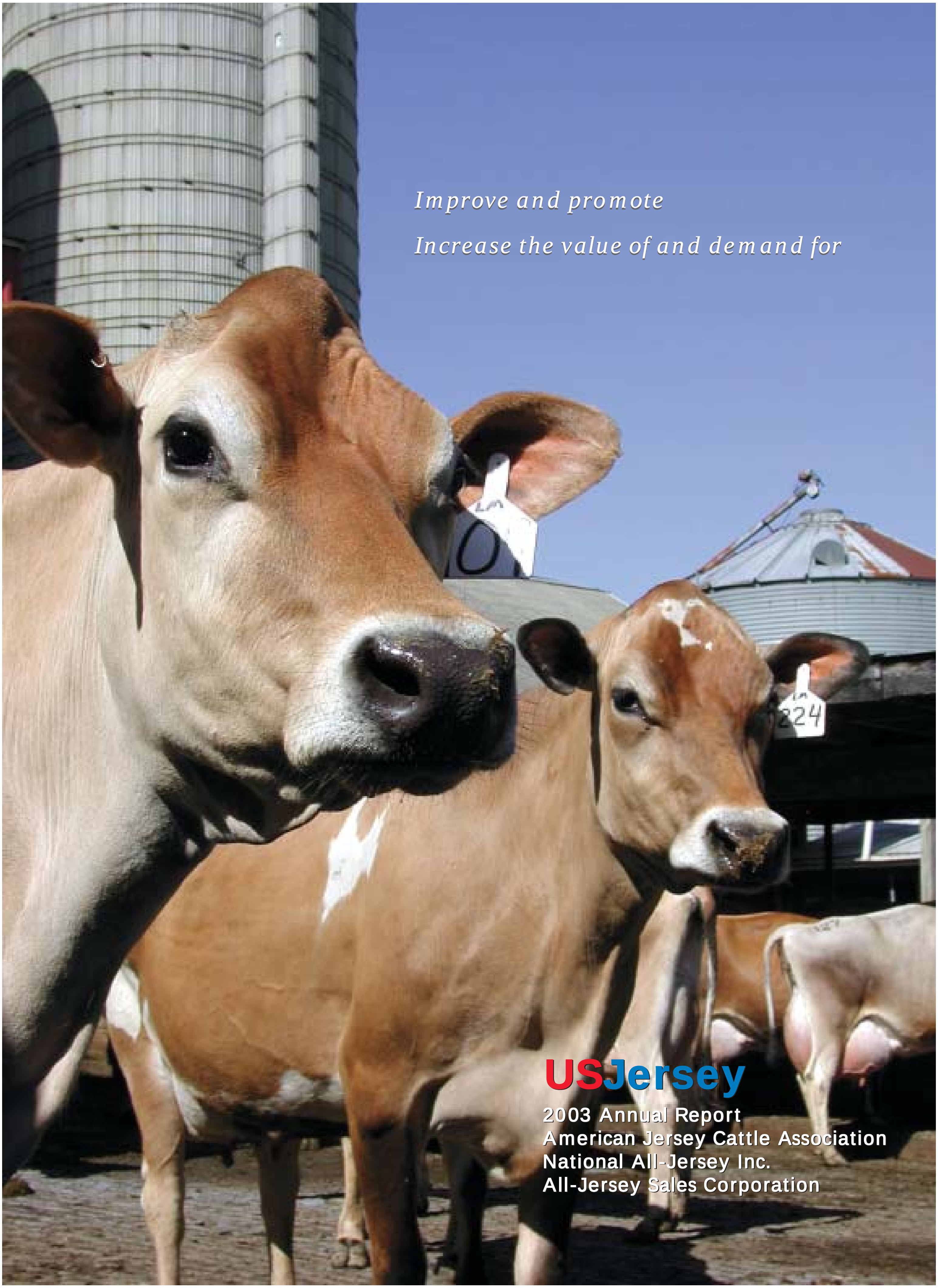


Improve and promote

Increase the value of and demand for

USJersey

2003 Annual Report
American Jersey Cattle Association
National All-Jersey Inc.
All-Jersey Sales Corporation

The times might have been tough, but the Registered Jersey™ business was up to the challenge in 2003. The American Jersey Cattle Association started the year off on the right foot. We had just completed a spectacular year in 2002, the fourth best year for registrations in 135 years of operation. Over 109,000 cows—

> The Jersey cow and our organizations consolidated their position as the best equity investment in the dairy industry.

