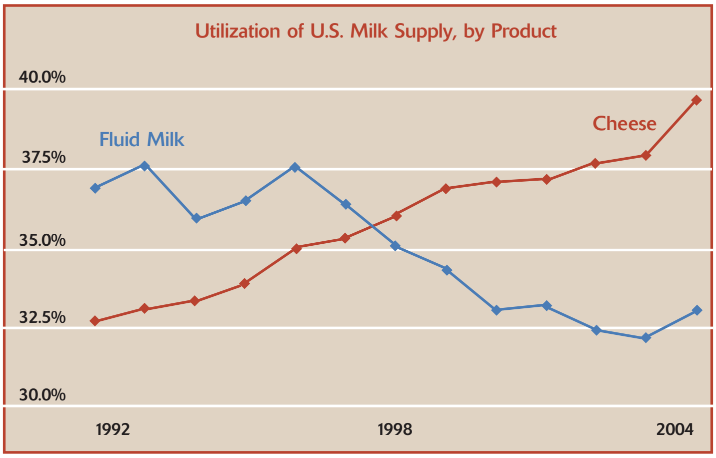
2005 Annual Report

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



Source: Computations by Milk Industry Foundation based on data from the USDA, National Agricultural Statistics Service.

The Food and Agricultural Policy Research Institute reports that in 2005 on a per capita basis, Americans consumed 262 pounds of dairy products. They ate more cheese than ever before—a record 31.5 pounds. Their consumption of butter and ice cream was equal to that of the previous year, but their desire for fluid milk and related products declined. Per capita, consumption of dairy products was six pounds less than what it had been in 2004.

Responding to desires of consumers, two-thirds of the U.S. milk supply is made into products where component levels determine yield. Right at 40% of the milk supply, by itself, goes to cheese production and cheese has been the single largest use of milk since 1998, the year that it took over the top spot from fluid milk. There will be no turning back. FAPRI projects that by 2015, cheese consumption will increase to 34.3 lbs. per capita even as consumption of fluid milk and related products continues to decline.

In the highly competitive cheese business, the edge goes to those plants with the greatest efficiency. That is most easily created by processing a better milk—high component milk—so that while the same volume is run through the facility, more cheese comes out the back end. It's the key to profitability, and viable, sustainable markets for producer milk exist only when there are profits to be had.

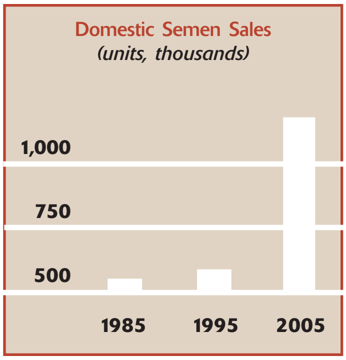
This, and not mere demographics of farm-level production—more milk per cow, larger herd sizes, fewer total cows, fewer farms—is the fundamental calculus of the dairy business. How milk is utilized today and, more importantly, will be in the future is the signal for dairymen to produce more pounds of protein and fat in the least amount of water. And, like the cheese plant operator, milk producers will do everything possible to accomplish that in the most efficient, least-cost way.

Towards that end, they are turning to Registered Jersey™ genetics.

The Jersey's commercial appeal cannot be pinpointed to one factor, but rather to a multitude of reasons split into "things that enhance revenue" and "things that control costs."

Under Federal Order multiple component pricing for all of 2005, Jersey milk *(4.56% fat, 3.49% true protein, 12.07 lbs. cheese yield)* was valued 15.8% higher ($2.39 per cwt.) on average across all orders compared to the statistical blend price *(milk testing 3.5% fat, 2.99% protein)*. Long-term studies show, and producers confirm, that Jerseys produce the most valuable components of milk—protein and fat—more efficiently and at less cost, thus increasing net returns to the dairy enterprise.

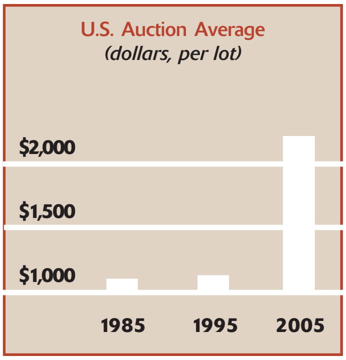
In 2005, the complex Jersey story became more widely known. Regional and national media published more profiles of Jersey producers than ever before, noting revenue-enhancing breed advantages like higher value milk, reproductive efficiency, longer herd life and greater potential for internal herd growth. There were more stories about the satisfaction producers feel for their Jersey-sired cows, citing increased component test (meaning higher value milk), heat tolerance, freedom from foot and leg problems, and increased fertility. There were more positive mentions of these, and other Jersey advantages in popular press articles, as well as more research-based pieces reporting comparative advantages in the areas of calving ease, reproduction, feed efficiency, and overall cost of production.



The good news about Jerseys is being reflected in rapid and sustained growth in sales of Jersey semen and Jersey cattle, and of the Jersey population in general.

All previous records for Registered Jersey™ semen sales, established only the previous year, were shattered in 2005, according to statistics provided by the National Association of Animal Breeders. The breed's domestic market share increased from 7.0% to 7.45%.

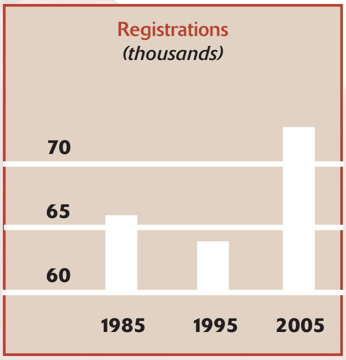
For the third consecutive year, domestic semen sales exceeded one million units. The total, 1,326,715 units, represents an increase of 13.1%, making 2005 the third of the past four years to post a double-digit increase. Export sales grew to 646,912 units, up 11.6% over the previous year. The combined total of 1,973,627 units represents an increase of 220,557 units (12.6%) from the previous record year.



