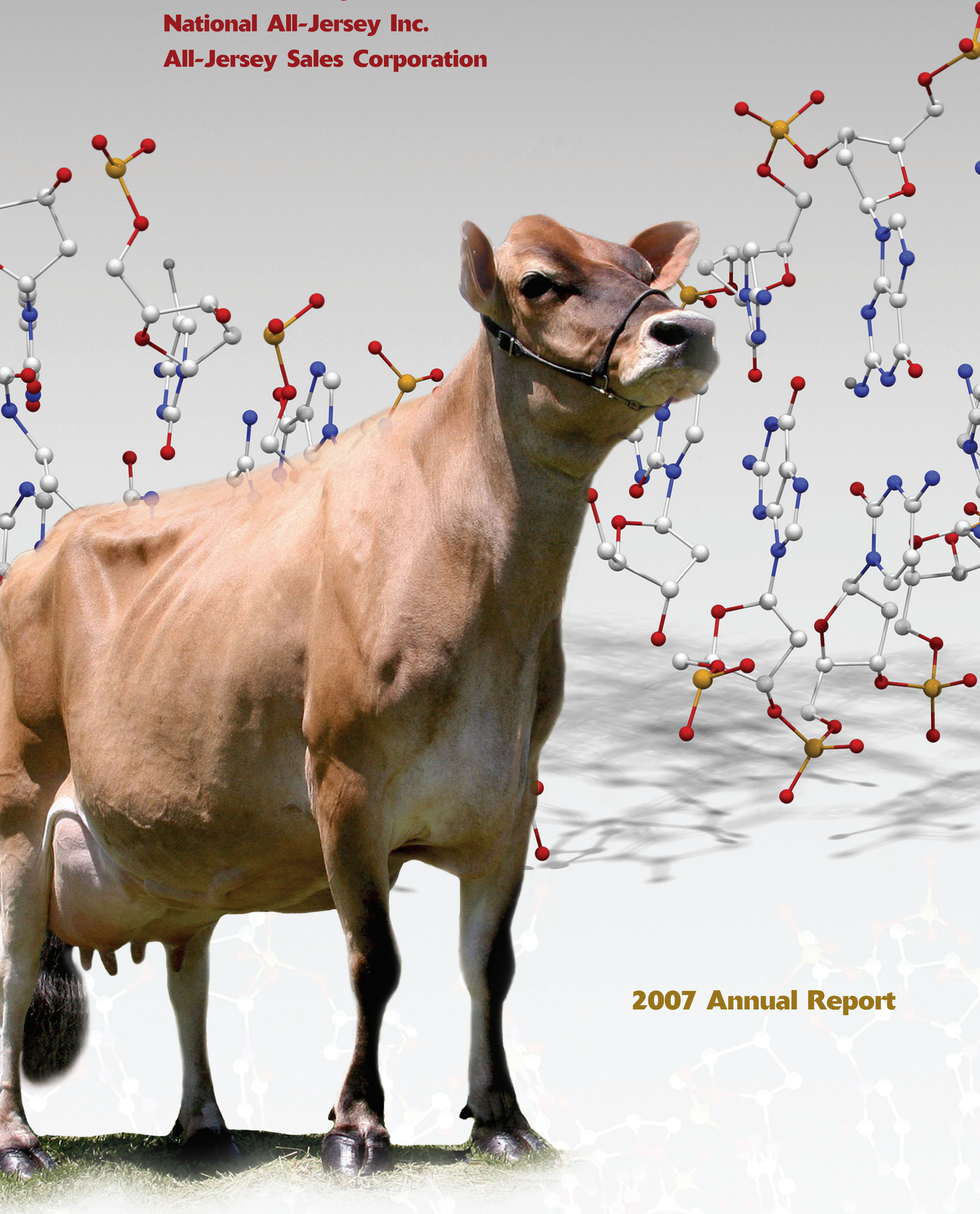
# American Jersey Cattle Association
# National All-Jersey Inc.
# All-Jersey Sales Corporation

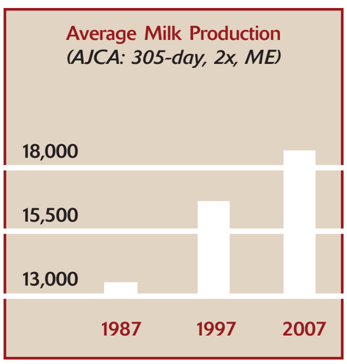


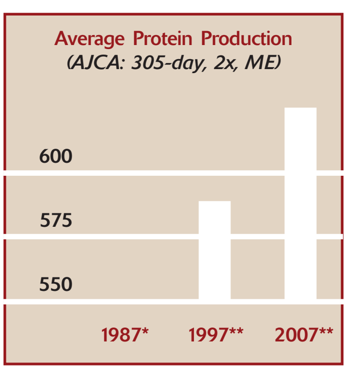
## 2007 Annual Report

# 2007 was not simply the greatest year in our history. It was also a defining moment for the Jersey breed.

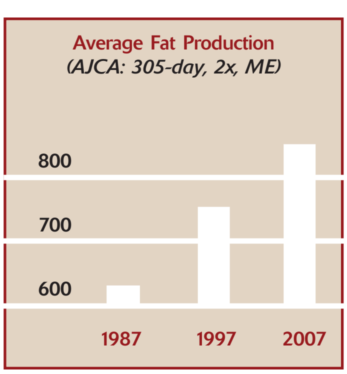
It's hard to imagine how 2007 could have been better for the American Jersey Cattle Association and National All-Jersey Inc. and its subsidiary, Jersey Marketing Service. The organizations achieved major milestones with record or near-record activity in all primary service areas, and each of the three companies operated in the black.

Because of gains made by the organizations in 2007, growing respect for the commercial profitability and longevity of the Jersey cow, consumer trends favoring the re-emergence of our premium brand program All-Jersey©, bolstered by strategic investments in research plus dynamic advances in DNA technology, we are projecting a bright future for Jersey breed improvement and continuing expansion in all Jersey market segments, large and small, domestic and international.




* *Not available*
** *Measured as true protein*




### Small Cow + Big Production = High Efficiency

Registered Jersey™ cows re-wrote the record books in 2007. The official Jersey lactation average, calculated on a standardized 305-day, twice daily, mature equivalent (m.e.) basis, increased to 18,391 lbs. milk, 842 lbs. fat, and 655 lbs. protein. On a Cheddar cheese equivalent basis, average yield per cow was 2,208 pounds. All are new category records, as were the 72,094 lactation records processed by AJCA Herd Services department for 2007.

Actual 305-day yield per cow for 2007 averaged 16,539 lbs. milk, 765 lbs. fat (4.6%), and 591 lbs. protein (3.6%). Cheese yield was 1,995 lbs., more than twice the Jersey cow's average body weight.

Two Registered Jersey™ cows from Washington state and Wisconsin completed records to establish new individual U.S. and World Jersey production records. Mainstream Barkly Jubilee, Very Good-87%, now holds the records in three categories: for milk yield, 49,250 lbs.; for protein at 1,645 lbs.; and for cheese yield, at 5,682 lbs. She and her dam, Mainstream Berretta Joy, VG-88%, are the only two-generation 40,000-lb. record Jersey cows in the world. Both were bred and owned by Melissa Kortus, of Lynden, Wash.

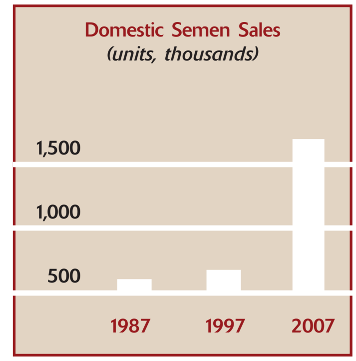
The record for fat production, at 2,827 lbs., was set by Norse Star Hallmark Bootie, Excellent-90%. She was bred and owned by Jeana Marie Fremstad, Westby, Wis.