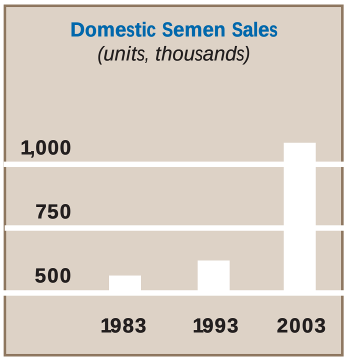
an all-time high—were enrolled on performance programs. Production per cow reached new heights. Semen sales increased 15% to just over 950,000 units sold in the domestic market, a growth spurt largely due to the growing need for calving ease bulls.

I don't need to remind you how depressed the general dairy economy was during 2003. Certainly the low point came last April, when the Class I mover reached a 25-year low at $9.25. You were making tough decisions about how to stay in the dairy business. I suspect that every day, you were grateful that you were milking Jersey cows.

But month after month, 2003 unfolded as one of the most exciting and progressive years in the Association's history.

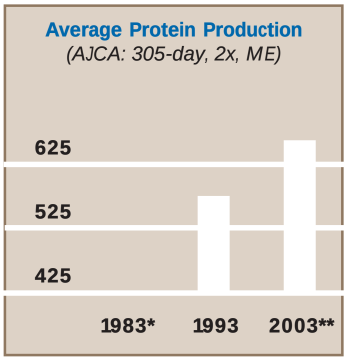
Jerseys in the U.S.

The National Association of Animal Breeders (NAAB) reported that 1,071,651 units of semen from Registered Jersey™ bulls were sold in the U.S. during 2003. It was the first time in history that sales exceeded 1 million units. In just 10 years, the demand for Jersey semen has essentially doubled: a mere 549,899 units were sold

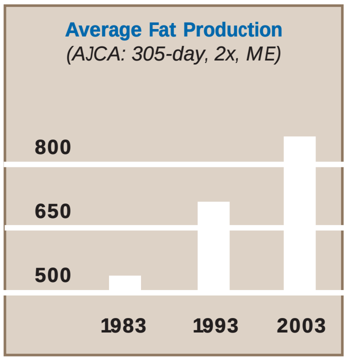


in the domestic market in 1994. The Jersey market share has increased to 6.58% from the 15-year (1984-1998) average of 4.5%.

The sustained and rapid growth in semen sales is due to the increased appreciation by an ever-growing number of U.S. dairy producers of what Jersey genetics bring to the table. The many characteristics required for a dairy cow to live longer, produce longer and reproduce longer are concentrated in today's Registered Jerseys™. Unquestionably, they produce the most valuable components of milk—protein and fat—more efficiently and at less cost, thus increasing net returns to the dairy enterprise.



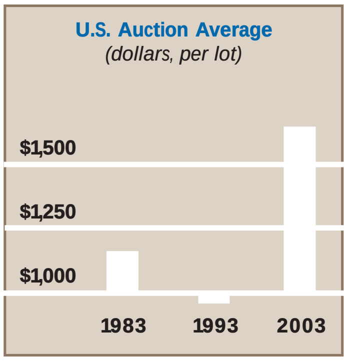
* Not available
** Measured as true protein



All-time records for Jersey production were reported by both the national DHI program and the Association for 2003. A total of 83,161 lactations were processed by the AJCA, with qualifying lactations averaging 18,283 lbs. milk, 838 lbs. fat, and 646 lbs. protein (305-day, 2x mature equivalent, minimum of 90 DCR, 60,461 lactations). Percentage increases over 2002 were 1.35% for milk, 1.82% for fat and 0.78% for protein. Based upon recent trends, the breed lactation average is forecast to reach 20,497 lbs. milk, 937 lbs. fat and 736 lbs. protein by 2010.

