</u>
Other Assets		
Computer software, net of accumulated amortization of \$255,437 and \$241,090	<u>189,170</u>	<u>-</u>
	<u>\$ 10,915,020</u>	<u>\$ 9,420,370</u>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

AMERICAN SIMMENTAL ASSOCIATION
Consolidated Statements of Financial Position (continued)
As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 221,430	\$ 50,559
Due to members	63,581	67,943
Wages, commissions and payroll taxes payable	18,344	58,458
Accrued annual leave	135,472	142,019
Income taxes payable	4,564	4,577
Deferred revenue	284,202	244,719
Subscriptions received in advance	1,446	3,636
Advertising received in advance	25,142	18,977
	<u>754,181</u>	<u>590,888</u>
Long-Term Liabilities		
Line of credit	315,000	-
	<u>315,000</u>	<u>-</u>
	<u>1,069,181</u>	<u>590,888</u>
Net Assets		
Unrestricted		
Parent company's net assets	7,768,107	5,351,396
Subsidiary's accumulated equity	1,457,962	1,030,989
Foundation's unrestricted net assets	517,309	499,511
Board designated		
Parent company's net assets	-	1,878,543
Restricted		
Foundation's temporarily restricted net assets	102,461	69,043
	<u>9,845,839</u>	<u>8,829,482</u>
	<u>\$ 10,915,020</u>	<u>\$ 9,420,370</u>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

AMERICAN SIMMENTAL ASSOCIATION
Consolidated Statements of Activities
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Change in Unrestricted Net Assets		
Unrestricted Operating Revenue		
Membership fees and registrations	\$ 1,463,880	\$ 1,222,186
Annual service fee	595,496	541,495
Total herd enrollment	1,152,519	1,112,057
Advertising income	864,326	798,152
Production income	137,704	198,094
Transfers	60,035	58,740
Subscriptions	6,790	5,794
DNA revenue	749,332	512,722
Other operating revenue	213,683	286,318
	<u>5,243,765</u>	<u>4,735,558</u>
Unrestricted Operating Expenses		
Advertising	253,919	276,838
Amortization	14,247	877
Bad debt	(258)	3,778
Depreciation	77,208	18,087
Dues and subscriptions	17,010	21,215
Insurance	42,784	47,510
Maintenance and repairs	68,533	42,256
Miscellaneous	-	88
Office expense	33,837	25,934
Penalties	-	370
Personnel	1,822,179	1,721,451
Postage and freight	79,276	85,844
Printing	30,325	17,067
Production of magazine	503,537	528,037
Professional fees	419,668	301,021
Property taxes	10,110	8,012
Services	581,521	390,990
Telephone	38,061	27,641
Travel	369,257	368,260
Utilities	21,538	16,980
	<u>4,382,752</u>	<u>3,902,256</u>
Unrestricted operating income	<u>\$ 861,013</u>	<u>\$ 833,302</u>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

AMERICAN SIMMENTAL ASSOCIATION
Consolidated Statements of Activities (continued)
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Other Income (Expense)		
Interest and dividend income	\$ 190,173	\$ 200,743
Unrealized gain (loss) on investments	(44,014)	(39,534)
Net loss on sale of equipment	(1,854)	-
Foundation support	131,227	115,056
Foundation expenses	(129,834)	(86,855)
Interest Expense	(9,500)	-
Royalties	-	14
	<u>136,198</u>	<u>189,424</u>
Income before provision for income taxes	997,211	1,022,726
Provision for Income Taxes	<u>(14,272)</u>	<u>(20,167)</u>
Change in Unrestricted Net Assets	<u>982,939</u>	<u>1,002,559</u>
Temporarily Restricted Support		
Foundation support	<u>33,418</u>	<u>15,145</u>
Change in Temporarily Restricted Net Assets	<u>33,418</u>	<u>15,145</u>
Total Change in Net Assets	<u>\$ 1,016,357</u>	<u>\$ 1,017,704</u>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

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AMERICAN SIMMENTAL ASSOCIATION
Consolidated Statements of Net Assets
For the Years Ended June 30, 2016 and 2015