### Added-Value Milk, Strong Demand for Jersey Genetics

A strong dairy economy was key to the Jersey organizations' performance in 2007. For the year, Jersey milk testing 4.71% fat and 3.59% protein, with estimated premiums, was worth an average of $23.69 per hundredweight across all Federal orders. The mailbox price for Jersey milk averaged 13.4% higher than the statistical blend price *(milk testing 3.5% fat, 2.99% protein).*

The demand for milk components that pushed milk prices to record levels last year, as well as the opening of Hilmar Cheese Company's expansion plant in Dalhart, Texas, resulted in unprecedented demand for Jersey genetics. Milk producers in every region of the country were looking for, and paying top dollar for quality Jersey cows and close-up bred heifers. Nationally, the average price paid for Registered Jerseys™ at auction increased by nearly $170 per head to set an all-time record of $2,435.42 (3,462 head, total receipts of $8,431,435). Cows in milk averaged $2,876.91 per head, with bred heifers selling for an average of $2,386.57.

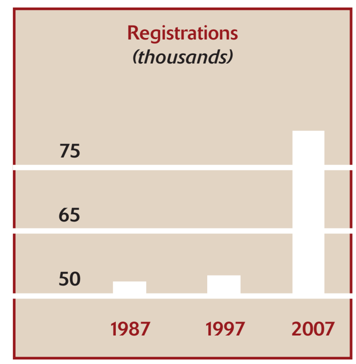
### Semen sales, the leading indicator of Jersey growth potential in the United States, increased to a record level—for the eleventh consecutive year.




Members of the National Association of Animal Breeders handled 2,871,201 units of Registered Jersey™ semen, shattering all previous records for domestic sales, export sales, and custom collection.

- Jersey semen sales in the U.S. domestic market increased by 10.6% to 1,611,862 units. By source, that included 1,543,776 units produced domestically, an 8.4% gain, and 68,086 units imported and sold in the U.S., up 105.1% from the previous year.
- 870,177 units were sold for export. That was a 13.2% increase over 2006's figures, which were revised upwards to 768,952 units in this report.
- Combined, Jersey domestic and export sales totaled 2,482,039 units, 10% higher than 2006.
- Custom collection of bulls not owned by NAAB members was reported at 389,162 units, an increase of 50.7% from 2006.

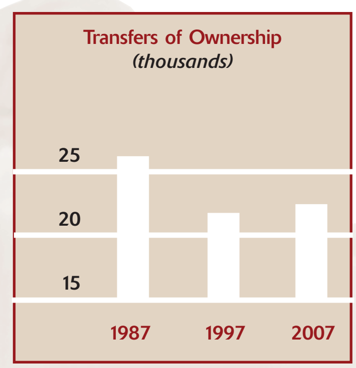
Jersey again bested industry averages. For all dairy breeds, domestic sales rose 6.9% to end the year at just over 20.4 million units. Export sales and custom services were up 4.5% and 25.3%, respectively.




Over the last 11 years, Jersey has been the only dairy breed to post an unbroken series of annual gains in domestic sales. Jersey's increase has been 149%, compared to 61% for all dairy semen. Jersey's market share has shot upwards, from 5.0% in 1997 to 7.9% at the end of 2007. Only one breed owns a larger share of the market; the next closest breed is at just 1.0%.

### New records were established for nearly every area of AJCA service.

The American Jersey Cattle Association recorded 79,535 animals last year, making 2007 the third-best year in our 139-year history and the fourth consecutive year that the association has recorded at least 70,000 animals—an unprecedented achievement.

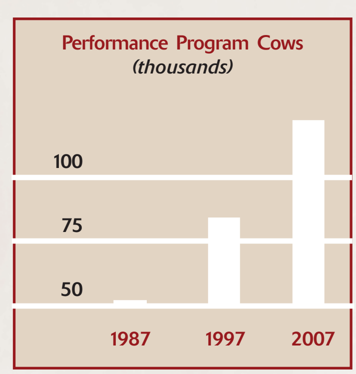



Four of the 10 best years in our history occurred in 2004, 2005, 2006 and 2007. Over this period, the association has averaged 74,176 registrations per year.

Last year, 65% of all animals registered were processed electronically, the highest percentage ever achieved since introduction of internet-enhanced data processing. Use of double matched NAIS-compliant ear tags for permanent ID also grew. A total of 22,426 calves (30%) were registered with these tags in their ears last year, and the AJCA filled orders for 99,187 units of JerseyTags.

For the first time since 2001, more than 20,000 transfers were processed. The 2007 total of 22,554 was an 18% gain from 2006 activity.

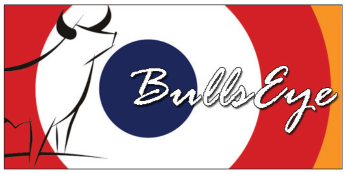
Use of official Jersey performance evaluation programs surged to new heights in 2007. As of December 31, a total of 121,049 cows were enrolled in one of seven programs delivered by the association, breaking the previous record by more than 8,200 cows.




The foundation of this phenomenal growth traces to the 1995 introduction of the REAP service package. After the Board of Directors approved bundling registrations, linear type evaluation, milk recording on pedigrees and genetic evaluations with the Equity milk marketing program, the number of cows enrolled doubled during 1998 and had tripled by the end of 2001. REAP continues to grow to its ultimate potential, as evidenced by 2007's numbers: 115,653 cows and 781 herds, both all-time records.

Linear type evaluation services were delivered to over 60,000 cows for a sixth consecutive year. Our staff visited 1,010 different herds in 2007 and scored 69,182 cows, second only to the 70,165 cows that were evaluated in 2005.

The *Jersey Journal* published 1,072 pages in 2007, half of which covered breed-related events, herd and animal performance and Association activities, plus in-depth articles covering the gamut of topics and issues related to management, genetic improvement and market development. Advertising totaled 509 pages, making 2007 the ninth consecutive year that sales exceeded 500 pages.

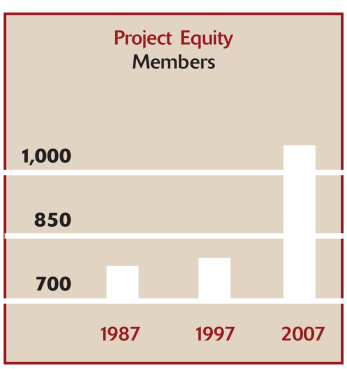



In May of 2007, the AJCA introduced a state-of-the-art online sire selection tool. BullsEye (http://bullseye.usjersey.com) gives Jersey breeders the power to search, sort and select bulls from the current list of Active A.I. and Foreign Jersey Sires. It was used 8,607 times through the end of 2007 by Jersey owners across the globe. Said one user, "You hit the "bull's-eye" when you created this program! I used it to create this list of sires that fit our particular requirements for JPI™, milk production, and udder characteristics. It was so much quicker than manually going through all the bull proofs to find the type bulls we wanted. And I couldn't believe how easy BullsEye was to use! I love the fact that each time you select a value for a particular trait, the bull list shown changes to reflect it."

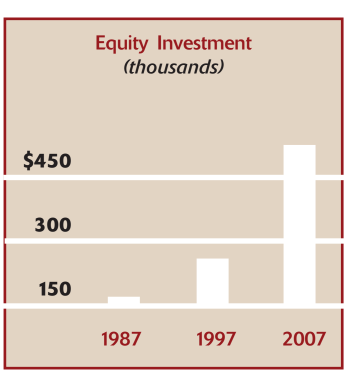
**On December 9, 2007, we celebrated the Golden Anniversary of National All-Jersey Inc.** Originally and still, NAJ is the only organization dedicated to representing the milk marketing concerns of owners of a single dairy breed. Across those 50 years, the value that the All-Jersey© premium brand—succeeded by the development of voluntary markets using end-product pricing and then the campaign to successfully implement multiple component pricing (MCP) in the Federal Order pricing scheme—has added to Jersey milk, as well as to the value of Jersey cattle and Jersey genetics, is beyond calculation.