Public auction sales reported to *Jersey Journal* for 2005 generated gross receipts of $7.8 million, with 3,451 lots selling for an average of $2,257.16. That was a 12.4% increase over the previous record of $2,007.26 on 4,679 lots established in 2004.

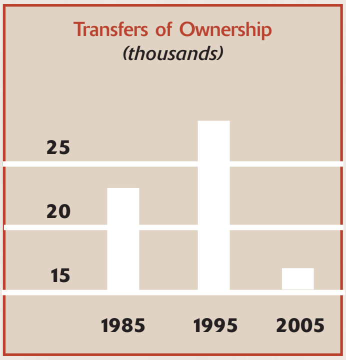
The 46 sales appealed to the broadest spectrum of buyer interest. 2005 was the year in which a record was broken for the high selling female in U.S. auction history. Llolyn Jude Griffen–ET sold for $80,000 at the Field of Dreams Sale III, going on to be named the 2005 National Grand Champion for new owners Peter Vail and Budjon Farms, Lomira, Wis. That event, on June 4 in West Union, Iowa, was the year's top average sale at $5,495.71 on 99 lots. Six sales offering 200 or more head were also reported, the Deep South-Southeast Heifer Growers South Sale on April 16 in Sylacauga, Ala., posting both top gross ($606,050) and average ($2,149.11 on 282 sold) among these.

Prices reflected not just the earning power of Jerseys, but the added value of the genetic and management information that comes with Registered Jerseys™. Across all reported sales, milking cows averaged $2,544.86 and bred heifers $2,182.67, with highest prices paid for third trimester heifers, averaging $2,274.77.



The percentage of U.S. cows identified as Jersey, based upon DHI enrollment as of December 31, increased to 4.15%, leading to an estimated national population of 375,000 milking cows. *Hoard's Dairyman*, using both DHI enrollment and semen sales figures, placed the Jersey population at 4.7% of all cows, or approximately 423,000.

For the national Jersey organizations, 2005 was the best year in history with new records established for major programs.



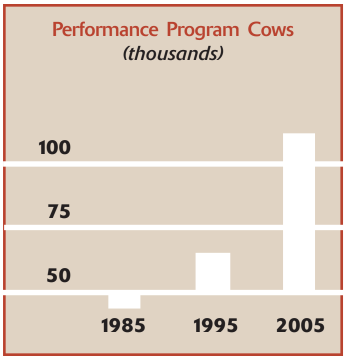
2005 became the fifth best year for registrations in the history of the American Jersey Cattle Association and the seventh consecutive year that the AJCA recorded at least 60,000 animals. The year-end total was 72,885 registrations, of which 13,883 were processed in December alone. The percentage of registrations processed electronically increased to 59.5% in 2005, from 56.1% the previous year. Transfers declined to 16,197 animals.

2005 was the thirtieth anniversary of Genetic Recovery, the program that spurred breed growth during the 1980s and that continues to be an important service for identifying and tracking Jersey genetics. Since its introduction on January 1, 1975, the AJCA has recorded 284,302 females in the three steps: 113,281 OAs, 93,707 PRs, and 77,314 GRs. These represent 16.3% of all animals recorded from 1975 through 2005. Including descendants, many up to 10 generations from an Original Animal, over 550,000 Jerseys have been identified through Genetic Recovery.

Orders of JerseyTags grew 35.0% to 66,664 units. This included 4,900 RFID tags, which were introduced midway through the year. A total of 15,744 calves with tamper-evident American ID tags were registered, an increase of 64.7% over the previous year and representing 21.6% of all animals recorded in 2005.

At the halfway point of this decade, the annual average for registrations is 71,079 and for transfers, 18,617.

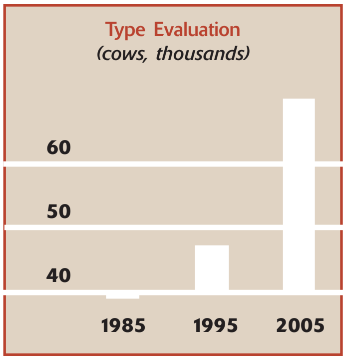
A total of 142 new lifetime members joined the American Jersey Cattle Association in 2005; membership now stands at 2,237 active members. The junior membership rolls grew by 11.2% during the year, to a current total of 2,098 junior members.



Performance programs continue to grow, with four all-time records established.

The number of cows enrolled on all performance programs increased by 7.4% to 112,840 cows in 2005, the best year in history. The previous record was set in 2002 (109,608 cows). The number of herds using these services also grew to 1,023, up 9.2% from the 937 herds enrolled in 2004.

The bundle of services known as REAP (registration, Equity, appraisal and performance) started its second decade. At December 31, it had achieved record levels of participation through delivery of cost-effective service to owners of all herd sizes. The number of REAP herds increased to an all-time high of 728, up 6.0% over 2004. The number of cows enrolled on REAP on December 31 was 108,786, a 7.7% increase from 2004 levels and well above the previous record of 103,374 cows set in 2002. The average size of a herd enrolled on REAP was 149 cows.



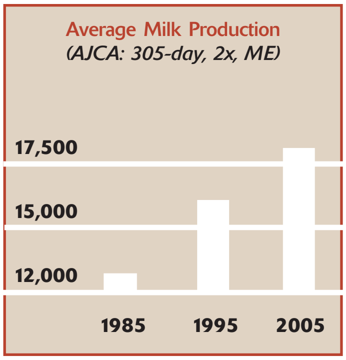
For the first time in history, more than 70,000 cows were scored under the linear Functional Type Traits Appraisal program. A total of 70,165 were evaluated, of which 83.2% (58,368) were first- and second-lactation cows. The year-end total was an increase of 13.1% over 2004 and completed a fourth consecutive year over 60,000 cows evaluated.