	Parent Company's Equity	Subsidiary's Retained Earnings	Foundation's Equity	Total
Net Asset Balances				
June 30, 2014	\$ 6,640,104	\$ 654,105	\$ 517,569	\$ 7,811,778
Change in unrestricted net assets	977,936	376,884	35,840	1,390,660
Change in board designated net assets	(388,101)	-	-	(388,101)
Change in temporarily restricted net assets	-	-	15,145	15,145
Total change in net assets	589,835	376,884	50,985	1,017,704
Net Asset Balances				
June 30, 2015	7,229,939	1,030,989	568,554	8,829,482
Change in unrestricted net assets	2,416,711	426,973	17,798	2,861,482
Change in board designated net assets	(1,878,543)	-	-	(1,878,543)
Change in temporarily restricted net assets	-	-	33,418	33,418
Total change in net assets	538,168	426,973	51,216	1,016,357
Net Asset Balances				
June 30, 2016	\$ 7,768,107	\$ 1,457,962	\$ 619,770	\$ 9,845,839

The Notes to the Consolidated Financial Statements are an integral part of these statements.

AMERICAN SIMMENTAL ASSOCIATION
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 5,116,108	\$ 4,703,517
Cash received from contributions	131,706	130,201
Cash received from credit card royalties	-	14
Cash received from fundraising events	23,755	-
Cash paid to suppliers and employees	(4,078,414)	(4,025,073)
Investment income	190,173	200,743
Income taxes (paid)	(14,285)	(30,264)
Interest expense	(9,500)	-
Support paid	(66,610)	(52,694)
Miscellaneous expenses paid	(63,224)	(34,161)
Net cash flows from operating activities	<u>1,229,709</u>	<u>892,283</u>
Cash Flows From Investing Activities		
Purchases of investments	64,108	(451,554)
Proceeds from sale of property, plant and equipment	1,550	-
Purchases of property and equipment	(1,931,875)	(1,112,350)
Purchases of computer software	(36,615)	-
Net cash flows from investing activities	<u>(1,902,832)</u>	<u>(1,563,904)</u>
Cash Flows From Financing Activities		
Net borrowing under line of credit agreement	315,000	-
Net cash flows from financing activities	<u>315,000</u>	<u>-</u>
Net change in cash and cash equivalents	(358,123)	(671,621)
Cash and cash equivalents at beginning of year	<u>1,178,729</u>	<u>1,850,350</u>
Cash and cash equivalents at end of year	<u>\$ 820,606</u>	<u>\$ 1,178,729</u>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

AMERICAN SIMMENTAL ASSOCIATION
Consolidated Statements of Cash Flows (Continued)
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of change in equities to net cash flows from operating activities		
Change in equities	\$ 1,016,357	\$ 1,017,704
Adjustments to reconcile change in equities to net cash flows from operating activities:		
Depreciation and amortization	91,455	18,964
Net loss on sale of equipment	1,854	-
Unrealized and realized loss on investments	44,014	39,534
Changes in operating assets and liabilities:		
Accounts receivable	(127,657)	(32,041)
Inventory	8,356	-
Prepaid expenses	34,643	32,731
Prepaid taxes	(2,699)	(5,361)
Deferred income tax assets	93	2,031
Trade accounts payable	170,871	(186,334)
Due to members	(4,362)	15,044
Wages, commissions and payroll taxes payable	(40,114)	17,895
Accrued annual leave	(6,547)	3,291
Deferred revenues	39,483	(18,846)
Subscriptions received in advance	(2,190)	(194)
Advertising received in advance	6,165	(2,038)
Income taxes payable	(13)	(10,097)
Total adjustments	<u>213,352</u>	<u>(125,421)</u>
Net cash flows from operating activities	<u>\$ 1,229,709</u>	<u>\$ 892,283</u>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

1. Summary of Significant Accounting Policies

Nature of Activities

The American Simmental Association (the "Association" and the "Parent") is a Montana nonprofit corporation. The primary objectives of the Association are the development, registration and promotion of the Simmental and Simbrah breeds of cattle in the United States. During 1987, the Association formed a wholly-owned for-profit subsidiary, ASA Publication, Inc., a Montana corporation. ASA Publication, Inc. (the "Subsidiary") is a publishing company promoting and advertising the Simmental and Simbrah breeds. During 1995, the Association formed a nonprofit organization, the American Simmental/Simbrah Foundation, Inc (the "Foundation" and the "Affiliate"). The Foundation was organized to stimulate and support research, youth programs and education in the beef industry.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the United States of America ("GAAP"), as codified by the Financial Accounting Standards Board ("FASB").