Its keys to success have been these:

- NAJ is customer oriented. By "customer," we mean much more than an NAJ member, or Jersey milk producer. NAJ's customers are also the plants or cooperatives that purchase and market Jersey milk, and the consumer of Jersey milk products. Serving the needs of three types of customers is not easy, but it is fundamental to NAJ's success.
- NAJ programs are economically sound. NAJ seeks equitable payment for Jersey milk producers for one reason, and one reason only. Jersey milk has additional economic value.
- NAJ is based on member involvement. Without members dedicated to the cause of equitable milk pricing, NAJ would not survive. And, the Jersey breed would not enjoy its current, strong industry position without Jersey producers' continuing support of National All-Jersey Inc.
- NAJ is adaptive. Its history shows that NAJ programs and services evolve to meet milk marketing needs. NAJ avoids the philosophies, "We have always done it that way, so why change" or "It can't be done." When change is needed to better serve its customers *(see first point)*, NAJ will adapt.




NAJ came full circle in 2007, with new life for the time-honored All-Jersey© and Queen of Quality™ product brands. They had been put back into commerce in the fall of 2004 by Peeler's Dairy and Bush River Jerseys, to tremendous consumer reception. At its summer meeting last year, the NAJ directors authorized new levels of service to support users of the brands. That set off numerous inquiries from Jersey producers bottling their milk or producing yogurts and artisan cheeses in response to consumers asking for locally produced, natural and sustainable dairy products. In December the historic High Lawn Farm, which has direct marketed 100% Jersey milk since 1923 to homes, stores and the restaurant trade in western Massachusetts, signed as an All-Jersey© distributor.




NAJ staff work also continues to develop market arrangements to obtain or improve multiple component pricing for Jersey producers; to remain involved in Federal milk market policy discussions; to produce economic studies of Jersey profitability in general and for particular milk markets; to support research that can demonstrate and/or add value to Jersey products; and to provide concise, insightful market information to its members on a timely basis.

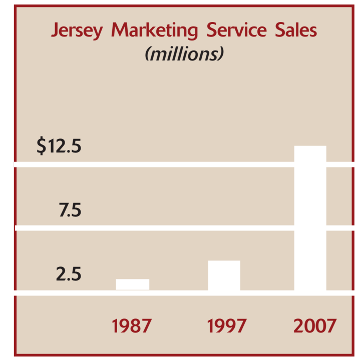
**Jersey Marketing Service reported its best year ever.**

The total value of Registered Jersey™ cattle and genetics marketed by Jersey Marketing Service (JMS) during 2007 was $13,089,073, up 42% from 2006. This shattered the company's previous record for sales of $10.3 million established in 2004.

JMS sold 5,896 live animals and 186 embryos for an average price per lot of $2,152.10. This also set a new record, up by $245 per lot over the previous high.

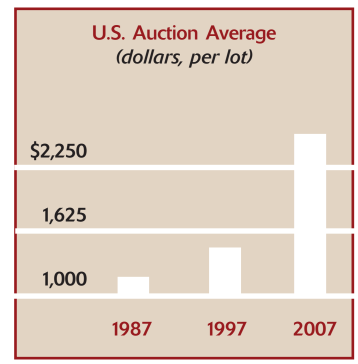
In private treaty sales, JMS staff assisted 36 buyers from 14 states in purchasing 3,129 animals and embryos from 76 different sellers. The company managed 20 public auctions, selling 2,953 lots for just over $6.6 million. It also managed the first Jersey auction in U.S. history to achieve a one million dollar gross, at the Ahlem Farms Sale II in Hilmar, Calif., and six of the year's top 10 averaging sales. That included the breed's showcase, The All American Jersey Sale on November 4, averaging $5,345.18 on 109 lots before a packed hall in Louisville, Ky.

2007 was the third time in the past four years that the company has recorded annual sales in excess of $9 million. Company growth in the '00 decade has been nothing short of spectacular. Compared to the '90s, JMS has increased its business by 72%, from annual average sales of $5,367,258 for the years 1990 to 1999, to an annual average of $9,235,908 for the period 2000–2007.




This growth has occurred because Jersey Marketing Service has been an innovator in creating services that meet the needs of today's milk producers. Key components are large-volume auction sales, verifiable identification and strong health protocols adding value to all animals sold through JMS, and making real-time information available to buyers.

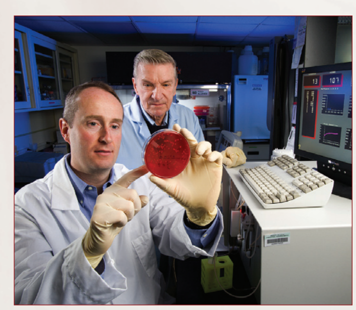
Since January 1, 2000, the date of implementation of multiple component pricing in seven of the then 11 Federal Milk Marketing Orders, Jersey Marketing Service has generated $74 million in revenue for the Jersey owners using its services.



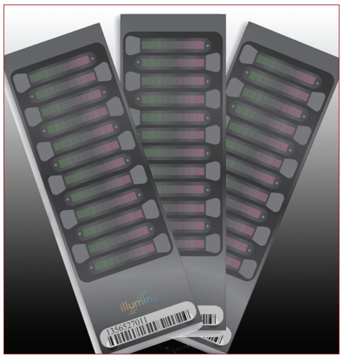

**The AJCC Research Foundation and the USJersey organizations committed $74,052 to fund seven scientific investigations related to Jersey dairy cattle for 2007.**

This was the largest amount ever allocated by the Jersey organizations in a single year for Jersey-specific research and brought the Foundation's 20-year funding total to $753,524. By topic area, these were:

- Two studies related to improved methods for freezing Jersey cattle embryos, led by principal investigators Curtis R. Youngs of Iowa State University; and also Samuel Prien at Texas Tech University.
- Research on the ability of Holsteins and Jerseys to clear intramammary infections and differential immune responses by Douglas D. Bannerman of the Bovine Functional Genomics Laboratory, Agricultural Research Service of USDA, Beltsville, Md.
- A detailed exploration of factors associated with cow mortality, particularly breed effects, conducted by principal investigator Gary W. Rogers of the University of Tennessee. Also, to be evaluated are the potential of current genetic evaluations for traits like productive life, daughter pregnancy rate, strength and dairy form to predict cow mortality rates.
- Research comparing feed efficiency of crossbred Jersey–Holstein cows with that of their pure Holstein contemporaries at the University of Wisconsin, conducted by Kent A. Weigel and Randy D. Shaver. Data from this study will be combined with information on fertility, dystocia, stillbirths, calf mortality, rearing costs, lameness, mastitis, metabolic health, longevity, salvage value, and other economically important traits.
- An intensive study of growth and development of Jersey steer calves fed at different energy levels for lean meat production, led by Chad J. Mueller at Oregon State University. Findings from this research are expected to enhance acceptance of Jersey steers in feedlot operations, and also provide useful information for improved Jersey heifer management.
- A large-scale, longitudinal field trial with calf-fed Jersey steers. The first phase evaluated growth, feed efficiency and health of Jersey bull calves raised on two different nutritional planes, under the direction of Thomas Earleywine, Land O'Lakes Animal Milk Products Co. Richard A. Zinn of the Desert Research and Extension Center, University of California, El Centro, has undertaken the study's second phase, a characterization of feedlot growth and performance by the steer calves from 16-17 weeks of age until harvest.