At the halfway point of this decade, the annual averages for these services are: all performance cows, 105,459; REAP cows and herds, 100,375 and 644, respectively; and cows scored, 63,127.

A record number of herds achieved 20,000-lb. production averages in 2005.

The number of lactations processed by the AJCA reached an all-time high in 2005, increasing by 14.0% to 71,073 records. The average of 18,042 lbs. milk, 822 lbs. fat and 640 lbs. protein *(305-day, 2x mature equivalent)* was an ever-so-slight decline from the previous year (an average of .30%). The breed average for cheese yield is now 2,158 lbs.

At the upper end of performance, a record number of 81 herds were credited with averages of 20,000 lbs. milk or more. There were 44 herds posting averages of 1,000 lbs. fat or more, and 42 herds averaging at least 750 lbs. protein. The upper 25% of herds enrolled on AJCA performance programs averaged 20,422 lbs. milk, 954 lbs. fat, 731 lbs. protein and 2,472 lbs. cheese yield. Compared to 2004, these top herds posted gains of 1.3% for milk, 1.2% for fat and 1.5% for protein yield.



Melissa R. Kortus of Lynden, Wash., owned the high herd for milk and protein production, with 13 lactations averaging 29,743 lbs. milk and 1,036 lbs. protein, both category records. The high herd for fat was that of J. Craig and Susan Wicker, Centre Hall, Penna., with 14 lactations averaging 1,348 lbs. fat. Bridon Juno Bango, owned by Clinton Shontz and Russell Subject, Southampton, N.J., completed the highest 365-day lactation ever recorded by the AJCA for protein (1,635 lbs.) and cheese yield (5,661 lbs.). Also recorded were 14 new National Class Leader records for milk, fat, protein or cheese yield, completed by eight different cows.

It takes a lot of work, many people, and willing A.I. industry partners to do a credible job of progeny testing Jersey young sires.

No endeavor could be more important for breed improvement and expansion than identifying and progeny testing high genetic merit young sires for early multi-herd proofs. The AJCA's incentive programs and the regional young sire sampling cooperatives administered by the AJCA continue to play key roles in this effort.

The twenty-fifth anniversary of the Young Sire Incentive Program (YSP) was marked in 2005. That program, plus the Genetic Diversity Program (GDP), qualified 3,148 eligible daughters of 147 enrolled bulls for reduced registration fees. Their 394 owners saved a total of $9,438 on those fees. The effectiveness of these programs was clearly evident, as the number one Active A.I. bull for Jersey Performance Index™ on every summary during 2005 was a YSP or GDP graduate.

With the addition of regional sire group membership as a REAP benefit, the combined membership of Dairyland, Dixieland, Great Western, Liberty and New England Jersey Sires grew by 11%, representing an additional 8,000 cows. The groups sampled 16 bulls as the year progressed, representing about 10% of the industry effort. Seven bulls were in Active A.I. service ("Kenai," "Blair," "Rocket," "Mor," "Piranha," "Klassic," and "Dandy"). Perhaps most exciting of all, the total of royalties distributed to members surpassed $1 million during 2005, reaching a year-end total of $1,121,425.

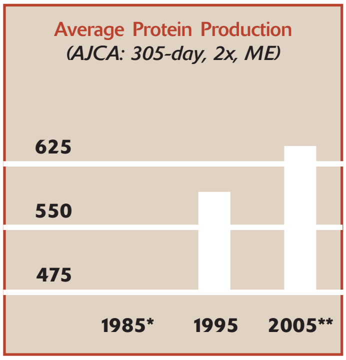
It does no good to produce something unless it can be marketed at a profit. That is why National All-Jersey Inc. is so necessary to the owners of Jersey cattle.

Marketing Jersey milk is a specialized endeavor, because Jersey milk is superior nutritionally and produces the highest manufacturing yields. But U.S. dairy policy and milk pricing decisions are based on what is best for "average" milk. That gap is bridged by National All-Jersey Inc.

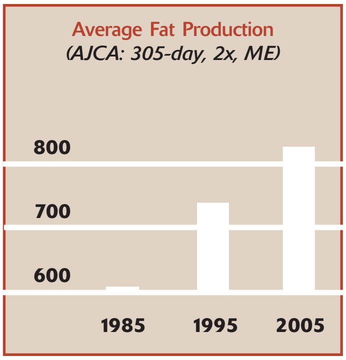
Staying on top of policy and pricing issues is like washing dishes. It always has to be done, if the interests of high-solids milk producers are to be represented and the gains won on their behalf are to be protected. Hearings to amend the orders established by Federal Order reform are being requested, and occurring, with increasing frequency. NAJ presented testimony at the Order 32 and Order 33 hearings and was present for the national hearing on Class I product definitions. Relative to the 2007 Farm Bill, NAJ participated in the forums held last fall and plans to be very involved in advancing the cause of equitable milk pricing as the dairy provisions of the bill are hammered out in the coming year.

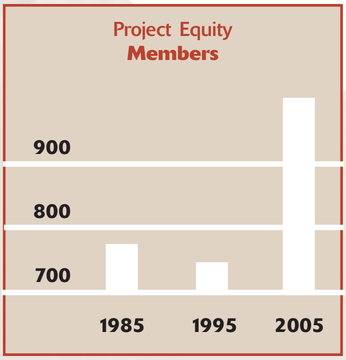
But that is far from all NAJ did for producers of Jersey milk and Jersey cattle last year. NAJ also sought out local and regional Jersey milk marketing opportunities, from Missouri to Wisconsin, and from Pennsylvania and Maryland to the Southeastern states. It began work to update the All-Jersey® brand program and product label to revitalize this marketing tool for producers of high-quality Jersey milk. NAJ staff also made points about Jersey milk and the Jersey business that no one else had considered through the *Equity Newsletter*, *Weekly Market Update* and *NAJ Milk & Component Outlook*; invited talks and the AJCA-sponsored *Improving the Bottom Line 4* program; and by a myriad of research efforts, not the least of which was continuing analysis of the California Department of Food and Agriculture's annual *Cost of Production Survey*.