The accompanying consolidated financial statements include the accounts of the parent company, American Simmental Association, its wholly owned subsidiary, ASA Publication, Inc., and affiliate, American Simmental/Simbrah Foundation, Inc. The parent company is the sole member of the Foundation and has effective control. Intercompany transactions and balances have been eliminated in the presentation of the consolidated financial statements.

Classification of Net Assets

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Accordingly, net assets of the Foundation and changes therein are classified as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. The Board of Trustees may designate unrestricted net assets for specific purposes or programs.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association or Foundation and/or the passage of time.
- Permanently restricted net assets – Net assets that are contributed with donor stipulations that they be held in perpetuity with use of the income for unrestricted purposes. The corpus of the fund must be maintained by interest and investment income is unrestricted.

There are no permanently restricted net assets as of June 30, 2016 or 2015.

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Association considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

ASA has the ability to suspend membership if accounts are not paid so it does not provide for an allowance for doubtful accounts. ASA Publication, Inc., however, does provide for an allowance. This estimate is based on historical collection experience and a review of the current status of accounts receivable.

Accounts receivable are uncollateralized customer obligations under normal trade terms requiring payment within 30 days from the invoice date. It is the policy of ASA Publication, Inc. to assess interest on accounts receivable 30 days past due at a rate of 1.5% per month. If accounts receivable related to the advertising of a sale are paid within 60 days of the sale date, interest charges are reversed. Management individually reviews all delinquent accounts receivable balances. Accounts are written off against the allowance when deemed uncollectible. Recoveries of accounts previously written off are recognized as income when received.

Inventory

Inventory consists of promotional material held for resale, gifts and awards, and general office supplies. Inventories are stated at the lower of cost or market with cost determined using the FIFO (first-in, first-out) method of inventory valuation.

Investments

Investments in marketable debt and equity securities with readily determinable fair values are stated at their fair values based on quoted prices in active markets. Unrealized gains and losses are included in the change in equities.

Property and Equipment

Property and equipment acquisitions and expenditures for betterments, with a cost of \$2,000 or greater and an expected life of at least two years, are recorded at cost. Depreciation of property and equipment is computed using the straight-line method based on estimated useful lives ranging from three to thirty-one and a half years.

Computer Software

Computer software costs are amortized using the straight-line method over the estimated useful life of the software, ranging from four to seven years.

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Recognition of revenue associated with work-in-progress at June 30, 2016 and 2015 is deferred in the accompanying consolidated financial statements until services have been performed.

Fair Value

Fair value is defined as the exchange 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. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs, using the market value approach. GAAP established a fair value hierarchy which prioritizes the valuation inputs into three broad levels:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The Association and Foundation's policy for determining the timing of significant transfers between levels 1, 2 and 3 is at the end of the reporting period.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Mutual funds: Valued at the net asset value (NAV) of shares held by at year end.

Common stock: Valued at the closing price reported in the active market in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association and Foundation believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

Membership Dues and Annual Service Fees

There is a one-time setup fee of \$50 for all new adult members. In addition, there is an annual service fee of \$110, based on the Association's fiscal year of July 1 – June 30. If a member joins ASA in the second half of the fiscal year (January 1 – June 30), the member is charged \$55, half of the service fee. The Association also offers junior memberships which charge an annual service fee of \$50. Similar to adult memberships, a junior member is only charged \$25, half the service fee, if they join in the second half of the fiscal year. Annual service fees are billed to active members at the start of the fiscal year on July 1.

Foundation Support

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenue and expenses as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Affiliate reports that support as unrestricted.

Advertising Costs

Advertising costs are charged to expense when incurred.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year consolidated financial statement presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

Income Taxes

The Association is exempt from income taxes pursuant to Section 501(c)(5) of the Internal Revenue Code. The Foundation is exempt from income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Association's or Foundation's tax-exempt purpose is subject to taxation as unrelated business income. ASA Publication, Inc. does not file a consolidated federal income tax return with the Association, as the Association is a tax exempt corporation.