USDA scientist Doug Bannerman *(left)* is using genetic markers to track mastitis infections to find out why Jerseys typically have higher somatic cell counts than Holsteins, but lower frequencies of mastitis. "The immune markers for *E. coli* and *S. aureus* infections have been well-characterized, allowing us to characterize breed differences since we know which critical immune markers to look at," Dr. Bannerman explains. *Photo: Stephen Ausmus, Agricultural Research Service, USDA.*



Commercially released in late 2007, the Infinium BovineSNP50 BeadChip is the first whole-genome genotyping array for the bovine. It contains 54,001 single-nucleotide polymorphisms (SNPs) validated in 19 economically important cattle breeds, including the Jersey, and is now being used in research to develop genome-enhanced genetic evaluations. The chip was developed by the iBMAC Consortium that includes scientists from Illumina, USDA's Agricultural Research Service, the University of Missouri and the University of Alberta.

Three months later, at its June meeting, the AJCA Board received a report from scientists at the USDA-ARS Bovine Functional Genomics Laboratory (BFGL) on ongoing genomics research that had received a Foundation seed grant of $20,000 in early 2005 to enable inclusion of Jersey cattle in the Bovine HapMap project. The lead investigators, Curtis Van Tassell and Tad Sonstegard, reported that project's original goals, to characterize the genome of the Jersey among 19 bovine breeds, had been substantially exceeded. Over 35,000 genetic markers known as SNPs had been documented. Those data provided a foundation for the construction of a larger SNP genotyping tool that is currently being widely used in cattle.

As part of this hapmap project, a genetic relationship map compared all of the breeds studied. Those results revealed a distinct difference in the Jersey's genetic make-up relative to the other breeds that were characterized. In short, we obtained DNA-level evidence supporting the validity of our position on research: that the unique characteristics of the Jersey breed require Jersey-specific research.

Research to date indicates that the markers in that larger panel are useful for predicting genetic merit for economic traits like milk yield, fertility and productive life—potentially early in a young bull's life and at a mere fraction of the cost of traditional progeny test programs. The promise of genome-enhanced genetic evaluations is access to more reliable information earlier in a bull's life and to achieve faster rates of genetic progress for all the important economic traits. At this writing, the results using Jersey data are expected in a matter of months.

2007's breakthroughs in DNA technology and its application to genetic evaluations will be a defining moment for the development of the Jersey breed. The excitement of the genomic revolution remains high as we look towards cheaper and better tools for parentage verification, product traceability, and who knows what else!

**The American Jersey Cattle Association is the only U.S. dairy breed registry organization to record continuous growth over the past 20 years. The outlook for future growth is excellent.**

2007 was a year of incredible demand for Registered Jerseys™ all across the country. Let me point out here: that demand did not depend on a particular kind of milk market. It is profitability that is driving today's dairy producers toward a particular breed. Jerseys deliver bottom-line profitability every day of the week, the longest Productive Life in the industry and greatest potential for equity growth.

We are living the results of decades of hard work to develop the Jersey business. The credit belongs to so many people—Jersey owners, the elected leadership, Jersey employees past and present, industry professionals at all levels—who have worked so hard for so long to improve and promote the Jersey cow and create equitable markets for her milk.

We are really excited about where the Jersey organizations are today. We have set high goals for tomorrow. Both Boards of Directors and our staff of well-trained, highly professional and dedicated individuals are proceeding full steam ahead to achieve our joint missions:

- to improve and promote the Jersey breed of cattle, and
- to increase the value of and demand for Jersey milk, Jersey cattle and Jersey genetics.

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*

**Neal Smith**
**Executive Secretary and Chief Executive Officer**

**Accounting**
Vickie J. White, Treasurer

**National All-Jersey Inc. and AJCA Herd Services**
Erick Metzger

**Jersey Marketing Service and Field Service**
Herby D. Lutz

**Research and Genetic Development**
Cari W. Wolfe

***Jersey Journal***
Kimberly A. Billman

**Information Technology**
Mark Chamberlain

**Development**
Cherie L. Bayer, Ph.D.

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

The American Jersey Cattle Association (AJCA), National All-Jersey Inc. (NAJ) and its subsidiary All-Jersey Sales Corporation (AJSC), reported a combined net income of $415,780 for the year ended December 31, 2007.

Revenues and cost of operations for each company for the year ended December 31, 2007 are summarized as follows:

**American Jersey Cattle Association**

| | |
|---|---|
| Revenues | $ 2,549,203 |
| Expenditures | $ 2,282,069 |
| Net Gain from All American Show & Sale | $ 6,768 |
| Increase in Net Assets | $ 273,902 |

**National All-Jersey Inc. and Subsidiary**

| | |
|---|---|
| Revenues | $ 1,128,973 |
| Expenditures | $ 987,095 |
| Increase in Net Assets | $ 141,878 |

All three companies recognized strong participation in services during 2007. Combined revenues are as follows:

| | |
|---|---|
| Identification Services | 32% |
| Performance Services | 18% |
| Cattle Marketing Services | 15% |
| *Jersey Journal* | 13% |
| Equity | 13% |
| Investments and Other | 9% |

The organizations' marketable securities are reported at market value of $1,705,598. Accounting Standards require marketable securities to be reported at market value, therefore an unrealized gain was recorded at December 31, 2007 to reflect the variance in cost versus fair market value of the companies' investments.

The companies continue to maintain financial soundness. Net assets as of December 31, 2007, were recorded as follows:

| | |
|---|---|
| American Jersey Cattle Association | $ 2,033,384 |
| National All-Jersey Inc. and Subsidiary | $ 885,850 |
| Total (combined) net assets | $ 2,919,234 |

The AJCC Research Foundation reported net assets of $1,596,235 at December 31, 2007. The Research Foundation along with partial funding from AJCA and NAJ, supported projects totaling $74,052 in 2007. The scholarship funds administered by the AJCA provided scholarships totaling $12,450. Total combined net assets in the scholarship funds as of December 31, 2007 were $366,211.

We encourage the membership to review the financial statements and accompanying footnotes for AJCA and NAJ which were audited by our certified public accounting firm of McGladrey & Pullen LLP. These statements clearly state the financial position of the companies at December 31, 2007.

Respectfully submitted,

Vickie J. White

Vickie J. White
Treasurer

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

**Independent Auditor's Report**

We have audited the accompanying statement of financial position of American Jersey Cattle Association as of December 31, 2007 and the related statements of activities and changes in net assets, and cash flows for the year 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 audit. The financial statements of American Jersey Cattle Association for the year ended December 31, 2006, were audited by other auditors whose report, dated May 2, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of American Jersey Cattle Association as of December 31, 2007 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP
Columbus, Ohio
April 30, 2008

## STATEMENTS OF FINANCIAL POSITION

*December 31, 2007 and 2006*

| ASSETS | 2007 | 2006 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 125,262 | $ 118,729 |
| Investments | 233,024 | 220,780 |
| Accounts receivable, net of allowance for doubtful accounts of $55,000 | 212,599 | 203,934 |
| Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation | 610,141 | 430,692 |
| Supplies and inventories, at cost | 16,525 | 17,947 |
| Prepaid expenses and other assets | 80,070 | 57,499 |
| Total current assets | 1,277,621 | 1,049,581 |
| **PROPERTY AND EQUIPMENT, AT COST** | | |
| Land | 68,000 | 68,000 |
| Building | 494,448 | 494,448 |
| Operating equipment | 1,431,498 | 1,372,674 |
| Software development | 540,379 | 540,379 |
| | 2,534,325 | 2,475,501 |
| Less accumulated depreciation | (1,871,205) | (1,770,499) |
| | 663,120 | 705,002 |
| **OTHER ASSETS** | | |
| Investments: | | |
| Building fund | 1,005,196 | 945,261 |
| Total other assets | 1,005,196 | 945,261 |
| | $2,945,937 | $2,699,844 |