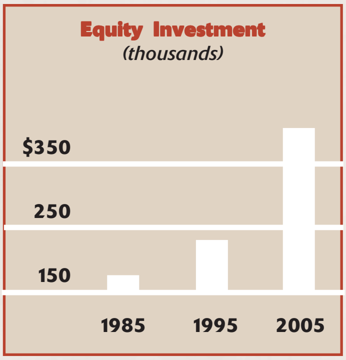
The NAJ Board of Directors approved nearly $15,000 in grants to pursue two milk marketing research projects in 2005. The first went to Brian Gould, Ed Jesse and Bob Cropp of the Wisconsin Center for Dairy Research to evaluate the new CME cash-settled butter futures contracts to determine if they offer Jersey producers price risk management opportunities beyond Class III milk contracts. Because of higher fat tests, Jersey herds have a higher basis risk when using the Class III contract, which assumes 3.5% butterfat. The new contract could reduce basis risk by pricing butterfat production in excess of the 3.5% standard.

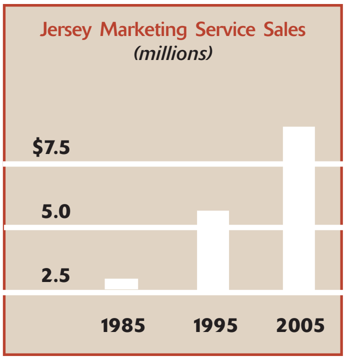


* Not available
** Measured as true protein









The other study will determine the cheese yield potential of milk produced by Jersey-Holstein crossbred cows compared to purebred Holsteins. Kent Weigel and John Lucey of the University of Wisconsin–Madison will gather data on seven major milk proteins and the coagulation properties of milk produced by 50-50 Jersey-Holstein cows, 75-25 Jersey-Holstein cows and their purebred Holstein herdmates. Economic impact of the two types of crossbreds will also be evaluated from the producers' and cheesemakers' perspectives.

National All-Jersey is funded through voluntary Project Equity contributions from individual producers and producer organizations. Their investments range from two to six cents per hundredweight of milk marketed, or $3.20 per cow enrolled on the REAP program. With NAJ's expanded work in developing specialized markets for high-solids milk, Equity membership has been growing. At the year's end, 1,037 participants—an all-time record—supported NAJ's mission to increase the value of and demand for Jersey milk and to promote equity in milk pricing.

Where markets open up for Jersey milk, producers turn to Jersey Marketing Service to supply the cows.

2005 marked the completion of 35 years of operations for Jersey Marketing Service. A subsidiary of National All-Jersey Inc., JMS is unique among dairy cattle marketing companies. It was put together in the first place to get Jersey cows from where they were to the places that needed Jersey milk. Its operating policies are set by the NAJ Board of Directors and thus representative of the needs and wants of NAJ membership. JMS is successful because it renders a quality product in a way that is honest with buyers and sellers alike.

2005 was its fourth-best year in history, an impressive follow-up on its record-setting $10 million performance in 2004. The total value of Registered Jersey™ cattle and genetics marketed by JMS was $8,658,879 (4,542 lots). Six of the top 10 auction sales of 2005 were managed by JMS, with The 53rd All American Jersey Sale ranking third on its average of $4,564.29 on 91 lots.

Three company records were established in 2005: average price, all sales ($1,906.40 per lot); average price, private treaty sales ($1,693.81); and average price, public auction sales ($2,079.55).

Its 2005 market share, measured by percentage of ownership transfers, was 28.0%. Annual sales for the first half of this decade (2001–2005) average $8,351,062.

"The most effective promotion is what my neighbor sees and what your neighbor sees when he looks over the fence at your farm."

Promotion does begin at home. But to reach the largest audience possible, there's the *Jersey Journal,* the only monthly publication in the world devoted exclusively to the Jersey breed.

The magazine's 12 issues totaled 956 pages, including 512 pages of ads for Jersey owners and commercial clients, making 2005 the seventh consecutive year that sales have exceeded 500 pages. The *Journal* Shopping Center completed its first full year of production, with support from nine commercial advertisers and several more using the service on a non-contract basis.

Circulation grew to over 3,100 for the first time in five years, but the magazine's reach extended far afield through *JerseyJournal.USJersey.com*. More than 33,000 unique visitors came to the web site during 2005, finding several features from each month's issue and online breeder advertising. Five new sites were added to the JerseySites web site and hosting service.

Trade shows, print advertising and web sites were used to reach the rest of the dairy industry with the Jersey profitability message. Jersey feed efficiency and Productive Life advantages were the visual drawing cards into the USJersey commercial exhibit at World Dairy Expo. Two *Improving the Bottom Line* programs were produced in 2005, on May 6 at Heartland Jerseys in Seneca, Kans., and on August 5 at Hi-Land Farms, Wyoming, N.Y.