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

With respect to ASA Publication, Inc., income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of current and deferred income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using the statutory income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. When applicable, a valuation allowance is established to reduce any deferred income tax asset when it is determined that it is more likely than not that some portion of the deferred income tax asset will not be realized.

Subsequent Events

Management has evaluated subsequent events through December 16, 2016, the date which the consolidated financial statements were available for issue.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	<u>2016</u>	<u>2015</u>
Cash - Association	\$ 218,203	\$ 261,523
Certificates of deposit - Association	-	250,670
Cash - Subsidiary	318,286	342,444
Undeposited funds - Subsidiary	-	18,667
Money market accounts - Subsidiary	-	48,155
Cash - Foundation	<u>284,117</u>	<u>257,270</u>
	<u>\$ 820,606</u>	<u>\$ 1,178,729</u>

The Association, the Subsidiary, and the Foundation maintain cash balances at several banks. The non-interest and interest bearing accounts were insured up to \$250,000 by the FDIC. The uninsured balances totaled \$0 for the Association, the Subsidiary, and the Affiliate as of June 30, 2016. For the year ended June 30, 2015, the Association, the Subsidiary and the Affiliate held \$54,452, \$164,403 and \$22,570, respectively, in excess of the federally insured limits.

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

3. Investments

The Association and Foundation maintain investments with a financial institution under the management of third parties in accordance with its investment policy.

The following table represents the Association's and Foundation's investment assets measured at fair value on a recurring basis as of June 30, 2016 and 2015:

Description	June 30, 2016		June 30, 2015	
	Fair Value	Level 1 Inputs	Fair Value	Level 1 Inputs
Mutual funds				
Conservative Growth	\$ 2,942,627	\$ 2,942,627	\$ 2,849,972	\$ 2,849,972
Growth	1,607,365	1,607,365	1,614,674	1,614,674
Income	1,279,730	1,279,730	1,220,203	1,220,203
Total assets at fair value	\$ 5,829,722	\$ 5,829,722	\$ 5,684,849	\$ 5,684,849

4. Due to Members

Due to members consists of member accounts with credit balances. Most of these balances are due to voluntary deposits placed by the members for future services. Other credit balances are due to incomplete services in progress. Pursuant to Rule V of the Association's Rules and Bylaws, any request for services must be accompanied by the appropriate fee payment. Due to incomplete documents, unqualified animals and other reasons, the Association may not be able to render the service requested. If the service cannot be rendered, the fees are credited to the member's account and the papers returned to the member for appropriate action. It is the Association's policy to retain such fees as a credit in the member's account unless a refund is requested.

5. Deferred Revenues

Deferred revenues as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Summer Classic revenues	\$ 103,360	\$ 72,800
Total herd enrollment payments for fall	180,842	154,519
Other registrations	-	17,400
	\$ 284,202	\$ 244,719

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

6. Foundation Temporarily Restricted Assets

The Foundation's temporarily restricted assets are restricted for the following:

	<u>2016</u>	<u>2015</u>
Eastern Regional	44,213	35,601
Bob Walton Scholarship	5,806	4,806
Research & Technology	-	3,875
Feed Intake Project	21,605	8,900
Fall Focus - Educational	12,725	5,525
National Classic Facility	5,215	-
Summit Youth Fund	12,897	-
Saddle & Sirloin	-	10,336
	<u> </u>	<u> </u>
Total	<u>\$ 102,461</u>	<u>\$ 69,043</u>

7. Retirement Plan

The Association has a contributory retirement plan covering substantially all of its permanent employees. ASA Publication, Inc., through the Association, sponsors a contributory retirement plan that covers employees who work at least 500 hours per calendar year. Contributions are determined annually by the Board of Trustees and totaled \$83,389 and \$88,915 for the years ended June 30, 2016 and 2015, respectively.

8. Operating Lease Obligations

ASA Publications, Inc. entered into a five year operating lease agreement for a copier in January 2014. Future minimum lease payments due under the lease are \$7,020 for fiscal year 2017 and 2018, and \$4,095 for fiscal year 2019. Rent expense for the fiscal years ended June 30, 2016 and 2015 was \$7,020 each year. This expense is classified in maintenance and repairs.