| LIABILITIES AND NET ASSETS | 2007 | 2006 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Current portion of obligation under co-borrowing credit agreement (total balance of $120,441 and $184,634 at December 31, 2007 and 2006, respectively), portion borrowed by AJCA *(Notes 1 and 5)* | $ 57,501 | $ 54,703 |
| Current portion of capital lease obligations | 25,164 | 23,563 |
| Current portion of unexpired subscriptions and directory listings | 22,403 | 44,772 |
| Accounts payable | 36,228 | 36,115 |
| Accrued expenses | 65,063 | 91,733 |
| Awards, All American Show & Sale | 51,382 | 48,104 |
| Awards, National Jersey Jug Futurity | 13,794 | 14,023 |
| Unearned fees and remittances | 404,032 | 247,965 |
| Accrued pension obligation | — | 39,000 |
| Total current liabilities | 675,567 | 599,978 |
| **NONCURRENT LIABILITIES** | | |
| Obligation under co-borrowing credit agreement (total balance of $120,441 and $184,634 at December 31, 2007 and 2006, respectively), portion borrowed by AJCA *(Notes 1 and 5)* | 44,874 | 102,236 |
| Capital lease obligations, net of current portion | 49,958 | 75,067 |
| Unexpired subscriptions and directory listings, net of current portion | 44,983 | 40,067 |
| Accrued pension obligation | 97,171 | 123,014 |
| | 236,986 | 340,384 |
| Total liabilities | 912,553 | 940,362 |
| **NET ASSETS** | | |
| Unrestricted: | | |
| Designated *(Note 4)* | 1,166,678 | 1,070,143 |
| Undesignated | 866,706 | 689,339 |
| Total net assets | 2,033,384 | 1,759,482 |
| | $2,945,937 | $2,699,844 |

*See notes to the financial statements.*

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

*Years Ended December 31, 2007 and 2006*

| | 2007 | 2006 |
|---|---|---|
| **REVENUES** | | |
| Fees | $1,914,885 | $1,851,199 |
| *Jersey Journal* advertising and subscriptions | 498,031 | 499,243 |
| Interest and dividend income | 44,185 | 34,535 |
| Other | 18,468 | 18,951 |
| Total revenues | 2,475,569 | 2,403,928 |
| **COST OF OPERATIONS** | | |
| Salaries, service, and administrative | 1,724,908 | 1,753,706 |
| *Jersey Journal* publishing | 398,251 | 372,694 |
| Depreciation and amortization | 135,695 | 130,219 |
| Interest expense | 9,815 | 13,369 |
| Total cost of operations | 2,268,669 | 2,269,988 |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | 206,900 | 133,940 |
| **OTHER INCOME (EXPENSE)** | | |
| Net gain (loss) from The All American Show and Sale | 6,768 | (17,168) |
| Net unrealized gain on investments | 6,778 | 39,313 |
| Realized gain on investment | 49,805 | 34,637 |
| Pension-related changes other than net periodic pension cost | 17,051 | 112,780 |
| Total other income | 80,402 | 169,562 |
| **INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS** | 287,302 | 303,502 |
| **EXPENDITURES FROM DESIGNATED NET ASSETS** | | |
| Research and development | 13,400 | — |
| Total expenditures from designated net assets | 13,400 | — |
| **INCREASE IN NET ASSETS** | 273,902 | 303,502 |
| **NET ASSETS**, beginning | 1,759,482 | 1,455,980 |
| **NET ASSETS**, end | $2,033,384 | $1,759,482 |

*See notes to the financial statements.*

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

**Note 1. Nature of Organization and Significant Accounting Policies**

*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.

*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.

*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.

*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 1½% 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 $55,000 as of December 31, 2007 and 2006, 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 $1,388 and bad debt expense of $12,559 was recognized for the years ended December 31, 2007 and 2006, 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.

*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).

*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 $126,460 and $114,596 for 2007 and 2006, 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, 2007 or 2006.

AJCA and NAJ are obligated under a co-borrowing credit agreement (see Note 5.). Under this co-borrowing credit agreement, AJCA is jointly and severally liable, along with NAJ, for the entire outstanding balance of the credit facility which was $120,441 and $184,634 as of December 31, 2007 and 2006, respectively. The portion of the total advance allocated to AJCA under the credit agreement has been recorded as "obligation under co-borrowing credit facility, portion borrowed by AJCA" in the accompanying statement of financial position.

*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 2007 and 2006, these activities include primarily magazine advertising. Income tax expense for 2007 and 2006 amounted to $11,128 and $23,040, respectively, and is included in salaries, service and administrative expense on the statement of activities and changes in net assets.

*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.

*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 effect 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.

*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.

*Unearned Fees and Remittances:* Unearned fees and remittances represent amounts received in advance for registrations, transfers and total performance evaluation.

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

*Advertising:* The Association's advertising efforts are associated with nondirect-response programs. The costs are expensed in the period of the related advertisement. The Association expensed $21,013 and $17,136 for the years ended December 31, 2007 and 2006, respectively.

*Recent Accounting Pronouncements:* In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model of recognizing, measuring, presenting, and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual statements for fiscal years beginning after December 15, 2007. The Association will be required to adopt FIN 48 in its 2008 annual financial statements. Management has not yet addressed the impact of FIN 48 on the Association's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," ("SFAS No. 157") which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair-value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Association has not assessed the impact of SFAS No. 157 on its financial position and results of operations and has not determined whether the adoption of SFAS No. 157 will have a material effect on its financial statements.

In February 2008, the FASB Issued FASB Staff Position No. FAS 157-1 ("FSP FAS 157-1"), "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13" and FASB Staff Position No. FAS 157-2 ("FSP FAS 157-2"), "Effective Date of FASB Statement No. 157." FSP FAS 157-1 amends SFAS No. 157 to exclude from its scope SFAS No. 13 and other pronouncements that address fair value measurements for purposes of lease classification or measurement. The scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value (including assets and liabilities not related to leases). FSP FAS 157-2 delays by one year the effective date of SFAS No. 157 for certain types of nonfinancial assets and nonfinancial liabilities for fiscal years beginning after November 15, 2008. The guidance in FSP FAS 157-1 and FSP FAS 157-2 is effective upon initial adoption of SFAS No. 157, which is the first quarter of fiscal year 2008. The Association has not assessed the impact of FSP FAS 157-1 on its financial position and results of operations and has not determined whether the adoption of FSP FAS 157-1 will have a material effect on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS No. 159") effective for the Association beginning on January 1, 2008. SFAS 159 provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Association has not assessed the impact of this guidance on its financial statements, but does not expect to elect the fair value option for eligible items that existed as of January 1, 2008.

**Note 2. Functional Expenses**

The Association's operating expenses by functional classification for 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Records | $ 348,786 | $ 337,439 |
| Data processing | 286,454 | 243,977 |
| Performance | 474,508 | 474,466 |
| *Jersey Journal* | 413,127 | 398,169 |
| Information | 118,828 | 120,590 |
| Field | 345,800 | 327,065 |
| Accounting, administration, and general | 264,115 | 255,502 |
| Total cost of operations | $2,251,618 | $2,157,208 |

**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 hired prior to January 1, 2003, 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 were 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 2007 and 2006.

| | 2007 | 2006 |
|---|---|---|
| Pension benefit obligations | | |
| Balance, beginning of year | $1,412,596 | $1,432,485 |
| Interest cost | 75,257 | 79,094 |
| Actuarial (gain) loss | (36,778) | (54,071) |
| Benefits paid | (174,895) | (44,912) |
| Balance, end of year | $1,276,180 | $1,412,596 |
| Plan Assets | | |
| Fair value, beginning of year | $1,161,317 | $1,054,939 |
| Actual returns on Plan assets | 50,943 | 131,290 |
| Employer contributions | 100,000 | 20,000 |
| Benefits paid | (174,895) | (44,912) |
| Fair value, end of year | $1,137,365 | $1,161,317 |
| Total accrued pension obligation | $ 138,815 | $ 251,279 |
| Less accrual of NAJ and Subsidiary | 41,644 | 89,265 |
| Accrued pension obligation of AJCA | $ 97,171 | $ 162,014 |