On The Cover

Top row: NAJ-funded research at the University of Wisconsin–Madison, focusing on the cheese yield and other potentially unique qualities of milk produced by Jersey-Holstein crossbred cows. Co-investigator Kent Weigel is pictured here with Jersey-sired calves in the university's research herd. *Photo: Wolfgang Hoffmann. Center:* The single largest fundraising event in the history of the AJCC Research Foundation and national Jersey youth programs occurred June 25 when 95 donated heifers sold for an average of $3,262.11 in the National Heifer Sale. *Right:* Lot 1 of that sale was not a heifer, but a gold halter giving the buyer the right to take any heifer in the barn. It sold for $14,000 to the Golden River Syndicate and was placed on MVF Paramount Golda 1218–ET, donated by sale chair Craig Rhein of Meadow View Farm, Pine Grove, Penna. *Both photos: Julia DeLavergne*

Middle row: Sales of JerseyTags increased by 35% and nearly 16,000 calves with approved tags were registered by the AJCA in 2005. *Center*: Jerseys were the picture of profitability across the U.S. Here, a few of the 2,672 cows completing records averaging 2,403 lbs. cheese yield at Ahlem Farms, the largest single herd enrolled on AJCA performance programs. *Photo: Frank Robinson. Right:* Richard Clauss, chairman of the Board of Hilmar Cheese Company, and Governor Rick Perry answer questions at a press conference following the announcement on November 30 that the company would build a satellite manufacturing facility in Dalhart, Texas to open in 2007.

Bottom center: Activities for Jersey youth took a decidedly educational turn at the 2005 Annual Meetings, as the Pennsylvania hosts planned and enlisted the help of allied industry personnel to stage the first Jersey Youth Challenge.

"Jersey people have shown once again that they don't do anything by halves. Given the history of our organization and the willingness of Jersey breeders to make strategic investments for the future, we really didn't expect anything less."

At the beginning of 2005, the endowment of the AJCC Research Foundation, a 501(c)(3) permanent trust operated exclusively to promote and sponsor scientific research, stood at $973,803. On December 31, the balance of that fund was $1,351,811. What happened between January 1 and the last day of 2005 was the single greatest fundraising effort in the history of the Jersey breed: the all-donation 48th National Heifer Sale.

The industry watched with amazement as, on June 25, 95 of the finest Registered Jersey™ heifers in the world were sold with proceeds going at their owners' request to the endowment of the AJCC Research Foundation. Another $100,000 from cash donations and the collectibles auction was received on that day, with the most generous support of company sponsorships and donated services helping to defray the costs of the event.

The heifers, plus four more sold later in the year and cash contributions of $3,000 or the sale's average—$3,262.11—have been permanently recognized as Leadership Gifts.

2005 Leadership Gift AJCC Research Foundation

In retrospect, 99 individual Jersey breeders have been generous beyond belief. They donated not just the best heifers of their herds, but also the benefits of their immediate and long-range earning power. Bloodlines developed over years of individual effort, in several cases across two and three generations of family effort, that might never have been for sale under any other circumstance, were made available for this once-in-a-lifetime event. Every Jersey owner, every company that markets a product of or for Jerseys, is a beneficiary of these magnanimous gifts.

We cannot thank sufficiently those who made Leadership Gifts, except by completing what they started and matching their contributions. The campaign continues. We invite you to be a part of a worthy project that ONLY JERSEYS have successfully pioneered.

Four years ago we asked, "How far can we go?"

The answer is still the same, "As far as we want to."

By 2010 we want to be registering 90,000 calves and providing herd improvement services for 150,000 cows a year. By 2010 we want to be able to publicize a breed average for cheese yield of 2,300 pounds per cow and to point proudly to a progeny testing effort that produces 160 first-summary A.I. bulls annually. By 2010 we want to grow this breed so that Jerseys make up at least 5.5% of the U.S. cow population.

Above all, we remain committed to the fundamental proposition that "100% of Jersey producers be paid full value for their milk components."

Thank you for your support of and loyalty to the American Jersey Cattle Association and National All-Jersey Inc. We look forward to working with you as we go forward.

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

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 $114,905 for the year ended December 31, 2005.

Revenues and cost of operations for each company for the year ended December 31, 2005 are summarized as follows:

American Jersey Cattle Association

Revenues	$ 2,425,519
Expenditures	$ 2,373,142
Net Income from All American Show & Sale	$ 2,919
Increase in Net Assets	$ 55,296

National All-Jersey Inc. and Subsidiary

Revenues	$ 931,164
Expenditures	$ 871,555
Increase in Net Assets	$ 59,609

All three companies recognized strong participation in services during 2005. Combined revenues are as follows:

Identification Services	32%
Performance Services	19%
Jersey Journal	15%
Equity	13%
Cattle Marketing Services	13%
Investments and Other	8%

The organizations' marketable securities are reported at market value of $1,573,523. Accounting Standards require marketable securities to be reported at market value, therefore an unrealized gain was recorded at December 31, 2005 to reflect the variance in cost versus fair market value of the companies' investments. Also, during 2005 the companies' restructured their investment portfolios selling certain mutual funds for a net realized loss.

The companies continue to maintain financial soundness. Net assets, reported at market value as of December 31, 2005 were recorded as follows:

American Jersey Cattle Association	$ 1,455,980
National All-Jersey Inc. and Subsidiary	$ 597,044
Total (combined) net assets	$ 2,053,024

The AJCC Research Foundation reported net assets of $1,351,811 at year-end December 31, 2005. The Research Foundation, along with partial funding from AJCA and NAJ appropriated funds, supported seven projects totaling $48,000 in 2005. In addition, the AJCC Research Foundation held a historic fundraiser in conjunction with the 2005 National Heifer Sale. Donations received (gross) by the AJCC Research Foundation during 2005 totaled $429,113.

A new scholarship fund was added during 2005 to increase to nine the scholarship funds administered by the AJCA. These funds provided scholarships totaling $6,600. Total combined net assets in the scholarship funds as of December 31, 2005 were $281,446.

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, 2005.

