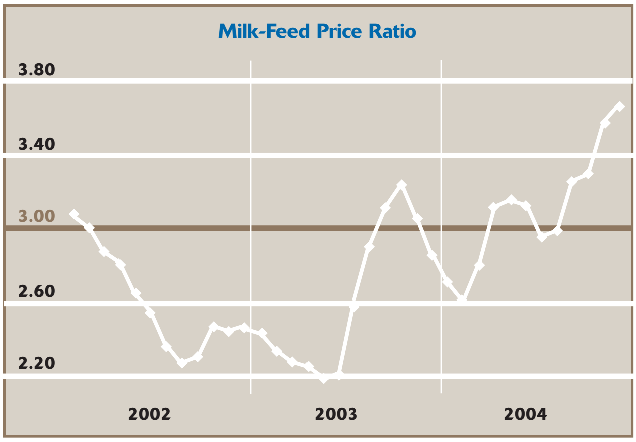
American Jersey Cattle Association
National All-Jersey Inc.
All-Jersey Sales Corporation

2004 Annual Report

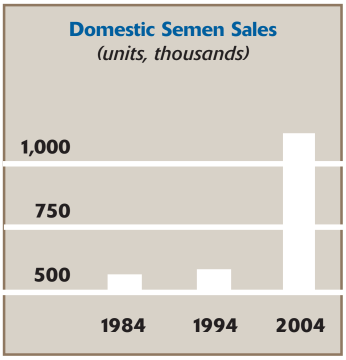
American Jersey Cattle Association
National All-Jersey Inc.
All-Jersey Sales Corporation
Report to the Membership

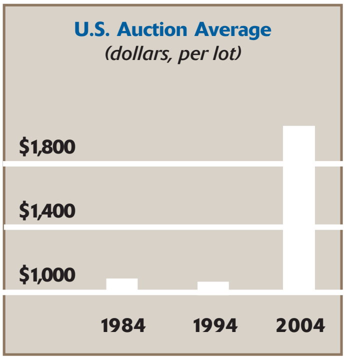


It takes just one graph, the one at left, to recount what happened on dairy farms across the U.S. over the past three years.

In 2002, with more cows in production and more milk produced per cow than the previous year, plus sluggish consumer demand for dairy products, farm milk prices dropped and margins of profit quickly eroded. By April of 2003, the Class I mover reached a 25-year low at $9.64. But then, prices began to reverse course and after a "here we go again" dip during the winter of 2003-04, the Class I mover went up and up, soaring to an all-time high of $21.13 in June.

Everybody makes money when the price of farm milk is good. Low milk prices, on the other hand, affect everyone's profit margin—but not equally. What Jersey owners know, and a number of dairy business owners—mostly those in MCP markets—began to realize over the course of 2002 and 2003 is that low prices affect Jersey profitability less because of the cow's ability to produce valuable milk components—butterfat and protein—in a concentrated and efficient manner. So as profit margins returned and American cheese consumption grew to a record 31.2 lbs. per capita in 2004, orders began to pour out for Jersey cattle and Jersey genetics. The end result:





The Cover

Sales of JerseyTags during 2004 increased 43.3% from 2003 to 49,384 units. Since the first order was filled in November of 2002, 89,250 units have been sold.

2004 was a year of unprecedented demand for Registered Jersey™ genetics and historic prices at auction sales.

The National Association of Animal Breeders reported not one, not even two, but three Jersey semen sales records for 2004. A record total of 1,173,498 units were marketed domestically, a 9.5% increase over 2003 and the second consecutive year over 1 million units. Export sales totaled 579,572 units, a 28.8% increase from the previous year and 56,747 units more than the previous record set in 1997. Combined, the 1,753,070 units from Registered Jersey™ bulls sold in 2004 is an increase of 231,320 units, or 15.2%, over the previous record year.

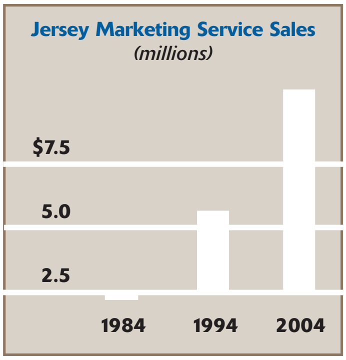
Demand for cattle was great. The supply was short. The prices were high—historically high. The 2004 auction sales average of $2,007.27 on 4,679 lots exceeded the previous record of $1,881.22 (1999) by 6.7% and the 2003 average of $1,695.06 by 18.3%. Milking cows averaged $2,053.18 and bred heifers $1,946.54, with highest prices paid for third trimester heifers, averaging $2,144.85.

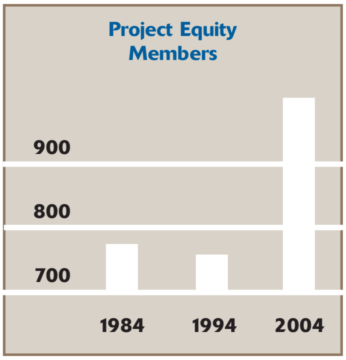
The milestone performances of National All-Jersey Inc. and Jersey Marketing Service leave no room for doubt. Our marketing companies do increase the value of and demand for Jersey milk and Jersey cows.

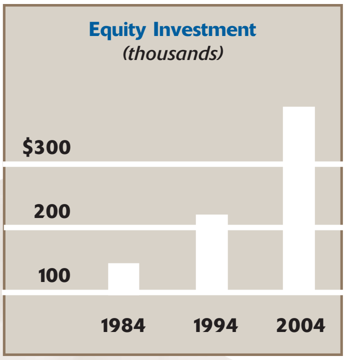
Multiple component pricing is the predominating milk pricing structure in the U.S., but it does not necessarily follow that all producers are paid the full market value of their milk. That is why, by continuing to focus on its fundamentals, National All-Jersey Inc. accomplished significant work in creating new markets and helping producers realize over-order prices during 2004. The development of a market at a condensing plant in southwest Missouri for the Central Equity Cooperative, and providing consultation on a protein premium program for Westby Cooperative Creamery in Wisconsin yielded benefits for all parties. These efforts also helped grow Equity membership by 29%, to a record 1,002 participants and Equity investment to a record $398,126.

Jersey Marketing Service, a subsidiary of National All-Jersey Inc., reported the first $10 million year in its 34-year history. The total value of Registered Jersey™ cattle and genetics marketed by JMS in 2004 was $10,248,271 (6,138 lots). Three more company records were established, for average price, all sales ($1,669.64 per lot); average price, private treaty sales ($1,487.56); and gross value, public auction sales ($7,407,025).

Compared to the '90s, JMS has increased its business by 59.9%, from annual average sales of $5,367,258 for the years 1990 to 1999, to $8,580,824 for the period 2000 to 2004. In 2004, its market share, measured by percentage of transfers, was 31.2%. Ten years previous, its share was 21.2%.







Growth continues in the core program areas of identification and performance evaluation.

The American Jersey Cattle Association recorded 73,030 animals last year. Thus, 2004 became the fourth best year in AJCA history and the sixth consecutive year to register 60,000 or more animals. Genetic Recovery recordings increased by 9.2%. For the first time in the short history of the Jersey Expansion ID service, more than 1,000 J1 females were recorded.

Of the 10 best years for registration activity, three of them occurred in 2002, 2003 and 2004. The annual average for registrations during these three years is 71,594.