Assumptions used in the accounting as of December 31, 2007 and 2006 were:

| | 2007 | 2006 |
|---|---|---|
| Discount rate | 5.80% | 5.87% |
| Long-term rate of return | 7.50% | 7.50% |

Pension expense for 2007 and 2006 comprised the following:

| | 2007 | 2006 |
|---|---|---|
| Interest cost | $ 75,257 | $ 79,094 |
| Actuarial return on Plan assets | (50,943) | (131,290) |
| Actuarial (gain) loss | (36,778) | (54,071) |
| Total pension (benefit) expense | (12,464) | (106,267) |
| Less pension benefit (expense) of NAJ and Subsidiary | 2,742 | 23,825 |
| Pension (benefit) expense of AJCA | $ (9,722) | $ (82,442) |

Weighted-average Plan asset allocations, by asset category:

| | 2007 | 2006 |
|---|---|---|
| Equity securities | 60% | 76% |
| Debt securities | 40% | 24% |
| 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:

| | |
|---|---|
| 2008 | $ 50,517 |
| 2009 | $ 52,187 |
| 2010 | $ 51,911 |
| 2011 | $ 61,752 |
| 2012 | $ 61,942 |
| Years 2013 - 2016 | $ 421,319 |

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 up to a maximum contribution of 15% of salary. Matching contributions for 2007 and 2006 amounted to $22,473 and $17,092, respectively.

**Note 4. Designation of Net Assets**

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

| | 2007 | 2006 |
|---|---|---|
| Building - established with original proceeds from sale of former operating facility; invested in securities *(see Note 8)* | $ 1,005,196 | $ 945,261 |
| Research and development - increased annually on a discretionary basis | 161,482 | 124,882 |
| | $ 1,166,678 | $1,070,143 |

In 2007 and 2006, there were expenditures of $13,400 and $-0-, respectively, from the research and development designated net assets.

**Note 5. Obligation under Co-Borrowing Credit Agreement**

AJCA and NAJ are co-makers and, therefore, are both obligated under a co-borrowing credit agreement. The funds were used to finance the development of computer software and building improvements. Under this co-borrowing credit agreement, AJCA is jointly and severally liable, along with NAJ, for the entire outstanding balance of the credit facility which was $120,441 and $184,634 as of December 31, 2007 and 2006, respectively. Advances to AJCA under the credit agreement have been recorded as "obligation under co-borrowing credit agreement, portion borrowed by AJCA" in the accompanying statement of financial position. The long-term note requires monthly payments of $6,006 including interest at 5.0% through September 2009.

Liability for this debt is shared jointly and severally 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 allocated share amounts to $102,375 and $156,939 at December 31, 2007 and 2006, respectively. The note is collateralized by AJCA's investment securities obtained from the proceeds of the sale of a former operating facility (see Notes 4 and 8).

Principal payments required on the co-borrowing credit agreement are summarized as follows:

| | AJCA | NAJ | Total |
|---|---|---|---|
| Year Ending December 31: | | | |
| 2008 | $ 57,501 | $ 10,148 | $ 67,649 |
| 2009 | $ 44,874 | $ 7,918 | $ 52,792 |
| | $ 102,375 | $ 18,066 | $ 120,441 |

Condensed consolidated financial statements of NAJ (the co-borrower) as of and for the year ended December 31, 2007 is as follows:

| | |
|---|---|
| Current assets | $ 1,787,707 |
| Other assets | 93,500 |
| Total | $ 1,881,207 |
| Current liabilities | $ 945,795 |
| Long-term debt | 7,918 |
| Accrued pension obligation | 41,644 |
| Net assets | 885,850 |
| Total | $ 1,881,207 |
| Revenues | $ 1,103,055 |
| Cost of operations | 946,695 |
| Other expenses, net | 14,482 |
| Increase in net assets | $ 141,878 |
| Cash used in operating activities | $ (222,479) |
| Cash used in investing activities | (17,423) |
| Cash used in financing activities | (9,629) |
| Net decrease in cash and cash equivalents | $ (249,531) |

**Note 6. Line of Credit**

At December 31, 2007 and 2006, the AJCA has available a $100,000, due on demand, line of credit with interest payable monthly at prime (7.50% and 8.25% at December 31, 2007 and 2006, 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, 2007 or 2006.

**Note 7. Capital Lease Obligations**

The Company is a lessee of equipment under capital leases which expire in 2010 and 2011. The asset and liability under capital leases is recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The assets are amortized over its estimated productive life. Amortization of the equipment under capital leases is included in depreciation and amortization expense.

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

| | 2007 | 2006 |
|---|---|---|
| Operating equipment | $ 124,152 | $124,152 |
| Less accumulated amortization | (52,980) | (28,150) |
| | $ 71,172 | $ 96,002 |

The Company pays monthly capital lease payments of $2,450, which expire during 2010 and 2011. Minimum future annual lease payments under capital leases as of December 31, 2006 in the aggregate are as follows:

| | |
|---|---|
| 2008 | $ 29,400 |
| 2009 | 29,400 |
| 2010 | 23,754 |
| | 82,554 |
| Less amount representing interest | (7,432) |
| Present value of minimum lease payments | 75,122 |
| Less current portion | (25,164) |
| Noncurrent portion | $ 49,958 |

**Note 8. Investments**

Investment securities are carried at fair market value, based on market quotes, at December 31, 2007 and 2006 and are composed of the following:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Investments included in: | | | | |
| Current assets: | | | | |
| Money market | $ 17,740 | $ 17,740 | $ 17,716 | $ 17,716 |
| Mutual funds | 212,213 | 215,284 | 200,631 | 203,064 |
| | 229,953 | 233,024 | 218,347 | 220,780 |
| Building fund: | | | | |
| Money market | 30,292 | 30,292 | 29,154 | 29,154 |
| Mutual funds | 965,100 | 974,904 | 912,632 | 916,107 |
| | 995,392 | 1,005,196 | 941,786 | 945,261 |
| | $1,225,345 | $1,238,220 | $1,160,133 | $1,166,041 |

Total investment income for 2007 and 2006 consists of the following:

| | 2007 | 2006 |
|---|---|---|
| Interest and dividend income | $ 47,076 | $ 36,847 |
| Net unrealized gain on investments | 6,990 | 42,046 |
| Realized gain (loss) on investments | 52,704 | 36,731 |
| | $ 106,770 | $ 115,624 |

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 and in the above schedule.

| | 2007 | 2006 |
|---|---|---|
| Interest | $ 2,891 | $ 2,312 |
| Net unrealized gain | 212 | 2,733 |
| Realized gain on investments | 2,899 | 2,094 |
| | $ 6,002 | $ 7,139 |

*Notes continued from page 15:*

**Note 9. Investments**

Investment securities are carried at fair value, based on market quotes at December 31, 2007 and 2006 and are composed of the following:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Money market | $ 35,581 | $ 35,581 | $ 35,534 | $ 35,534 |
| Mutual funds | 425,638 | 431,797 | 402,408 | 407,287 |
| | $ 461,219 | $ 467,378 | $ 437,942 | $ 442,821 |

Investment income for 2007 and 2006 consists of the following:

| | 2007 | 2006 |
|---|---|---|
| Interest and dividend income | $ 39,285 | $ 31,155 |
| Net realized and unrealized gain on investments | 20,922 | 30,131 |
| | $ 60,207 | $ 61,286 |

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

**Independent Auditor's Report**

We have audited the accompanying consolidated statement of financial position of National All-Jersey Inc. and Subsidiary as of December 31, 2007 and the related consolidated statements of activities and changes in net assets, and cash flows for the year 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 audit. The financial statements of National All-Jersey Inc. and Subsidiary for the year ended December 31, 2006 were audited by other auditors whose report, dated May 2, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2007 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, 2007 and the changes in their consolidated net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP
Columbus, Ohio
April 30, 2008