9. Income Taxes

The Association's provision for income taxes differs from applying the statutory U.S federal income tax rate to income before taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal income tax purposes. A provision for income taxes has been presented in the accompanying consolidated financial statements as a result of the operations of ASA Publication, Inc. and the unrelated business activities of the Association.

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

9. Income Taxes (Continue)

The components of the benefit (provision) from continuing operations for income taxes for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Current income tax expense		
Federal	\$ (9,979)	\$ (12,136)
State	<u>(4,200)</u>	<u>(6,000)</u>
Total current	<u>(14,179)</u>	<u>(18,136)</u>
Deferred income tax expense		
Federal	(73)	(1,599)
State	<u>(20)</u>	<u>(432)</u>
Total deferred	<u>(93)</u>	<u>(2,031)</u>
Total provision for income taxes	<u>\$ (14,272)</u>	<u>\$ (20,167)</u>

Deferred income tax assets consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Deferred income tax assets		
Accrued annual leave	\$ 7,041	\$ 7,729
Allowance for doubtful accounts	<u>3,838</u>	<u>3,743</u>
	<u>\$ 10,879</u>	<u>\$ 11,472</u>

The deferred tax provisions as of June 30, 2016 and 2015 relate to the cumulative timing differences for accrued annual leave and the allowance for doubtful accounts. Federal estimated tax payments paid by the Subsidiary for the year ended June 30, 2016 were \$10,360 for federal and \$4,480 for state. For the year ended June 30, 2015, \$13,600 was paid for federal estimates and \$5,320 was paid for state estimates.

The Association paid \$0 in federal and \$1,560 in state estimated tax payments for fiscal year 2016 and paid \$0 in federal and state estimates for fiscal year 2015.

Management has determined no valuation allowance related to deferred tax assets is necessary at June 30, 2016 or 2015. The deferred tax asset for accrued annual leave and the allowance for doubtful accounts is expected to be realized.

AMERICAN SIMMENTAL ASSOCIATION
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

9. Income Taxes (Continue)

The reconciliation of income tax attributable to operations computed at the U.S. Federal statutory income tax rate of 15% for and state tax rate of 6.75% to income tax expense is as follows:

	<u>2016</u>	<u>2015</u>
Statutory federal rate	\$ 7,976	14,920
State income taxes	2,154	4,028
Meals and entertainment	344	367
Nondeductible expenses	-	91
Rate adjustment/other/tax credits	(2,326)	(3,816)
UBIT from related organization	6,124	4,577
Actual tax	<u>\$ 14,272</u>	<u>\$ 20,167</u>

The Association and the Subsidiary did incur late payment penalties and interest associated with income taxes for the year ended June 30, 2015. For the Association, the penalties were \$84 and for the Subsidiary they were \$286. With few exceptions, the Association, Subsidiary or Affiliate is no longer subject to examinations by federal and state tax authorities for years before fiscal year 2013.

10. Customers and Credit Concentrations

Substantially all of ASA Publication, Inc's subscription revenue, and a portion of its advertising and catalog and brochure revenue are derived from sales to the Association. The intercompany revenue has been eliminated and is not reflected in the accompanying consolidated financial statements. Except for these transactions, no ASA Publication customer accounted for 10% or more of the net revenues earned during the years ended June 30, 2016 and 2015. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the customer base. Since the Association's objective is the development, registration, and promotion of Simmental and Simbrah breeds of cattle, fluctuations in the cattle market can affect revenue and receivables.

11. Line of Credit

In October of 2015, the Association secured a floating rate (3.25%), non-revolving, line of credit loan for \$1,000,000, due on October 10, 2017. This line of credit was obtained to supplement funding for the new ASA headquarters located at 1 Genetics Way, Bozeman, MT. The line of credit is secured by the previous headquarters at 1 Simmental Way, Bozeman, MT. As of June 30, 2016, \$315,000 of funds have been drawn down on the line of credit, leaving a remaining open balance of \$685,000. The balance of \$315,000 was paid off on November 3, 2016.