The user friendliness of the AJCA data processing system is first among many reasons that the number of registrations processed electronically continues to increase, in 2004, to 56.1% of all applications. In addition to its 24/7 convenience, *infoJersey.com* is the only real-time registration service in the industry.

The pace at which Jersey breeders are adopting approved tamperproof American ID tags for permanent ID quickened in 2004. A total of 9,560 calves were registered with these tags last year, and orders of JerseyTags grew 43% to 49,384 units.

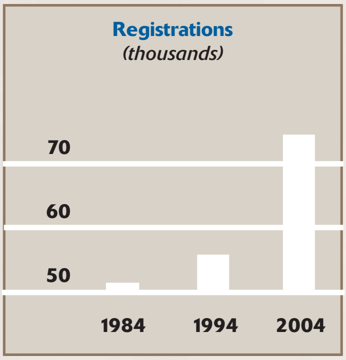
Transfers increased 11.8% over 2003, to 19,697 animals, reversing a two-year downward trend.

The rapid improvement in the dairy economy had a positive effect on AJCA performance programs. The number of cows enrolled on all performance programs increased by 6.9% to 105,026 cows in 2004, the second-best year in history. The number of herds using these services also grew, to 937 from 929 in 2003.

The first 10 years of REAP (registration, Equity, appraisal and performance) came to a close with participation at record, or near-record levels. By December 31, the number of REAP herds had reached an all-time high at 687, up 9.9% over 2003. The number of cows enrolled on REAP was 100,988, an 8.5% increase from 2003 levels and the second-high enrollment in program history.

And 25 years after its introduction, a total of 62,047 cows were scored in the linear Functional Type Traits Appraisal program. 2004 was the third consecutive year that more than 60,000 cows have been scored, and the year's total ranks second only to the record of 67,249 set in 2003.

A total of 138 new lifetime members joined the AJCA in 2004, 13% more than had the previous year. Membership in the American Jersey Cattle Association stands at 2,245 lifetime members and 1,886 junior members.

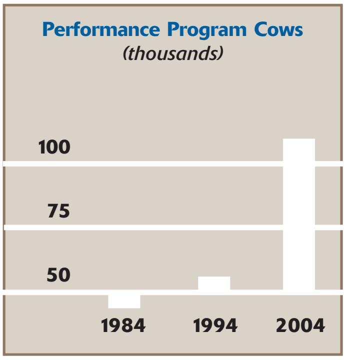


More lactations are processed as breed average production declines slightly.

A record number of 62,340 lactation records were processed during 2004, averaging 18,090 lbs. milk, 826 lbs. fat, and 641 lbs. protein (305-day, 2x mature equivalent).

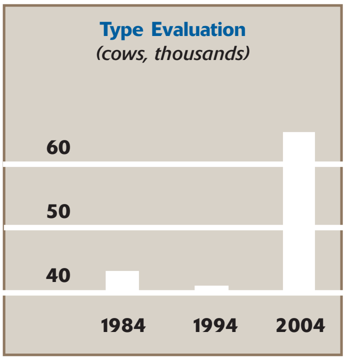
At the upper end of performance, 57 herds were credited with averages of 20,000 lbs. milk or more. There were 23 herds posting averages of 1,000 lbs. fat or more, and 24 herds averaging at least 750 lbs. protein. Heather Pease of Susquehanna, Penna., is the owner of the year's top producing herd, with 12 lactations averaging 26,944 lbs. milk, 1,359 lbs. fat (a new record), and 971 lbs. protein.

On a cheese yield equivalent basis, the breed average stands at 2,163 lbs. Based upon recent trends, the breed lactation average is forecast to reach 20,004 lbs. milk, 908 lbs. fat and 721 lbs. protein by 2010.



Young sire development programs and regional young sire sampling cooperatives play an ever-more important role in advancing genetic progress.

In the 20 years since the first group was organized, major contributions have been made by the five regional young sire sampling cooperatives now administered from the AJCA office: Dixieland Jersey Sires (formed 1985), Liberty Jersey Sires (1986), Dairyland Jersey Sires (1987), Great Western Jersey Sires (1989) and New England Jersey Sires (1990). They have collectively progeny tested 286 bulls, of which 19 were sampled during 2004. Sixty (60) of those bulls have been returned to Active A.I. service, a return rate of 26%. The total of royalties distributed to members surpassed $850,000 during 2004.



The Genetic Diversity Program, introduced in 1997, lived up to its potential when a GDP bull, O.F. Mannix Rebel–ET, was released in May, 2004 as the top Active A.I. sire ranked by Jersey Performance Index™. By the November run, six GDP bulls were among the top 20 Active A.I. sires, plus 11 more who had been enrolled in the parent of the Diversity program, the Young Sire Incentive Program (YSP). Both programs will continue to be key in encouraging progeny testing of high genetic merit young sires for early multi-herd proofs.

Jersey promotion and market development efforts took many forms in 2004.

The only monthly publication in the world devoted exclusively to the Jersey breed, the *Jersey Journal* continued to earn accolades for its editorial content and advertising quality.

2004 was the first year that more than 1,000 J1-prefix females were recorded by the Association. Since April 1, 1999—when the Jersey Expansion ID program was started—the AJCA has recorded 4,400 J1 females and another 2,006 descendants. *Photo: Kathy DeBruin*

Fresh reporting about the benefits of AJCA and NAJ programs and services, plus thorough coverage of sales, shows and industry newsmakers, accentuated the 1,001 pages printed during 2004. The staff produced 563 pages of ads for Jersey owners and commercial clients, an increase of 12.8% over 2003 and making 2004 the sixth consecutive year that sales have exceeded 500 pages. The *Journal* Shopping Center, introduced in April, spurred the interest of commercial advertisers and generated more than $11,000 in revenue for the magazine.

Circulation at year-end stood at 3,080, a 2.9% increase from the previous year that was attributed to subscriptions ordered on a new web site, *JerseyJournal.USJersey.com*. Traffic on that site steadily increased over the year, reaching 750 unique visitors and 5,000 hits per month.

Trade shows, print advertising and web sites were used to reach the rest of the dairy industry with the Jersey profitability message. A new exhibit prominently displaying Productive Life breed comparisons was unveiled at World Dairy Expo. It featured continuous video of outstanding Registered and J1-enrolled cows that drew a stream of people into the booth to discuss Jersey benefits with the presidents of both AJCA and NAJ, several directors and staff. The third *Improving the Bottom Line* program, on April 30 at Long Meadows Farm, Hamburg, Penna., with its focus on Jerseys in management-intensive grazing setups, provided a complement to the first two programs in California and Wisconsin.

Market development also went global in 2004, with staff work in Argentina and Colombia to promote U.S. Jersey genetics. In cooperation with the Wisconsin and Ohio departments of agriculture, the AJCA coordinated a reverse trade mission in early October involving key Jersey producers from Brazil, Costa Rica, Ecuador, Guatemala, and Peru. Its purpose was to demonstrate that U.S. Jerseys are superior performers under any kind of feeding and housing system. The group visited seven herds in Wisconsin and Ohio, met with representatives of the major A.I. companies marketing Jersey genetics, and came to the AJCA offices to learn more about the production, type and genetic evaluation systems used in the U.S.

Finally, the effective *Why Jerseys* was reprinted, and translated into Spanish. Full-color advertising promoting the use of Registered Jersey™ sires was placed in publications targeting operations of 200 or more cows. Last, but not least, the *USJersey.com* web site serves all audiences year-round. In the last month of 2004 alone, it hosted 20,000 sessions, averaging over 10 minutes in length, from nearly 11,000 unique visitors.