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*December 31, 2007 and 2006*

| ASSETS | 2007 | 2006 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 480,197 | $ 729,728 |
| Custodial cash | 511,897 | 322,905 |
| Investments | 467,378 | 442,821 |
| Accounts receivable, net of allowance for doubtful accounts of $11,250 | 315,895 | 41,872 |
| Interest receivable | 2,500 | 2,516 |
| Prepaid expenses | 9,840 | 450 |
| Deferred income taxes | — | 2,300 |
| Total current assets | 1,787,707 | 1,542,592 |
| **PROPERTY AND EQUIPMENT, AT COST** | | |
| Land | 12,000 | 12,000 |
| Building | 87,256 | 87,256 |
| Furniture and Equipment | 5,190 | 5,190 |
| Software development | 79,652 | 79,652 |
| Vehicles | 95,364 | 98,076 |
| | 279,462 | 282,174 |
| Less accumulated depreciation | 186,662 | 187,683 |
| | 92,800 | 94,491 |
| **OTHER ASSETS** | | |
| Deferred income taxes | 700 | 3,900 |
| | $1,881,207 | $1,640,983 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of obligation under co-borrowing credit agreement (total balance of $120,441 and $184,634 at December 31, 2007 and 2006, respectively), portion borrowed by NAJ *(Notes 1 and 6)* | $ 10,148 | $ 9,653 |
| Accounts payable | 3,929 | 7,162 |
| Advances due to American Jersey Cattle Association | 610,141 | 430,692 |
| Fees due consignors | 197,149 | 259,309 |
| Accrued expenses | 66,554 | 26,224 |
| Advances and reserves for advertising *(Note 3)* | 31,828 | 31,828 |
| Deferred income | 26,046 | 24,836 |
| Accrued pension obligation *(Note 5)* | — | 11,000 |
| Total current liabilities | 945,795 | 800,704 |
| **NONCURRENT LIABILITIES** | | |
| Obligation under co-borrowing credit agreement (total balance of $120,441 and $184,634 at December 31, 2007 and 2006, respectively), portion borrowed by NAJ *(Notes 1 and 6)* | 7,918 | 18,042 |
| Accrued pension obligation | 41,644 | 78,265 |
| | 49,562 | 96,307 |
| Total liabilities | 995,357 | 897,011 |
| **NET ASSETS** | | |
| Unrestricted: | | |
| Designated | 137,055 | 111,855 |
| Undesignated | 748,795 | 632,117 |
| Total net assets | 885,850 | 743,972 |
| | $1,881,207 | $1,640,983 |

*See notes to the financial statements.*

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

*Years Ended December 31, 2007 and 2006*

| | 2007 | 2006 |
|---|---|---|
| **REVENUES** | | |
| Equity project fees | $492,518 | $472,728 |
| Commissions | 557,433 | 464,456 |
| Interest and dividend income | 39,285 | 31,155 |
| Other | 13,819 | 13,544 |
| Total revenues | 1,103,055 | 981,883 |
| **COST OF OPERATIONS** | | |
| Salaries, service, and administrative | 855,995 | 813,623 |
| Field services | 59,662 | 52,820 |
| Bad debt expense | 14,377 | 420 |
| Depreciation and amortization | 15,479 | 22,842 |
| Interest | 1,182 | 1,657 |
| Total costs of operations | 946,695 | 891,362 |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | 156,360 | 90,521 |
| **OTHER INCOME (EXPENSE)** | | |
| Net realized and unrealized gain on investments | 20,922 | 30,131 |
| Pension-related changes other than net periodic pension cost | 4,996 | 32,381 |
| Total other income (expense) | 25,918 | 62,512 |
| **INCREASE IN NET ASSETS BEFORE INCOME TAX AND EXPENDITURES FROM DESIGNATED NET ASSETS** | 182,278 | 153,033 |
| **INCOME TAX EXPENSE** | 15,600 | 6,105 |
| **INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS** | 166,678 | 146,928 |
| **EXPENDITURES FROM DESIGNATED NET ASSETS** | | |
| Research and development | 24,800 | — |
| Total expenditures from designated net assets | 24,800 | — |
| **INCREASE IN NET ASSETS** | 141,878 | 146,928 |
| **NET ASSETS**, beginning | 743,972 | 597,044 |
| **NET ASSETS**, end | $885,850 | $743,972 |

*See notes to the financial statements.*

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

### Note 1. Significant Accounting Policies

*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.

*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.

*Basis of Accounting:* The accrual basis of accounting has been used in the preparation of the consolidated financial statements. Equity fees are contributions from individual producers or producer organizations. The money is used to develop markets and to promote multiple component pricing. Equity revenue is recognized in the period received, however, equity fees received as annual REAP payments are recognized over a 12 month period.

Jersey Marketing Service recognizes public sale commissions in the period in which the sale is held and private sale commissions in the period in which the transaction has been completed.

*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.

*Custodial Cash:* The Company maintains cash due consignors in separate custodial cash accounts.

*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 2007 and 2006 include reimbursements of $126,460 and $114,596, respectively, paid to the Association for these jointly incurred costs.

NAJ and AJCA are obligated under a co-borrowing credit agreement (See Note 6.). Under this co-borrowing credit agreement, NAJ is jointly and severally liable, along with AJCA, for the entire outstanding balance of the credit facility which was $120,441 and $184,634 as of December 31, 2007 and 2006, respectively. The portion of the total advance allocated to NAJ under the credit agreement has been recorded as "obligation under co-borrowing credit facility, portion borrowed by NAJ" in the accompanying statement of financial position.

*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 |
| Furniture and equipment | 10 years |
| Software development | 15 years |
| Vehicles | 5 years |

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

*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.

*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.

*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.

AJSC accounts for income taxes using the liability approach. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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

*Accounts Receivable:* JMS extends credit to buyers of cattle at public auction sales. 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 $11,250 as of December 31, 2007 and 2006. Bad debt expense of $14,377 and $420 was recognized for 2007 and 2006, respectively, as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence that the account is uncollectible.

*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.

*Advertising:* The Company's advertising efforts are associated with nondirect-response programs. The costs are expensed in the period of the related advertisement. The Company expensed $4,088 and $4,638 for the years ended December 31, 2007 and 2006, respectively.

*Recent Accounting Pronouncements:* In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement 109, *Accounting for Income Taxes*. Fin 48 prescribes a comprehensive model of recognizing, measuring, presenting, and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual statements for fiscal years beginning after December 15, 2007. National All-Jersey Inc. and Subsidiary will be required to adopt FIN 48 in its 2008 consolidated annual financial statements. Management has not yet addressed the impact of FIN 48 on National All-Jersey Inc. and Subsidiary's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," ("SFAS No. 157") which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair-value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Association has not assessed the impact of SFAS No. 157 on its financial position and results of operations and has not determined whether the adoption of SFAS No. 157 will have a material effect on its financial statements.

In February 2008, the FASB Issued FASB Staff Position No. FAS 157-1 ("FSP FAS 157-1"), "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13" and FASB Staff Position No. FAS 157-2 ("FSP FAS 157-2"), "Effective Date of FASB Statement No. 157." FSP FAS 157-1 amends SFAS No. 157 to exclude from its scope SFAS No. 13 and other pronouncements that address fair value measurements for purposes of lease classification or measurement. The scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value (including assets and liabilities not related to leases). FSP FAS 157-2 delays by one year the effective date of SFAS No. 157 for certain types of nonfinancial assets and nonfinancial liabilities for fiscal years beginning after November 15, 2008. The guidance in FSP FAS 157-1 and FSP FAS 157-2 is effective upon initial adoption of SFAS No. 157, which is the first quarter of fiscal year 2008. The Association has not assessed the impact of FSP FAS 157-1 on its financial position and results of operations and has not determined whether the adoption of FSP FAS 157-1 will have a material effect on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS No. 159") effective for the Association beginning on January 1, 2008. SFAS 159 provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Association has not assessed the impact of this guidance on its financial statements, but does not expect to elect the fair value option for eligible items that existed as of January 1, 2008.