On a cheese yield equivalent basis, the breed average stands at 2,181 lbs. The average yield of Cheddar cheese of 12.34 lbs. per hundredweight (cwt.) is 2.30 lbs., or 22.9% higher than the majority breed's yield.

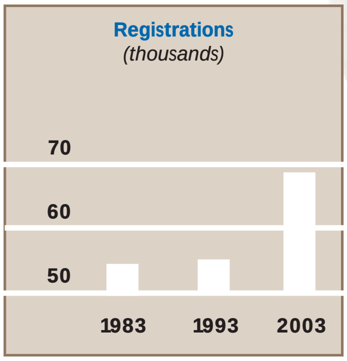
Industry demand for Jersey cattle was largely undeterred by last year's low milk prices. The number of Registered Jerseys™ sold at public auction increased to 3,899 lots from the previous year's sales of 3,008. The 2003 average of $1,695.06 per lot was the fourth-best year for auction sales since recordkeeping began in 1919. The average of $8,823.48 for 33 lots sold in the Primetime in the Heartland sale on June 7 in West Union, Iowa made that event the highest averaging auction sale in history. The Butterfield Farms Dispersal on September 5 and 6 in Bentonville, Ark., recorded the top single-sale gross in history at $823,850 on 448 animals.



Three of the four best years for Jersey auction sales have occurred since the new millennium was ushered in on January 1, 2000.

Identification Services

At the close of business on December 31, 69,244 animals had been added to the AJCA's database, making 2003 the eighth-best year in our history. This included 4,750 animals recorded through Genetic Recovery and 905 Jersey-sired females recorded under Jersey Expansion with the J1 prefix.

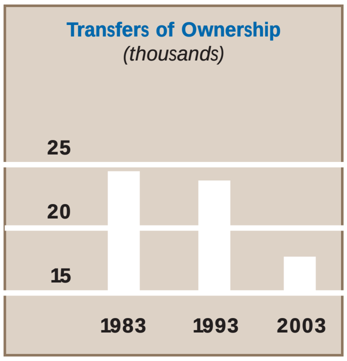


2003 was the fifth consecutive year that the Association has recorded at least 60,000 animals, a level not sustained since 1951 through 1955.

The benefits of more convenient, cost-effective services for registration continued to add up in 2003. More than half of the registrations—38,174, or 55.1%—were received electronically, and the number of applications processed by herd owners using *infoJersey*, the 24/7 Internet service site, increased to 19, 989 (28.9% of all registrations).

Mixed breed cows, like these young cows all sired by Registered Jersey™ bulls, are the fastest growing segment of cows enrolled on DHI programs nationally.

During the first full year for the JerseyTag program, 34,458 JerseyTags were sold to 144 different herds. In 2003, 6,335 animals were registered using tamperproof American ID eartags to meet the AJCA's requirement for permanent identification.



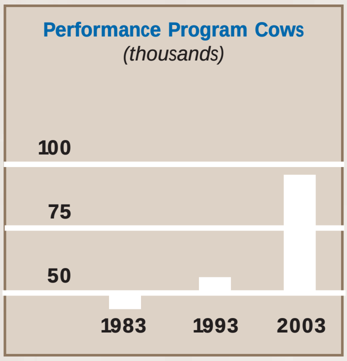
Animal identification services were expanded by the Board of Directors as the year drew to a close, responding to requests from both dairy producers and A.I. seeking to track various combinations and percentages of Registered Jersey™ genetics. The Jersey Expansion program was modified to provide for recording as J1s, females sired by registered bulls of other breeds and out of fully registered cows or cows recorded with the GR prefix. Other animals with Registered Jersey™ genetics but not otherwise eligible for existing recording services are now being recorded with the registry status UR in combination with breed code XX.

Ownership transfers declined for a second consecutive year, to 17,618 (–1.64% from 2002).