In getting to where we are today,
it is we who have directed our destiny.

It could not have happened any other way. The majority of dairy cows in this country is not now, and probably never has been, Jersey.

The milestones and records noted in this annual report are the result of a series of decisions made over a period of 137 years, starting from one premise:

> *"The sole office of the Jersey cow, broadly speaking, is to produce the largest possible amount of rich and highly-colored cream from a given amount of food. Everything else in connection with the breeding of the race is, or should be, incidental. Beauty of form and beauty of color are, of course, desirable, but no wise breeder will give these features more than a secondary position. If they can be secured without detracting from economic value, they are most desirable; but if, in seeking them, we lose sight of the chief aim, we not only do injury to our own interests, but permanently detract from the average value of the whole race."*

The outline history that begins on the next page tells me that, from the beginning, Jersey owners have taken matters into their own hands so that they would have:

- unique tools to identify, select for and perpetuate the profitmaking characteristics of Jerseys; and
- specialized marketing strategies to get the full and fair value of Jersey products.

Now we direct our destiny, to:

- Improve and promote Jersey cattle;
- Maintain records and activities that are in the best interests of Jersey cattle breeders;
- Promote the increased sale of Jersey milk and milk products; and
- Promote the increased sale of Jersey cattle.

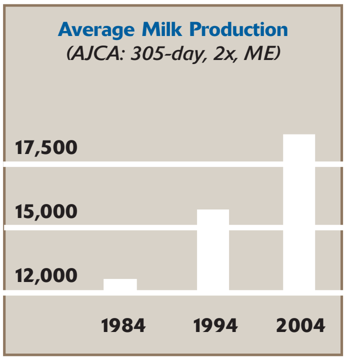
Thank you for your support of and loyalty to the American Jersey Cattle Association and National All-Jersey Inc. I am confident that, by focusing on the chief aim of increasing Jersey profitablility and keeping our history well in mind, we will make the decisions that are required to ensure that the Jersey breed and our organizations reach their full potential.

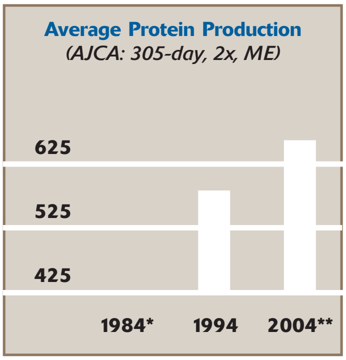
Neal Smith

Executive Secretary and Chief Executive Officer

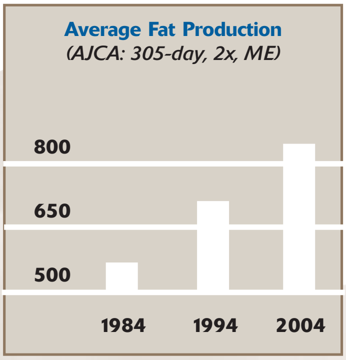
Management Team

Vickie J. White, Accounting; Cherie L. Bayer, Ph.D., Development;
Mark Chamberlain, Information Technology; Kimberly A. Billman, Jersey Journal;
Erick Metzger, National All-Jersey Inc. and AJCA Herd Services;
Herby D. Lutz, Jersey Marketing Service; Cari W. Wolfe, Research & Genetic Program Development





* Not available
** Measured as true protein



1851 First dairy cow registered in America, a Jersey, Lily No. 1, born.

1853 First recorded butter test of Jersey cow, Flora 113, 511 lbs., 2 oz. in 50 weeks.

1868 The American Jersey Cattle Club organized, the first national dairy registration organization in the United States.

1869 First Herd Register published and Constitution adopted.

1872 First Scale of Points for evaluating type adopted.

1880 The AJCC incorporated April 19, 1880 under a charter granted by special act of the General Assembly of New York. Permanent offices established in New York City.

1892 First 1,000-lb. churned butterfat record made (Signal's Lily Flag).

1893 In competition open to all dairy breeds at the World's Columbian Exposition in Chicago, the Jersey herd was first for economy of production; first in amount of milk produced; first in amount of butter; first in amount of cheese; required less milk to make a pound of butter or a pound of cheese; and made the highest quality of butter and cheese.

1903 Register of Merit (ROM) testing established, with the Babcock test used to determine fat content.

1917 First Jersey Calf Clubs organized to encourage interest of boys and girls in the Jersey breed.

1918 First 1,000-lb. fat ROM record (Sophie's Agnes).

1927 The Jersey Creamline milk program established and copyrighted.

1928 Herd Improvement Registry (HIR) testing adopted.

1929 Tattooing required of all Jerseys to be registered.

1932 First type classification program initiated, as were Tested Sire and Tested Dam ratings and Superior Sire awards.

1933 Female registration number 1000000 issued.

1941 By-law amendment providing for selective registration of bulls approved by membership.

1942 The Victory Bull Campaign results in 1,000 Registered Jersey bulls being donated by AJCC members to American farmers.

1944 The Sale of Stars held in Columbus, Ohio, consisting entirely of donated cattle, the proceeds of which are used to purchase a building site for new headquarters.

1946 Debut of the All American Jersey Show and Junior Jersey Exposition. The Sale of Stars is established as an annual national consignment sale, eventually to be renamed The All American Sale.

1948 Transfers for fiscal year 1947-48 establish all-time record at 58,708. Research Department created and cooperative research projects undertaken with Iowa, Kansas, and Ohio State colleges of agriculture. Special research committee named to review Club's research.

1949 Research project on "Relation Between Heifer Type and Type and Production of Cows" undertaken.

1950 The 104 cows owned by E. S. Brigham of St. Albans, Vermont, average 11,703 lbs. milk and 616 lbs. butterfat to become the first herd of 100 or more cows, of any breed, to average more than 600 lbs. on official test.

1953 The AJCC launches *Jersey Journal* on October 5. Registrations total 87,682, setting the all-time record.

1955 The All-Jersey® milk program, originated in Oregon and Washington, goes national.

1956 A second all-donation sale, the All-American Sale of Starlets, raises funds for an expanded youth program.

1957 National All-Jersey Inc. organized.

1958 The All American Jersey Show and Sale revived after seven-year hiatus, with the first AJCC-managed National Jersey Jug Futurity staged the following year.

1959 Dairy Herd Improvement Registry (DHIR) adopted to recognize electronically processed DHIA records as official. All-Jersey® trademark sales expand to 28 states.

1960 National All-Jersey Inc. initiates the 5,000 Heifers for Jersey Promotion Project, with sale proceeds from donated heifers used to promote All-Jersey® program growth and expanded field service.

1964 Registration, classification and testing records converted to electronic data processing equipment.

1967 AJCC Research Foundation created as 501(c)(3) charitable trust sponsoring scientific research.

1968 USDA Predicted Difference sire evaluations, which also introduced concept of repeatability, implemented. AJCC Centennial annual meeting held in conjunction with the International Conference of the World Jersey Cattle Bureau and The All American Show & Sale. The All American Sale averages $4,198.21, highest average ever recorded for a Jersey sale.

1969 First 1,500-lb. fat record (The Trademarks Sable Fashion).

1970 Jersey Marketing Service formed as subsidiary of National All-Jersey Inc., and the next year manages the National Heifer, Pot O'Gold, and All American sales.