Respectfully submitted,

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, 2005 and 2004, 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, 2005 and 2004, 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
March 22, 2006

STATEMENTS OF FINANCIAL POSITION

December 31, 2005 and 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	$ 236,485	$ 242,125
Investments *(Note 9)*	204,456	201,067
Accounts receivable, net of allowance for doubtful accounts of $45,000 and $43,000 for 2005 and 2004, respectively	163,318	158,168
Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation	320,539	247,809
Supplies and inventories, at cost	17,836	16,860
Prepaid expenses and other assets	61,283	60,658
Total current assets	1,003,917	926,687
PROPERTY AND EQUIPMENT, AT COST *(Notes 6, 7 and 8)*		
Land	68,000	68,000
Building	494,448	494,448
Operating equipment	1,323,086	1,223,823
Software development	533,846	532,042
	2,419,380	2,318,313
Less accumulated depreciation	1,662,670	1,610,686
	756,710	707,627
OTHER ASSETS		
Investments:		
Building fund *(Notes 5, 6 and 9)*	875,586	858,594
Total other assets	875,586	858,594
	$2,636,213	$2,492,908

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 6)*	$ 52,040	$ 49,507
Current portion of capital lease obligations *(Note 8)*	14,836	—
Current portion of unexpired subscriptions and directory listings	33,343	25,119
Accounts payable	60,054	63,833
Accrued expenses	103,992	42,390
Awards, All American Show & Sale	52,935	51,066
Awards, National Jersey Jug Futurity	11,929	11,881
Unearned fees and remittances	320,889	284,444
Accrued pension obligation *(Note 3)*	267,237	311,214
Total current liabilities	917,255	839,454
NONCURRENT LIABILITIES		
Long-term debt *(Note 6)*	156,771	208,617
Capital lease obligations, net of current portion *(Note 8)*	62,169	—
Unexpired subscriptions and directory listings, net of current portion	44,038	44,153
	262,978	252,770
Total liabilities	1,180,233	1,092,224
NET ASSETS		
Unrestricted:		
Designated *(Note 5)*	950,468	961,476
Undesignated	505,512	439,208
Total net assets	1,455,980	1,400,684
	$2,636,213	$2,492,908

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2005 and 2004

	2005	2004
REVENUES		
Fees	$1,814,225	$1,761,572
Jersey Journal advertising and subscriptions	496,895	514,519
Interest and dividend income *(Note 9)*	27,442	24,293
Other	15,345	16,731
Total revenues	2,353,907	2,317,115
COST OF OPERATIONS *(Note 2)*		
Salaries, service, and administrative	1,784,918	1,656,662
Jersey Journal publishing	391,895	427,093
Depreciation	99,804	102,689
Interest expense	13,560	14,422
Total cost of operations	2,290,177	2,200,866
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	63,730	116,249
OTHER INCOME (EXPENSE)		
Net gain from The All American Show and Sale *(Note 9)*	2,919	17,348
Net unrealized gain on investments *(Note 9)*	71,612	47,307
Realized gain on investment *(Notes 9 and 10)*	(54,965)	137,483
Total other income (expense)	19,566	202,138
INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	83,296	318,387
EXPENDITURES FROM DESIGNATED NET ASSETS		
Research and development	28,000	—
Total expenditures from designated net assets	28,000	—
INCREASE IN NET ASSETS	55,296	318,387
NET ASSETS—Beginning of year	1,400,684	1,082,297
NET ASSETS—End of year	$1,455,980	$1,400,684

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. Payments are applied first 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 $45,000 and $43,000 as of December 31, 2005 and 2004, 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 recovery of $5,526 and bad debt expense of $4,425 was recognized for the years ended December 31, 2005 and 2004, 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 $85,939 and $97,229 for 2005 and 2004, 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, 2005 or 2004.

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 2005 and 2004 these activities include primarily magazine advertising. Income tax expense for 2005 and 2004 amounted to $25,428 and $3,491, 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 9 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, including REAP.

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

Note 2. Functional Expenses

The Association's operating expenses by functional classification for 2005 and 2004 are as follows:

	2005	2004
Records	$ 354,589	$ 330,141
Data Processing	277,275	270,137
Performance	509,756	448,158
Jersey Journal	417,762	427,093
Information	125,552	116,484
Field	307,100	298,780
Accounting, Administration, and General	298,143	310,073
Total cost of operations	$2,290,177	$2,200,866

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 2005 and 2004.

	2005	2004
Pension benefit obligations		
Balance, beginning of year	$1,318,333	$1,167,300
Interest cost	77,363	76,135
Actuarial (gain) loss	81,701	123,036
Benefits paid	(44,912)	(48,138)
Balance, end of year	$1,432,485	$1,318,333
Plan Assets		
Fair value, beginning of year	$ 884,580	$ 745,907
Actual returns on plan assets	75,835	93,262
Employer contributions	139,436	93,549
Benefits paid	(44,912)	(48,138)
Fair value, end of year	$1,054,939	$ 884,580
Total accrued pension obligation	$ 377,546	$ 433,753
Less accrual of NAJ and Subsidiary	110,309	122,539
Accrued pension obligation of AJCA	$ 267,237	$ 311,214

Assumptions used in the accounting as of December 31, 2005 and 2004 were:

	2005	2004
Discount rate	5.48%	6.00%
Long-term rate of return	7.50%	8.00%

Pension expense for 2005 and 2004 comprised the following:

	2005	2004
Interest cost	$ 77,363	$ 76,135
Actuarial return on Plan assets	(75,835)	(93,262)
Actuarial (gain) loss	81,701	123,036
Total pension expense	83,229	105,909
Less pension expense of NAJ and Subsidiary	(20,573)	(21,182)
Pension expense of AJCA	$ 62,656	$ 84,727

Weighted-average Plan asset allocations, by asset category:

Equity securities	74%	72%
Debt securities	26%	28%
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:

2006	$ 50,845
2007	50,091
2008	49,308
2009	51,154
2010	51,109
Years 2011 - 2014	373,809

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 2005 and 2004 amounted to $16,927 and $14,426, 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
2006	$ 15,948
2007	5,316
	$ 21,264

Lease expense for 2005 and 2004 amounted to $16,481 and $15,974, respectively.