Performance Programs

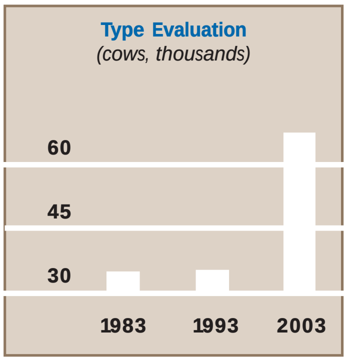
A depressed dairy economy in 2002 made it difficult to sustain the rate of growth in performance programs recorded since 1999. That being said, 2003 was still one of the most remarkable years in Association history in terms of providing vital herd and breed improvement programs.

Paced by REAP enrollments, there were 98,215 cows in 929 herds enrolled on testing and type evaluation programs at year's end, the third best in history. This included 625 herds on REAP, an all-time record for use of the package providing comprehensive services in registration, performance programs, type appraisal and Equity milk marketing support. The 92,579 cows in REAP herds represented 94.3% of all cows enrolled on performance programs last year.



There was unprecedented growth—nearly 11%—in linear type appraisal during the year. A total of 67,249 cows were scored, establishing an all-time record for that service. Appraisers visited 1,424 herds during 2003, an increase of 14.0% over the previous year.

Individual cow and herd performance during 2003 brought positive attention to the Registered Jersey™ business. New U.S. and world records for milk, protein and cheese were set last spring when Cottonwood Merry Violet, Excellent-93%, owned by Maack Dairy, Cloverdale, Ore., completed a record of 44,120 lbs. milk, 1,593 lbs. protein and 5,509 cheese yield equivalent. The milk record stood just four months, to be replaced by another completed by Mainstream Berretta Joy, Very Good-88%, of 44,930 lbs. milk. The cow owned by Melissa Kortus, Lynden, Wash., became the first Jersey to complete two consecutive records over 40,000 lbs. milk in AJCA production testing history.



The new world milk champion was part of the record-setting performance by Kortus' 17-cow Mainstream herd. It averaged 28,872 lbs. milk, 1,351 lbs. fat and 1,002 lbs. protein (305-day, 2x mature equivalent). Each is a category record.

Daughter Pregnancy Rate (DPR) became available to the dairy industry early in 2003, and was incorporated into the August issue of the Jersey Genetic Summary *(Green Book)*. An estimate of fertility, DPR is the percentage by which daughters of a particular bull are expected to exceed or fall short of a herd's average 21-day pregnancy rate. Work to incorporate DPR in the Jersey Performance Index™ is now underway in directed research funded by the AJCC Research Foundation.

Young Sire Development

Vital participants in the selection and progeny testing of Jersey bulls, the regional Jersey young sire proving groups received dividends of $123,489 during 2003. To date, $739,429 has been paid to the groups receiving administrative services from the American Jersey Cattle Association.

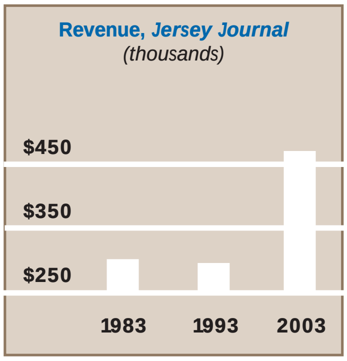
Liberty Jersey Sires Inc. earned $100,685 in lease income from eight bulls, two of them ranked among the breed's top 10 active A.I. sires at year end. Three more groups distributed dividends earned during 2003. Dixieland Jersey Sires, created in 1985 and thus the oldest of the groups, distributed $10,279 to its members, while New England Jersey Sires sent out checks totaling $7,586, and Great Western Jersey Sires, checks for $4,939.

The five groups have 34 bulls in the pipeline for 2003-04 sampling, bringing the total sampled to 265. The overall return rate to date is 30%, with Liberty returning 49% of its bulls to active A.I. service since its incorporation in 1986.

Promotion

On October 5, 2003, the *Jersey Journal* marked the golden anniversary of its first issue. Fittingly, the October issue was the largest issue of the year at 118 pages.