1973 Registered Jerseys on official test average 10,304 lbs. milk and 514 lbs. fat (305-day, 2x, m.e.).

1974 Genetic Recovery program approved by membership vote.

1975 First 30,000-lb. milk record (Basil Lucy Minnie Pansy).

1976 Equity Project launched to advocate for component-based milk pricing and higher minimum standards.

1978 First multi-trait selection tool, Production Type Index (PTI), introduced. For first time, Jerseys selling at auction average more than $1,000 per head ($1,026.51).

1980 Registrations total 60,975, of which 11,529 are from Genetic Recovery. Linear functional type traits appraisal program replaces classification. Young Sire Program introduced. "800 in '80" results in 813 Equity Investors.

1982 DHIR lactation average reaches 12,064 lbs. milk and 578 lbs. fat. First 1,000-lb. protein record made (Rocky Hill Silverlining Rockal).

1983 Five bulls enrolled in the Young Sire Program receive USDA summaries. All are plus.

1984 Jersey milk producers receive additional income estimated at $16 million due to Equity market development. The first *Jersey Directory* is published.

1985 First regional young sire proving group, Dixieland Jersey Sires, Inc., organized, with two more set up by 1987.

1986 Jersey Mating Program implemented.

1987 For first time, 50,000 cows enrolled on performance program. Committee appointed to increase the AJCC Research Foundation endowment to $1 million. The largest All American Jersey Show in history is completed, with 617 head exhibited.

1988 USDA issues decision implementing multiple component pricing in the Great Basin Federal Order. DHIR lactation average reaches 13,068 lbs. milk and 616 lbs. fat. The new AJCC-NAJ headquarters building is completed. Laurence and Mary French Rockefeller of The Billings Farm donate $100,000 to the AJCC Research Foundation.

1989 AJCC and NAJ Boards adopt the challenge of increasing protein production in relation to butterfat production.

1990 DHIR lactation average reaches 14,091 lbs. milk, 662 lbs. fat and 524 lbs. protein. The National Jersey Jug Futurity has its largest show ever, with 62 exhibited.

1991 REGAPP software introduces paperless registration. Sunny Day Farm and Meri-Acres become the first Jersey herds to average over 20,000 lbs. milk per cow.

1993 DHIR lactation average reaches 15,231 lbs. milk, 706 lbs. fat and 564 lbs. protein.

1994 The Club is reincorporated in the State of Ohio and its name changed to American Jersey Cattle Association.

1995 REAP—bundling registration, Equity/NAJ membership, performance evaluation and type appraisal—introduced.

1996 After USDA calls for proposals on Federal Order pricing reform, National All-Jersey Inc. is among first to respond, recommending use of end-product pricing for all classes of milk. Breed average reaches 16,051 lbs. milk, 737 lbs. fat and 591 lbs. protein. The average for the All American Sale, $7,793.33, is the highest in its history.

1997 Genetic Diversity Program is introduced. Performance program enrollments exceed 75,000 cows for first time.

1998 Introduction of internet-intranet data processing system delivers real-time registration service and on-demand pedigree information 24/7. Net assets of the AJCC Research Foundation reach $1 million.

1999 On March 31, 1999, USDA issues final rule applying multiple component pricing to 85% of Federal Order production, effective January 1, 2000. Jersey Expansion identification program is introduced. First 2,000-lb. fat record (Golden MBSB of Twin Haven-ET).

2000 DHIR lactation average increases to 17,680 lbs. milk, 807 lbs. fat and 644 lbs. protein. First 40,000-lb. milk and 1,500-lb. protein record (Greenridge Berretta Accent). Jersey Marketing Service completes first $9 million year. All-time record average of $3,626.97 set for the National Heifer Sale.

2001 The 5-millionth animal is registered. Equity's 25 years celebrated and 171 Charter Investors recognized. Performance program enrollments exceed 100,000 for the first time. JerseyMate™ is introduced.

2002 The AJCA records 72,507 animals, the most since 1953. Performance program enrollment reaches a record of 109,608 cows in 916 herds. Cows on REAP total an all-time record of 103,374. Rules are expanded to allow use of approved tamperproof American ID tags for registration ID. Jersey Performance Index™ implemented, with 70% emphasis on production and 30% on fitness traits. The All American Jersey Show & Sale celebrates 50th anniversary. The All American Junior Show is the largest in history at 333 head exhibited.

2003 NAAB reports 1,071,651 units of Jersey semen were sold in the U.S., the first time to exceed 1 million units. Breed production increases to 18,283 lbs. milk, 838 lbs. fat, and 646 lbs. protein, an all-time record. A record number of 67,249 cows are scored in the functional type traits appraisal program. Total investment in Project Equity since 1976 surpasses $5 million. *Jersey Journal* celebrates 50th anniversary of publication.

2004 Registrations total 73,030, including 1,224 J1-prefix females. NAAB reports record semen sales of 1,753,070 units, domestic and export. Auction sales price sets all-time record of $2,007.26 per lot. Jersey Marketing Service has its first $10 million year. Equity membership grows to 1,000 for the first time in history. O.F. Mannix Rebel-ET becomes first Genetic Diversity Program bull to rank first for JPI™ on Active A.I. list. Royalties paid to members of five regional young sire groups since their inception tops $850,000.

To the Members of:
American Jersey Cattle Association and National All-Jersey Inc.

The American Jersey Cattle Association (AJCA) and National All-Jersey Inc. (NAJ) and subsidiary, All-Jersey Sales Corporation (AJSC), reported a combined net income of $429,569 for the year ended December 31, 2004..

Revenues and cost of operations for each company for the year ended December 31, 2004 are summarized as follows:

American Jersey Cattle Association

Revenues	$ 2,501,905
Expenditures	$ 2,200,866
Net Income from All American Show & Sale	$ 17,348
Increase in Net Assets	$ 318,387

National All-Jersey Inc. and Subsidiary

Revenues	$ 1,038,279
Expenditures	$ 927,097
Increase in Net Assets	$ 111,182

The AJCA was issued Anthem, Inc. stock upon the demutualization of Anthem Insurance Companies, Inc. (the Jersey organizations' health insurance provider). The AJCA recognized a gain of $139,436 during 2004 due to the sale of Anthem, Inc. stock.

Combined revenues are as follows:

Identification Services	31%
Performance Services	16%
Cattle Marketing Services	16%
Jersey Journal	14%
Equity	11%
Investments	6%
Other	6%

The organizations' marketable securities are reported at market value of $1,545,609. Accounting Standards require marketable securities to be reported at market value; therefore an unrealized gain was recorded at December 31, 2004 to reflect the variance in cost versus fair market value of the companies' investments.

The companies increased their financial soundness as reported in their net assets at year-end.

American Jersey Cattle Association	$ 1,400,684
National All-Jersey Inc. and Subsidiary	$ 537,435
Total (combined) net assets	$ 1,938,119

The AJCC Research Foundation reported net assets of $978,581 at December 31, 2004. The Research Foundation funded five projects totaling $18,000 in 2004. The eight scholarship funds administered by the AJCA provided scholarships totaling $5,375 in 2004. Total combined net assets in the scholarship funds as of December 31, 2004 were $206,852.

We encourage the membership to review the financial statements and accompanying footnotes prepared by our certified public accounting firm, Hausser + Taylor, LLP. These statements clearly state the financial position of the companies at December 31, 2004.