**Note 2. Functional Expenses**

The Company's operating expenses by functional classifications for 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| National All-Jersey Equity program | $358,150 | $316,319 |
| Accounting, administration, general and field service | 77,312 | 76,659 |
| All-Jersey Sales (JMS) | 506,237 | 466,003 |
| Total cost of operations | $941,699 | $858,981 |

**Note 3. Advances and Reserves for Advertising**

| | December 31, 2007 | 2006 |
|---|---|---|
| 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, 2007 | 2006 |
|---|---|---|
| Research and development: Increased annually on a discretionary basis. In 2007 and 2006, there were expenditures of $24,800 and $0, respectively, from the research and development of designated net assets. | $137,055 | $111,855 |

**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 hired prior to January 1, 2003, who have been employed for one year with at least 1,000 hours of service. The Company's funding policy was to contribute such amounts as were 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 2007 and 2006.

| | 2007 | 2006 |
|---|---|---|
| Pension benefit obligations | | |
| Balance, beginning of year | $1,412,596 | $1,432,485 |
| Interest cost | 75,257 | 79,094 |
| Actuarial (gain) loss | (36,778) | (54,071) |
| Benefits paid | (174,895) | (44,912) |
| Balance, end of year | $1,276,180 | $1,412,596 |
| Plan Assets | | |
| Fair value, beginning of year | $1,161,317 | $1,054,939 |
| Actual returns on plan assets | 50,943 | 131,290 |
| Employer contributions | 100,000 | 20,000 |
| Benefits paid | (174,895) | (44,912) |
| Fair value, end of year | $1,137,365 | $1,161,317 |
| Total accrued pension obligation | $ 138,815 | $ 251,279 |
| Less accrual of AJCA | 97,171 | 162,014 |
| Accrued pension obligation of NAJ and Subsidiary | $ 41,644 | $ 89,265 |

Assumptions used in the accounting as of December 31, 2007 and 2006 were:

| | 2007 | 2006 |
|---|---|---|
| Discount rate | 5.80% | 5.87% |
| Long-term rate of return | 7.50% | 7.50% |

Pension expense for 2007 and 2006 comprised the following:

| | 2007 | 2006 |
|---|---|---|
| Interest cost | $ 75,257 | $ 79,094 |
| Actuarial return on Plan assets | (50,943) | (131,290) |
| Actuarial (gain) loss | (36,778) | (54,071) |
| Total pension (benefit)expense | (12,464) | (106,267) |
| Less pension benefit (expense) of AJCA | 9,722 | 82,442 |
| Pension (benefit) expense of NAJ and Subsidiary | $ (2,742) | $ (23,825) |

Weighted-average Plan asset allocations, by asset category:

| | | |
|---|---|---|
| Equity securities | 60% | 76% |
| Debt securities | 40% | 24% |
| 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:

| | |
|---|---|
| 2008 | $ 50,517 |
| 2009 | $ 52,187 |
| 2010 | $ 51,911 |
| 2011 | $ 61,752 |
| 2012 | $ 61,942 |
| Years 2013 - 2016 | $421,319 |

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 up to a maximum contribution of 15% of salary. Matching contributions for 2007 and 2006 amounted to $5,901 and $5,426, respectively.

**Note 6. Obligation under Co-borrowing Credit Agreement**

NAJ and AJCA are co-makers and, therefore, are both obligated under a co-borrowing credit agreement. The funds were used to finance the development of computer software and building improvements. Under this co-borrowing credit agreement, NAJ is jointly and severally liable, along with AJCA, for the entire outstanding balance of the credit facility which was $120,441 and $184,634 as of December 31, 2007 and 2006, respectively. Advances to NAJ under the credit agreement have been recorded as "obligation under co-borrowing credit agreement, portion borrowed by NAJ" in the accompanying statement of financial position. The long-term note requires monthly payments of $6,006 including interest at 5.0% through September 2009. Liability for this debt is shared jointly and severally 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. NAJ's allocated share amounts to $18,066 and $27,695 at December 31, 2007 and 2006, respectively. The note is collateralized by AJCA's investment securities obtained from the proceeds of the sale of a former operating facility.

Principal payments required on the co-borrowing credit agreement are summarized as follows:

| | NAJ | AJCA | Total |
|---|---|---|---|
| Year Ending December 31: | | | |
| 2008 | $ 10,148 | $ 57,501 | $ 67,649 |
| 2009 | $ 7,918 | $ 44,874 | $ 52,792 |
| | $ 18,066 | $ 102,375 | $ 120,441 |

Condensed financial statements of AJCA (the co-borrower) as of and for the year ended December 31, 2007 is as follows:

| | |
|---|---|
| Current assets | $ 1,277,621 |
| Other assets | 1,668,316 |
| Total | $ 2,945,937 |
| Current liabilities | $ 675,567 |
| Long-term debt | 44,874 |
| Accrued pension obligation | 97,171 |
| Other noncurrent liabilities | 94,941 |
| Net assets | 2,033,384 |
| Total | $ 2,945,937 |
| Revenues | $ 2,475,569 |
| Cost of operations | 2,268,669 |
| Other income, net | 67,002 |
| Increase in net assets | $ 273,902 |
| Cash provided by operating activities | $ 190,903 |
| Cash used in investing activities | (106,298) |
| Cash used in financing activities | (78,072) |
| Net increase in cash and cash equivalents | $ 6,533 |

**Note 7. Income Taxes**

The provision for income taxes for the years ended December 31, 2007 and 2006 consists of the following:

| 2007 | Federal | State and Local | Total |
|---|---|---|---|
| Current | $ 9,300 | $ 800 | $ 10,100 |
| Deferred | 5,500 | — | 5,500 |
| | $14,800 | $ 800 | $ 15,600 |

| 2006 | Federal | State and Local | Total |
|---|---|---|---|
| Current | $ — | $ 1,305 | $ 1,305 |
| Deferred | 4,800 | — | 4,800 |
| | $ 4,800 | $ 1,305 | $ 6,105 |

**Note 8. Line of Credit**

At December 31, 2007 and 2006, the Company has available a $175,000, due on demand, line of credit with interest payable monthly at prime (7.50% and 8.25% at December 31, 2007 and 2006, 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, 2007 or 2006.

*(Notes continued on page 11, column 2)*

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

## Leading Indicators of Jersey Breed Growth and Improvement

| | 2007 | 1997 | 1987 | Change *('07 v. '87)* |
|---|---|---|---|---|
| Identification | | | | |
| Animals recorded | 79,535 | 54,767 | 52,713 | 50.9% |
| Animals transfered | 22,554 | 21,552 | 25,476 | — 11.5% |
| Performance Programs | | | | |
| Herds enrolled | 1,084 | 823 | 749 | 44.7% |
| Cows enrolled | 121,049 | 77,637 | 50,391 | 140.2% |
| Production (AJCA lactations, 305-day, 2x, ME) | | | | |
| Protein *(true protein)* | 651 | 602 | — | |
| Milk | 18,337 | 16,374 | 13,068 | 40.3% |
| Fat | 838 | 750 | 616 | 36.0% |
| Equity Investment | $492,581 | $274,818 | $151,081 | 226.0% |
| Jersey Marketing Service | | | | |
| Gross for private treaty sales | $ 6,485,953 | $ 2,168,821 | $ 1,436,118 | 351.6% |
| Gross for public sales | $ 6,603,120 | $ 2,079,312 | $ 1,750,960 | 277.1% |
| Combined Net Assets | $2,919,234 | $2,173,253 | $1,724,524 | 69.3% |

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