Note 5. Designation of Net Assets

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

	2005	2004
Building - established with original proceeds from sale of former operating facility; invested in securities and used as collateral for building loan *(see Notes 6 and 9)*	$ 875,586	$ 858,594
Research and development - increased annually on a discretionary basis	74,882	102,882
	$ 950,468	$ 961,476

In 2005 and 2004, there were expenditures of $28,000 and $–0–, respectively, 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, 2005 and 2004, the note has a total outstanding balance of $245,659 and $303,675, 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 $208,811 and $258,124 at December 31, 2005 and 2004, 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 9)*.

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

Year Ending December 31	Amount
2006	$ 52,040
2007	54,703
2008	57,501
2009	44,567
	$ 208,811

Note 7. Line of Credit

At December 31, 2005 and 2004, the AJCA has available a $100,000, due on demand, line of credit with interest payable monthly at prime (7.25% and 5.25% at December 31, 2005 and 2004, respectively). The line is collateralized by investments held by AJCA and NAJ *(Note 9)*. No funds were drawn on the line as of December 31, 2005 or 2004.

Note 8. Capital Lease Obligations

The Company is a lessee of equipment under a capital lease which expires in 2010. The asset and liability under the capital lease is recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The asset is amortized over its estimated productive life. Amortization of the equipment under capital lease is included in depreciation and amortization expense.

Following is a summary of equipment held under a capital lease at December 31:

	2005	2004
Machinery and equipment	$ 81,665	$ —
Less accumulated amortization	(5,444)	—
	$ 76,221	$ —

Minimum future annual lease payments under the capital lease as of December 31, 2005 in the aggregate are as follows:

2006	$ 18,816
2007	18,816
2008	18,816
2009	18,816
2010	12,544
	87,808
Less amount representing interest	(10,803)
Present value of minimum lease payments	77,005
Less current portion	(14,836)
Noncurrent portion	$ 62,169

Note 9. Investments

Investment securities are carried at fair market value, based on market quotes, at December 31, 2005 and 2004 and are composed of the following:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Investments included in:				
Current assets:				
Money market	$ 17,436	$ 17,436	$ 17,187	$ 17,187
Mutual funds	193,093	187,020	202,599	183,880
	210,529	204,456	219,786	201,067
Building fund:				
Money market	27,402	27,402	25,745	25,745
Mutual funds	878,287	848,184	925,944	832,849
	905,689	875,586	951,689	858,594
	$1,116,218	$1,080,042	$1,171,475	$1,059,661

Investment income for 2005 and 2004 consists of the following:

	2005	2004
Interest and dividend income	$ 29,238	$ 25,874
Net unrealized gain on investments	75,675	50,213
Realized gain (loss) on investments	(58,036)	137,483
	$ 46,877	$213,570

The investment income attributable to The 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.

	2005	2004
Interest	$ 1,796	$ 1,581
Net unrealized gain	4,063	2,906
Realized loss on investments	(3,071)	—
	$ 2,788	$ 4,487

Note 10. 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, 2005 and 2004, 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, 2005 and 2004, 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
March 22, 2006

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2005 and 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	$ 224,892	$ 405,559
Custodial cash	737,988	559,357
Investments *(Note 9)*	493,481	485,948
Accounts receivable, net of allowance for doubtful accounts of $6,500 in 2005 and 2004	178,813	159,661
Interest receivable	1,947	1,621
Prepaid expenses	2,151	1,806
Deferred income taxes *(Note 7)*	1,300	1,400
Total current assets	1,640,572	1,615,352
PROPERTY AND EQUIPMENT, AT COST *(Note 6)*		
Land	12,000	12,000
Building	87,256	87,256
Furniture and Equipment	4,735	4,735
Software development	79,652	79,652
Vehicles	98,076	98,076
	281,719	281,719
Less accumulated depreciation	164,841	139,753
	116,878	141,966
OTHER ASSETS		
Deferred income taxes *(Note 7)*	9,700	10,700
	$1,767,150	$1,768,018

LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 6)*	$ 9,184	$ 8,737
Accounts payable	40,611	1,944
Advances due to American Jersey Cattle Association	320,539	247,809
Fees due consignors	583,907	704,569
Accrued expenses	23,924	58,743
Advances and reserves for advertising *(Note 3)*	31,828	31,828
Deferred income	22,140	17,600
Accrued pension obligation *(Note 5)*	110,309	122,539
Total current liabilities	1,142,442	1,193,769
NONCURRENT LIABILITIES		
Long-term debt, net of current portion *(Note 6)*	27,664	36,814
	27,664	36,814
Total liabilities	1,170,106	1,230,583
NET ASSETS		
Unrestricted:		
Designated *(Note 4)*	61,855	71,775
Undesignated	535,189	465,660
Total net assets	597,044	537,435
	$1,767,150	$1,768,018

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2005 and 2004

	2005	2004
REVENUES		
Equity project fees	$450,361	$398,126
Commissions	426,969	596,914
Interest and dividend income	11,950	10,406
Other	16,520	14,692
Total revenues	905,800	1,020,138
COST OF OPERATIONS *(Note 2)*		
Salaries, service, and administrative	756,556	836,322
Field services	49,707	56,413
Bad debt expense	—	6,215
Depreciation and amortization	25,088	25,552
Consultant salaries	7,500	—
Interest	2,109	2,545
Total costs of operations	840,960	927,047
INCREASE IN NET ASSETS FROM OPERATIONS	64,840	93,091
OTHER INCOME		
Net realized and unrealized gain on investments	6,191	18,141
INCREASE IN NET ASSETS BEFORE INCOME TAX AND EXPENDITURES FROM DESIGNATED NET ASSETS	71,031	111,232
INCOME TAX EXPENSE *(Note 7)*	1,502	50
INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	69,529	111,182
EXPENDITURES FROM DESIGNATED NET ASSETS		
Research and development	9,920	—
Total expenditures from designated net assets	9,920	—
INCREASE (DECREASE) IN NET ASSETS	59,609	111,182
NET ASSETS - Beginning of year	537,435	426,253
NET ASSETS - End of year	$597,044	$537,435

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 2005 and 2004 include reimbursements of $85,939 and $97,229, 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, 2005 and 2004. Bad debt expense of $-0- and $6,215 was recognized for 2005 and 2004, 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.