Respectfully submitted,

Vickie J. White

Vickie J. White
Treasurer

To the Board of Directors
American Jersey Cattle Association
Reynoldsburg, Ohio

Independent Auditors' Report

We have audited the accompanying statements of financial position of American Jersey Cattle Association as of December 31, 2004 and 2003, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Jersey Cattle Association as of December 31, 2004 and 2003, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hausser + Taylor LLC
Columbus, Ohio
February 25, 2005

STATEMENTS OF FINANCIAL POSITION

December 31, 2004 and 2003

ASSETS	2004	2003
CURRENT ASSETS		
Cash and cash equivalents	$ 242,125	$ 33,869
Investments *(Note 8)*	201,067	191,790
Accounts receivable, net of allowance for doubtful accounts of $43,000 and $50,000, respectively	158,168	185,157
Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation	247,809	58,120
Supplies and inventories, at cost	16,860	17,833
Prepaid expenses and other assets	60,658	58,530
Total current assets	926,687	545,299
PROPERTY AND EQUIPMENT, AT COST *(Notes 6 and 7)*		
Land	68,000	68,000
Building	494,448	494,448
Operating equipment	1,223,823	1,236,727
Software development	532,042	532,042
	2,318,313	2,331,217
Less accumulated depreciation	1,610,686	1,574,498
	707,627	756,719
OTHER ASSETS		
Investments:		
Building fund *(Notes 5, 6 and 8)*	858,594	816,681
Total other assets	858,594	816,681
	$2,492,908	$2,118,699

LIABILITIES AND NET ASSETS	2004	2003
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 6)*	$ 49,507	$ 47,098
Current portion of unexpired subscriptions and directory listings	25,119	24,083
Accounts payable	63,833	64,189
Accrued expenses	42,390	30,030
Awards, All American Show & Sale	51,066	45,026
Awards, National Jersey Jug Futurity	11,881	11,198
Unearned fees and remittances	284,444	167,821
Accrued pension obligation *(Note 3)*	311,214	322,860
Total current liabilities	839,454	712,305
NONCURRENT LIABILITIES		
Long-term debt, net of current portion *(Note 6)*	208,617	257,866
Unexpired subscriptions and directory listings, net of current portion	44,153	66,231
	252,770	324,097
Total liabilities	1,092,224	1,036,402
NET ASSETS		
Unrestricted:		
Designated *(Note 5)*	961,476	891,564
Undesignated	439,208	190,733
Total net assets	1,400,684	1,082,297
	$2,492,908	$2,118,699

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2004 and 2003

	2004	2003
REVENUES		
Fees	$1,761,572	$1,684,869
Jersey Journal advertising and subscriptions	514,519	465,445
Interest and dividend income	24,293	21,517
Other	16,731	17,964
Total revenues	2,317,115	2,189,795
COST OF OPERATIONS *(Note 2)*		
Salaries, service, and administrative	1,656,662	1,727,505
Jersey Journal publishing	427,093	423,026
Depreciation	102,689	112,930
Interest expense	14,422	16,707
Total cost of operations	2,200,866	2,280,168
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	116,249	(90,373)
OTHER INCOME (EXPENSE)		
Net gain (loss) from All American Show and Sale	17,348	(2,370)
Net unrealized gain on investments	47,307	133,219
Realized gain on investment *(Note 9)*	137,483	—
Total other income (expense)	202,138	130,849
INCREASE IN NET ASSETS	318,387	40,476
NET ASSETS—Beginning of year	1,082,297	1,041,821
NET ASSETS—End of year	$1,400,684	$1,082,297

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

Statements of Cash Flow have not been included with these reports. A copy is available upon request.

Note 1. Significant Accounting Policies

A. Organization and Purpose. In 1868, The American Jersey Cattle Club was organized. The American Jersey Cattle Club was incorporated under a charter granted by special act of the General Assembly of New York on April 19, 1880. On July 1, 1994, the Club was reincorporated in the State of Ohio, and the name was changed to American Jersey Cattle Association (AJCA or the "Association").

The purposes of the American Jersey Cattle Association, an association of Jersey breeders, are to improve and promote the breed of Jersey cattle in the United States and to maintain such records and activities as the Association deems necessary or conducive to the best interests of the breeders of Jersey cattle. The American Jersey Cattle Association's objective is to provide programs and services to its members that increase the profitability of Jersey cattle.

B. Basis of Accounting. The accrual basis of accounting has been used in the preparation of the financial statements. Revenues for services provided to members are recognized in the period in which the services are performed. Subscription and directory listing revenues are recognized in the period earned.

C. Cash and Cash Equivalents. For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

D. Accounts Receivable. AJCA extends unsecured credit to members under normal terms. Unpaid balances begin accruing interest 30 days after the invoice date at a rate of 1.5% per month. Unless specified by the member, payments are applied first to accrued interest, then to the oldest unpaid invoice. Accounts receivable are presented at the amount billed plus any accrued and unpaid interest. Management estimates an allowance for doubtful accounts, which was $43,000 and $50,000 as of December 31, 2004 and 2003, respectively. The estimate is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. Bad debt expense of $4,425 and $67,281 was recognized for the years ended December 31, 2004 and 2003, respectively, as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence of a member's insolvency or otherwise determines that the account is uncollectible.

E. Property and Equipment. AJCA provides for depreciation in amounts adequate to amortize cost over the estimated useful lives of the assets, utilizing the straight-line method, generally as follows:

Class of Assets	Useful Lives
Building	31 1/2 years
Operating equipment	3 – 10 years
Software development	15 years

Software development represents costs incurred as part of the Member Services Processing System (MSPS).

F. Affiliated Company. AJCA is affiliated with National All-Jersey Inc. (NAJ) and its wholly-owned subsidiary, All-Jersey Sales Corporation (AJSC). These entities conduct operations from the same facility and have certain common directors, officers, and staff. Therefore, it is necessary to allocate jointly incurred expenses, such as salaries, rents, utilities, depreciation, and other costs of service and administration. The costs of operations reflected in the Statement of Activities and Changes in Net Assets of AJCA are net of reimbursements of $97,229 and $71,285 for 2004 and 2003, respectively, from the above-mentioned affiliated companies for these jointly incurred costs. Also, AJSC has available a $175,000, due on demand, line of credit which is collateralized by investments held by AJCA and NAJ. No funds were drawn on the line as of December 31, 2004 or 2003.

G. Income Taxes. AJCA is exempt from Federal taxes on income under Section 501(c)(5) of the Internal Revenue Code, except for income derived from unrelated business activities, as defined in the Code. For 2004 and 2003 these activities include primarily magazine advertising. Income tax expense for 2004 and 2003 amounted to $3,491 and $3,482, respectively.

H. Concentration of Credit Risk. The Association maintains its demand deposits in a financial institution which is insured by the Federal Deposit Insurance Corporation up to $100,000. Cash equivalents and investments are maintained in trust accounts with a trust company. Additionally, AJCA's trade receivables result from registrations and related fees due from members who are located throughout the United States.

I. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Investments. The Association utilizes Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets. See Note 8 for further discussion with respect to investments.

K. Unearned fees and remittances. Unearned fees and remittances represent amounts received in advance for registrations, transfers and total performance evaluation.

L. Supplies and inventories. Supplies and inventories consist of various office supplies which are valued at cost.

M. Reclassifications. Certain reclassifications were made to prior year balances in order to conform to the current year presentation.

Note 2. Functional Expenses

The Association's operating expenses by functional classification for 2004 and 2003 are as follows:

	2004	2003
Records	$ 330,141	$ 339,755
Data Processing	270,137	265,946
Performance	448,158	444,406
Jersey Journal	427,093	423,026
Information	116,484	121,533
Field	298,780	298,769
Accounting, Administration, and General	310,073	386,733
Total cost of operations	$2,200,866	$2,280,168

Note 3. Pension Plans

Effective December 31, 2002, the Board of Directors of AJCA and National All-Jersey Inc. and Subsidiary froze the Defined Benefit Pension Plan (Plan). The Plan's administrator has not determined the amount required to fund the Plan if management would decide to terminate the Plan. The amount required to terminate the Plan could be in excess of the accrued pension obligation.

The Plan was non-contributory and covered substantially all employees 21 years of age or older, who have been employed for one year with at least 1,000 hours of service. AJCA's funding policy was to contribute such amounts as are necessary on an actuarial basis to provide the Plan with sufficient assets to meet the benefits payable to Plan participants. The Plan assets are stated at fair value and primarily consist of bond and mutual funds.

Following are reconciliations of the pension benefit obligation and the value of Plan assets for 2004 and 2003.

	2004	2003
Pension benefit obligations		
Balance, beginning of year	$1,167,300	$1,067,208
Interest cost	76,135	70,925
Actuarial (gain) loss	123,036	70,432
Benefits paid	(48,138)	(41,265)
Balance, end of year	$1,318,333	$1,167,300
Plan Assets		
Fair value, beginning of year	$ 745,907	$ 716,299
Actual returns on plan assets	93,262	61,877
Employer contributions	93,549	8,996
Benefits paid	(48,138)	(41,265)
Fair value, end of year	$ 884,850	$ 745,907
Total accrued pension obligation	$ 433,753	$ 421,393
Less accrual of NAJ and Subsidiary	122,539	98,533
Accrued pension obligation of AJCA	$ 311,214	$ 322,860

Assumptions used in the accounting as of December 31, 2004 and 2003 were:

	2004	2003
Discount rate	6.00%	6.25%
Long-term rate of return	8.00%	8.00%

Pension expense for 2004 and 2003 comprised the following:

	2004	2003
Interest cost	$ 76,135	$ 70,925
Actuarial return on Plan assets	(93,262)	(61,876)
Actuarial (gain) loss	123,036	70,432
Total pension expense	105,909	79,481
Less pension expense of NAJ and Subsidiary	(21,182)	(14,923)
Pension expense of AJCA	$ 84,727	$ 64,558

Weighted-average Plan asset allocations, by asset category:

Equity securities	72%	0%
Debt securities	28%	100%
Total	100%	100%

The investment objective of the Plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. In pursuit of this objective, the Plan's asset allocation shall be consistent with a target of 45% cash and fixed income and 55% equity.

Contributions. The Company expects to contribute at least the amount required to meet minimum funding standards.

Estimated Future Benefit Payments. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2005	$ 45,941
2006	51,719
2007	50,968
2008	50,195
2009	52,030
Years 2010 - 2014	338,955

The Association maintains a 401(k) plan covering substantially all employees who have been employed for one year with at least 1,000 hours of service. The plan allows for a matching contribution of 25% of employees' contributions. Contributions for 2004 and 2003 amounted to $14,426 and $14,236, respectively.

Note 4. Operating Lease

AJCA is obligated under certain lease agreements, for office equipment, which are classified as operating leases. Minimum future payments under the leases are as follows:

Year Ending December 31	Amount
2005	$15,948
2006	15,948
2007	5,316
	$37,212

Lease expense for 2004 and 2003 amounted to $15,974 and $31,774, respectively.

Note 5. Designation of Net Assets

The Board of Directors has designated net assets for the following at December 31:

	2004	2003
Building - established with original proceeds from sale of former operating facility; invested in securities and used as collateral for building loan *(see Notes 7 and 9)*	$ 858,594	$ 816,681
Research and development - increased annually on a discretionary basis	102,882	74,883
	$ 961,476	$ 891,564

In 2004 and 2003, there were no expenditures from the research and development designated net assets.

Note 6. Long-Term Debt

Liability for long-term debt on the building is shared jointly by AJCA and NAJ. The Boards of Directors of AJCA and NAJ have agreed to reflect the building and debt on a ratio of 85% to AJCA and 15% to NAJ, based on the occupancy being utilized by the respective organizations.

Long-term debt consists of the financing for the development of computer software and building improvements. The long-term note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2004 and 2003, the note has a total outstanding balance of $303,675 and $358,505, respectively. Liability for this debt is shared jointly by AJCA, National-All Jersey Inc. and All-Jersey Sales Corp. The Board of Directors of AJCA and NAJ have agreed to allocate the cost of the software and applicable debt at a ratio of 85% to AJCA, 7.5% to NAJ, and 7.5% to AJSC, based on expected utilization by the respective organizations. AJCA's share amounts to $258,124 and $304,964 at December 31, 2004 and 2003, respectively. The note was collateralized by AJCA's investment securities obtained from the proceeds of the sale of a former operating facility *(see Notes 5 and 8)*.

Principal payments required on these long-term notes are summarized as follows:

Year Ending December 31	Amount
2005	$ 49,507
2006	52,040
2007	54,703
2008	57,501
2009	44,373
	$ 258,124

Note 7. Line of Credit

At December 31, 2004 and 2003, the AJCA has available a $100,000, due on demand, line of credit with interest payable monthly at prime (5.25% and 4% at December 31, 2004 and 2003, respectively). The line is collateralized by investments held by AJCA and NAJ *(Note 8)*. No funds were drawn on the line as of December 31, 2004 or 2003.

Note 8. Investments

Investment securities are carried at fair market value, based on market quotes, at December 31, 2004 and 2003 and are composed of the following:

	2004 Cost	2004 Fair Value	2003 Cost	2003 Fair Value
Investments included in:				
Current assets:				
Money market	$ 17,187	$ 17,187	$ 33,593	$ 33,593
Mutual funds	202,599	183,880	185,837	158,197
	219,786	201,067	219,430	191,790
Building fund:				
Money market	25,745	25,745	45,233	45,233
Mutual funds	925,944	832,849	905,795	771,448
	951,689	858,594	951,028	816,681
	$1,171,475	$1,059,661	$1,170,458	$1,008,471

Investment income for 2004 and 2003 consists of the following:

	2004	2003
Interest and dividend income	$ 25,874	$ 22,786
Net unrealized gain on investments	50,174	141,297
	$ 76,048	$164,083

The investment income attributable to All American Show and Sale is as follows and has been reflected in the "net gain (loss) from All American" on the Statement of Activities.

	2004	2003
Interest	$ 1,581	$ 1,269
Net unrealized gain	2,906	7,760
	$ 4,487	$ 9,029

Note 9. Net Gain on Anthem Stock

The Company recognized a gain amounting to $139,436 which is net of $117,433 paid to the plan participants during 2004 due to the sale of Anthem, Inc. stock. The stock had been received upon demutualization of Anthem, Inc. The U.S. Department of Labor concluded the health plan participants were entitled to receive a portion of the proceeds because they had contributed to the cost of the premiums. This amount is included in realized gain on investment in the Statement of Activities and Changes in Net Assets.