Note 2. Functional Expenses

The Company's operating expenses by functional classifications for 2005 and 2004 are as follows:

	2005	2004
National All-Jersey Equity program	$329,911	$287,494
Accounting, administration, general and field service	72,605	74,509
All-Jersey Sales (JMS)	438,444	565,044
Total cost of operations	$840,960	$927,047

Note 3. Advances and Reserves for Advertising

	December 31, 2005	December 31, 2004
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, 2005	December 31, 2004
Research and development: Increased annually on a discretionary basis. In 2005 and 2004, there were expenditures of $9,920 and $–0–, respectively, from the research and development of designated net assets.	$61,855	$ 71,775

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 2005 and 2004.

	2005	2004
Pension benefit obligations		
Balance, beginning of year	$ 1,318,333	$ 1,167,300
Interest cost	77,363	76,135
Actuarial (gain) loss	81,701	123,036
Benefits paid	(44,912)	(48,138)
Balance, end of year	$ 1,432,485	$ 1,318,333
Plan Assets		
Fair value, beginning of year	$ 884,580	$ 745,907
Actual returns on plan assets	75,835	93,262
Employer contributions	139,436	93,549
Benefits paid	(44,912)	(48,138)
Fair value, end of year	$ 1,054,939	$ 884,580
Total accrued pension obligation	$ 377,546	$ 433,753
Less accrual of AJCA	267,237	311,214
Accrued pension obligation of NAJ and Subsidiary	$ 110,309	$ 122,539

Assumptions used in the accounting as of December 31, 2005 and 2004 were:

	2005	2004
Discount rate	5.48%	6.00%
Long-term rate of return	7.50%	8.00%

Pension expense for 2005 and 2004 comprised the following:

	2005	2004
Interest cost	$ 77,363	$ 76,135
Actuarial return on Plan assets	(75,835)	(93,262)
Actuarial (gain) loss	81,701	123,036
Total pension expense	83,229	105,909
Less pension expense of AJCA	(62,656)	(84,727)
Pension expense of NAJ and Subsidiary	$ 20,573	$ 21,182

Weighted-average plan asset allocations, by asset category:

	2005	2004
Equity securities	74%	72%
Debt securities	26%	28%
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:

2006	$ 50,845
2007	50,091
2008	49,308
2009	51,154
2010	51,109
Years 2010 - 2014	373,809

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 2005 and 2004 amounted to $5,068 and $4,620, 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, 2005 and 2004, the note has a total outstanding balance of $245,659 and $303,675, 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 $36,848 and $45,551 at December 31, 2005 and 2004, respectively. The long-term debt is collateralized by AJCA's investment securities obtained from proceeds of the sale of a former operating facility.

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

Year Ending December 31:	Amount
2006	$ 9,184
2007	9,653
2008	10,148
2009	7,863
	$36,848

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 for income taxes for the years ended December 31, 2005 and 2004 consists of the following:

	2005		
	Federal	State and Local	Total
Current	$ —	$ 402	$ 402
Deferred	1,100	—	1,100
	$ 1,100	$ 402	$ 1,502

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

At December 31, 2005, the Company has available federal and state net operating loss carryforwards of approximately $56,000 and $119,000 respectively, which expire between 2022 and 2023 as follows:

	Federal	State
2022	$ —	$ 35,000
2023	56,000	84,000
	$ 56,000	$119,000

Note 8. Line of Credit

At December 31, 2005 and 2004, the Company has available a $175,000, due on demand, line of credit with interest payable monthly at prime (7.25% and 5.25% at December 31, 2005 and 2004, 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, 2005 or 2004.

Note 9. Investments

Investment securities are carried at fair value, based on market quotes at December 31, 2005 and 2004 and are composed of the following:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Money market	$ 118,373	$ 118,373	$117,138	$ 117,138
Mutual funds	387,287	375,108	406,355	368,810
	$ 505,660	$ 493,481	$523,493	$ 485,948

Investment income for 2005 and 2004 consists of the following:

	2005	2004
Interest and dividend income	$ 11,950	$ 10,406
Net realized and unrealized gain on investments	6,191	$18,141
	$ 18,141	$28,547

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

Leading Indicators of Jersey Breed Growth and Improvement

	2005	1995	1985	Change (’05 v. ’85)
Identification				
Animals recorded	72,885	63,399	65,357	+ 11.5%
Animals transfered	16,197	29,346	23,582	- 31.3%
Performance Programs				
Herds enrolled	1,023	687	756	+ 35.3%
Cows enrolled	112,840	66,691	48,260	+133.8%
Production (DHIR: 305-day, 2x, ME)				
Protein *(true protein)*	640	590	—	
Milk	18,042	16,029	12,685	+ 42.3%
Fat	822	736	601	+ 36.8%
Equity Investment	$450,362	$220,505	$160,321	+180.9%
Jersey Marketing Service				
Gross for private treaty sales	$2,549,175	$2,372,572	$ 759,514	+235.6%
Gross for public sales	6,109,705	3,462,041	2,005,205	+204.7%
Combined Net Assets	$2,053,024	$1,783,553	$1,487,615	+ 38.0%

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