To the Board of Directors
National All-Jersey Inc.
Reynoldsburg, Ohio

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of National All-Jersey Inc. and Subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National All-Jersey Inc. and Subsidiary as of December 31, 2004 and 2003, and the changes in their consolidated net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hausser + Taylor LLC
Columbus, Ohio
February 25, 2005

National All-Jersey Inc. and Subsidiary

Consolidated Statements of Financial Position • Consolidated Statements of Activities and Changes In Net Assets

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2004 and 2003

ASSETS	2004	2003
CURRENT ASSETS		
Cash and cash equivalents	$ 405,559	$ 34,781
Custodial cash	559,357	181,793
Investments *(Note 9)*	485,948	466,804
Accounts receivable, net of allowance for doubtful accounts of $6,500 in 2004 and 2003	159,661	132,429
Interest receivable	1,621	1,048
Prepaid expenses	1,806	1,728
Deferred income taxes *(Note 7)*	1,400	1,400
Total current assets	1,615,352	819,983
PROPERTY AND EQUIPMENT, AT COST *(Note 6)*		
Land	12,000	12,000
Building	87,256	87,256
Furniture and Equipment	4,735	4,377
Software development	79,652	79,652
Vehicles	98,076	83,955
	281,719	267,240
Less accumulated depreciation	139,753	114,201
	141,966	153,039
OTHER ASSETS		
Deferred income taxes *(Note 8)*	10,700	10,700
	$1,768,018	$ 983,722

LIABILITIES AND NET ASSETS	2004	2003
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 6)*	$ 8,737	$ 19,671
Accounts payable	1,944	5,683
Advances due to American Jersey Cattle Association	247,809	58,120
Fees due consignors	704,569	262,870
Accrued expenses	58,743	20,336
Advances and reserves for advertising *(Note 3)*	31,828	31,828
Deferred income	17,600	14,922
Accrued pension obligation *(Note 5)*	122,539	98,533
Total current liabilities	1,193,769	511,963
NONCURRENT LIABILITIES		
Long-term debt, net of current portion *(Note 6)*	36,814	45,506
	36,814	45,506
Total liabilities	1,230,583	557,469
NET ASSETS		
Unrestricted:		
Designated *(Note 4)*	71,775	61,855
Undesignated	465,660	364,398
Total net assets	537,435	426,253
	$1,768,018	$ 983,722

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2004 and 2003

	2004	2003
REVENUES		
Equity project fees	$398,126	$357,956
Commissions	596,914	372,476
Interest and dividend income	10,406	9,410
Other	14,692	18,845
Total revenues	1,020,138	758,687
COST OF OPERATIONS *(Note 2)*		
Salaries, service, and administrative	836,322	772,188
Field services	56,413	40,935
Bad debt expense	6,215	—
Depreciation	25,552	33,527
Interest	2,545	2,945
Total costs of operations	927,047	849,595
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	93,091	(90,908)
OTHER INCOME		
Net realized and unrealized gain on investments	18,141	48,440
INCREASE (DECREASE) IN NET ASSETS BEFORE BEFORE INCOME TAXES	111,232	(42,468)
INCOME TAX (BENEFIT) EXPENSE *(Note 7)*	50	(5,359)
INCREASE (DECREASE) IN NET ASSETS	111,182	(37,109)
NET ASSETS - Beginning of year	426,253	463,362
NET ASSETS - End of year	$537,435	$426,253

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

Statements of Cash Flow have not been included with these reports. A copy is available upon request.

Note 1. Significant Accounting Policies

A. Organization and Purpose. National All-Jersey Inc. (NAJ) (the "Company") was incorporated in the State of Ohio in 1957. Its purpose is to promote the increased production and sale of Jersey milk and milk products, and to promote Jersey cattle and the interests of breeders of Jersey cattle.

All-Jersey Sales Corporation (AJSC) (Subsidiary), a wholly-owned subsidiary of National All-Jersey Inc. was incorporated in the State of Ohio in 1961. It is a for-profit corporation with the original purpose of developing and selling All-Jersey milk advertising materials. In 1970, the corporation started a cattle marketing service, Jersey Marketing Service (JMS). The purpose of Jersey Marketing Service is to provide marketing assistance to buyers and sellers of Jersey cattle and embryos.

The objectives of both National All-Jersey Inc. and All-Jersey Sales Corporation are to increase the value of and demand for Jersey milk and cattle.

B. Principles of Consolidation. The consolidated financial statements include the accounts of NAJ and its wholly-owned subsidiary, AJSC. All significant intercompany accounts and transactions have been eliminated.

C. Basis of Accounting. The accrual basis of accounting has been used in the preparation of the consolidated financial statements.

D. Cash and Cash Equivalents. For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

E. Custodial Cash. The Company maintains cash due consignors in separate custodial cash accounts. See Note 1K for further discussion.

F. Affiliated Company. National All-Jersey Inc. and its wholly-owned subsidiary, All-Jersey Sales Corporation, are affiliated with American Jersey Cattle Association (AJCA) (the "Association"). These entities conduct operations from the same facility and have certain common directors, officers, and staff. Therefore, it is necessary to allocate jointly incurred expenses, such as salaries, rents, utilities, depreciation, and other costs of services and administration. The cost of operations reflected in the Consolidated Statements of Activities and Changes in Net Assets of the Company for 2004 and 2003 include reimbursements of $97,229 and $71,285, respectively, paid to the Association for these jointly incurred costs.

G. Property and Equipment. The Company provides for depreciation in amounts adequate to amortize cost over the estimated useful lives of the assets, utilizing the straight-line method, generally as follows:

Class of Assets	Estimated Useful Lives
Building	31 1/2 years
Software development	15 years
Vehicles	5 years

Software development represents costs incurred as part of the Member Services Processing System (MSPS).

H. Concentration of Credit Risk. The Company maintains its demand deposits in one financial institution which is insured by the Federal Deposit Insurance Corporation up to $100,000. Cash equivalents and investments are maintained in trust accounts with a trust company. The Company's cattle sales are primarily to domestic buyers. The Company minimizes credit risk with foreign buyers by requiring irrevocable letters of credit or cash upon sale until they have established a business relationship and understanding with the buyer.

I. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Income Taxes. National All-Jersey Inc. is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. All-Jersey Sales Corporation is not exempt from income taxes.

K. Fees Due Consignors. Fees due consignors represent amounts due to sellers of Jersey cattle from public auctions and private treaty sales managed by JMS.

L. Accounts Receivable. JMS extends credit to buyers of cattle at public auction. JMS typically does not pay sellers of cattle until collection from buyers has occurred for dispersal auction sales, per the sales contract. JMS typically guarantees payment to consignors of public consignment auction sales based on the selling price of the consignment. Accounts receivable are reflected at their billed amount. Management estimated an allowance for doubtful accounts, which was $6,500 as of December 31, 2004 and 2003. Bad debt expense of $6,215 and $-0- was recognized for 2004 and 2003, respectively, as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence that the account is uncollectible.

M. Investments. The Company utilizes Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Consolidated Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets. See Note 9 for further discussion with respect to investments.

N. Reclassifications. Certain reclassifications were made to prior year balances in order to conform to the current year presentation.

Note 2. Functional Expenses

The Company's operating expenses by functional classifications for 2004 and 2003 are as follows:

	2004	2003
National All-Jersey Equity program	$287,494	$309,913
Accounting, administration, general and field service	74,509	65,074
All-Jersey Sales (JMS)	565,044	474,608
Total cost of operations	$927,047	$849,595

Note 3. Advances and Reserves for Advertising

	December 31,	
	2004	2003
5% National - represents funds accumulated as a percentage of member advances to be applied to the cost of national or regional advertising for the benefit of all members	$31,828	$31,828

Note 4. Designation of Net Assets

The Board of Directors has designated net assets for the following:

	December 31,	
	2004	2003
Research and development: Increased annually on a discretionary basis. In 2004 and 2003, no appropriations were made.	$71,775	$ 61,855

Note 5. Pension Plans

Effective December 31, 2002, the Board of Directors of National All-Jersey Inc. and AJCA froze the Defined Benefit Pension Plan (Plan). The Plan's administrator has not determined the amount required to fund the Plan if management would decide to terminate the Plan. The amount required to terminate the Plan could be in excess of the accrued pension obligation.

The Plan was non-contributory and covered substantially all employees 21 years of age or older, who have been employed for one year with at least 1,000 hours of service. AJCA's funding policy was to contribute such amounts as are necessary on an actuarial basis to provide the Plan with sufficient assets to meet the benefits payable to plan participants. The Plan assets are stated at fair value and primarily consist of bond and stock funds.

Following are reconciliations of the pension benefit obligation and the value of Plan assets for 2004 and 2003.

	2004	2003
Pension benefit obligations		
Balance, beginning of year	$1,167,300	$1,067,208
Interest cost	76,135	70,925
Actuarial (gain) loss	123,036	70,432
Benefits paid	(48,138)	(41,265)
Balance, end of year	$1,318,333	$1,167,300
Plan Assets		
Fair value, beginning of year	$ 745,907	$ 716,299
Actual returns on plan assets	93,262	61,877
Employer contributions	93,549	8,996
Benefits paid	(48,138)	(41,265)
Fair value, end of year	$ 884,850	$ 745,907
Total accrued pension obligation	$ 433,753	$ 421,393
Less accrual of AJCA	311,214	322,860
Accrued pension obligation of NAJ and Subsidiary	$ 122,539	$ 98,533

Assumptions used in the accounting as of December 31, 2004 and 2003 were:

	2004	2003
Discount rate	6.00%	6.25%
Long-term rate of return	8.00%	8.00%

Pension expense for 2004 and 2003 comprised the following:

	2004	2003
Interest cost	$ 76,135	$ 70,925
Actuarial return on Plan assets	(93,262)	(61,876)
Actuarial (gain) loss	123,036	70,432
Total pension expense	105,909	79,481
Less pension expense of AJCA	(84,727)	(64,558)
Pension expense of NAJ and Subsidiary	$ 21,182	$ 14,923

Weighted-average plan asset allocations, by asset category:

Equity securities	72%	0%
Debt securities	28%	100%
Total	100%	100%

The investment objective of the Plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. In pursuit of this objective, the Plan's asset allocation shall be consistent with a target of 45% cash and fixed income and 55% equity.

Contributions. The Company expects to contribute at least the amount required to meet minimum funding standards.

Estimated Future Benefit Payments. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2005	$ 45,941
2006	51,719
2007	50,968
2008	50,195
2009	52,030
Years 2010 - 2014	338,955

The Company maintains a 401(k) plan covering substantially all employees who have been employed for one year with at least 1,000 hours of service. The plan allows for a matching contribution of 25% of employees' contributions. Contributions for 2004 and 2003 amounted to $4,620 and $3,762, respectively.

Note 6. Long-Term Debt

Liability for long-term debt on a building is shared jointly by AJCA and NAJ. The Board of Directors of AJCA and NAJ have agreed to reflect the building and debt on a ratio of 85% to AJCA and 15% to NAJ, based on the occupancy being utilized by the respective organizations.

Long-term debt consists of the financing of the development of computer software and building improvements. The long-term note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2004 and 2003, the note has a total outstanding balance of $303,675 and $358,781, respectively. Liability for this debt is shared jointly by AJCA, National All-Jersey Inc. and All Jersey Sales Corporation. The Board of Directors of AJCA and NAJ have agreed to allocate the cost of the software and applicable debt at a ratio of 85% to AJCA, 7.5% to NAJ and 7.5% to AJSC, based on expected utilization by the respective organizations. NAJ's and AJSC's share amounts to $45,551 and $53,817 at December 31, 2004 and 2003, respectively. The long-term debt is collateralized by AJCA's investment securities.

Principal payments required on the long-term note is summarized as follows:

Year Ending December 31:	Amount
2005	$ 8,737
2006	9,184
2007	9,653
2008	10,148
2009	7,829
	$45,551

Note 7. Income Taxes

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. The deferred tax asset results from allowance for doubtful accounts, and a net operating loss carryforward for tax purposes. The deferred tax liability results from different depreciation lives for software for tax and financial reporting purposes.

The provision (benefit) for income taxes for the years ended December 31, 2004 and 2003 consists of the following:

2004	Federal	State and Local	Total
Current	$ —	$ 50	$ 50
Deferred	—	—	—
	$ —	$ 50	$ 50

2003	Federal	State and Local	Total
Current	$ 7,926	$ 541	$ 8,467
Deferred	(8,572)	(5,254)	(13,826)
	$ (646)	$ (4,713)	$ (5,359)

At December 31, 2004, the Company has available federal and state net operating loss carryforwards of approximately $77,000 and $119,000 respectively, which expire between 2022 and 2023 as follows:

	Federal	State
2022	$ —	$ 35,000
2023	77,000	84,000
	$ 77,000	$119,000

Note 8. Line of Credit

At December 31, 2004 and 2003, the Company has available a $175,000, due on demand, line of credit with interest payable monthly at prime (5.25% and 4% at December 31, 2004 and 2003, respectively). The line is collateralized by investment securities held by NAJ and American Jersey Cattle Association. No funds were drawn on the line at December 31, 2004 or 2003.

Note 9. Investments

Investment securities are carried at fair value, based on market quotes at December 31, 2004 and 2003 and are composed of the following:

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Money market	$ 117,138	$ 117,138	$ 149,506	$ 149,506
Mutual funds	406,355	368,810	372,736	317,298
	$ 523,493	$ 485,948	$ 522,242	$ 466,804

Investment income for 2004 and 2003 consists of the following:

	2004	2003
Interest and dividend income	$ 10,406	$ 9,410
Net realized and unrealized gain on investments	18,141	$48,440
	$ 28,547	$57,850

American Jersey Cattle Association
National All-Jersey Inc.
All-Jersey Sales Corporation

Leading Indicators of Jersey Breed Growth and Improvement

	2004	1994	1984	Change *('04 v. '84)*
Identification				
Animals recorded	73,030	56,165	50,192	+ 45.5%
Animals transfered	19,697	24,213	24,623	- 20.0%
Performance Programs				
Herds enrolled	937	691	724	+ 20.4%
Cows enrolled	105,026	52,371	46,655	+125.1%
Production (DHIR: 305-day, 2x, ME)				
Protein *(true protein)*	641	543	—	
Milk	18,090	15,567	12,501	+ 44.7%
Fat	826	719	598	+ 38.1%
Equity Investment	$398,126	$207,280	$139,449	+185.5%
Jersey Marketing Service				
Gross for private treaty sales	$2,841,246	$1,854,220	$1,141,548	+148.9%
Gross for public sales	7,407,025	3,144,596	1,158,944	+539.1%
Combined Net Assets	$1,938,119	$1,822,515	$1,409,809	+ 37.5%

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