For the year, the staff produced nearly 545 pages of ads, an increase of 4.8% over 2002 and making 2003 the fifth consecutive year that sales have exceeded 500 pages. Commercial advertising grew significantly during the year, with 15 different firms placing ads in the October issue alone. Total pages printed for the year were 894. Circulation at year-end stood at 2,994, a slight decline from the 2002 level.



The 2003-2004 issue of the Jersey Directory, listing 542 breeders and 53 dairy service firms, was published and mailed with the August issue.

AJCA is the Jersey cow. NAJ is the primary reason she is the choice of profit-minded dairy producers.

Numerous companies across the vast U.S. dairy industry are involved in the marketing of milk or cattle sales. The business of National All-Jersey Inc. and the subsidiary All-Jersey Sales Corporation is to sell *Jersey milk* **and** to sell *Jersey cows*. Why?

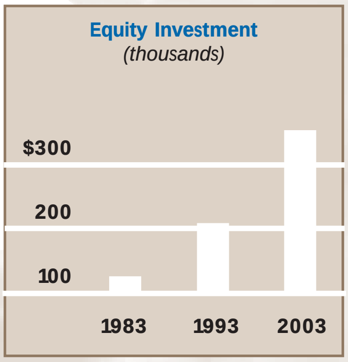
Because you need them to add value to *your* Jersey milk **and** *your* Jersey cows. Through good times, and also the really tough times like we experienced in 2003, National All-Jersey Inc. sticks by you to help you find the most profit from your investment in Registered Jerseys™.

NAJ and JMS have always gone the extra mile on your behalf, and continued to do so in 2003.

Project Equity was supported by the combined investment of $357,956 by 813 members, funding a wide variety of staff activity during the year to continue to search for new and better markets for our members' milk. Work continued throughout the year to develop voluntary MCP markets in Missouri, Pennsylvania, Michigan, and California.

At the same time, NAJ was working on projects beyond the scope of what had traditionally been done over the past 25 years. Greater attention was given to world trade, now making a significant impact on manufactured products. Jersey producers may be especially vulnerable to imports because we depend upon manufactured dairy products for competitive advantage.

Milk pooling issues came to the forefront last year, as relatively higher cheese prices, okay butter prices, and weak powder prices created a scenario giving little or no incentive to participate in price pools in many Federal Orders and the California state marketing order. The result was milk leaving regulated markets, causing hard feelings between and among producers, cooperatives, and dairy processors. The staff spent a good deal of time explaining what was happening with negative PPDs. Termination of the Western Federal Order raised the question of how milk in Idaho and Utah would be priced without regulated multiple component pricing (MCP).



New milk-based beverages emerged on the market, with soft drink companies scrambling to develop products to meet new school nutrition standards and to expand their product lines. USDA was asked for a Federal Order hearing to consider pricing the components in these drinks at Class I prices. Anticipating that action on this issue could affect the value of Jersey milk, our staff participated in industry discussions and monitored developments.

Finally, NAJ's efforts were augmented by widespread publicity given to the staff's re-analysis of cost of production information collected by the California Department of Food and Agriculture. These data showed that on a cheese yield value basis, Jerseys had a net return advantage of $86 per cow compared to Holsteins. At the same time, the analysis revealed how important cheese yield and protein pricing is to the Jersey business. When the protein premium is removed, the Jersey advantage disappears. The study illustrated why it is absolutely key to our future for NAJ to grow and expand component pricing.

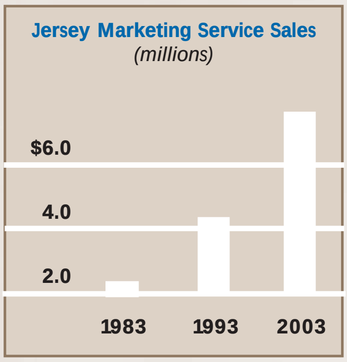
2003 was the 51st year for the All American Show & Sale, year in and year out the premier marketing venue for Registered Jerseys™. The All American and Pot O'Gold sales combined for a gross of $394,100 on 102 lots.

$5,257,605 has been invested since 1976 in Project Equity's work to bring fair and equitable milk pricing and marketing policies to our industry. It has been successful because of hard work and because our message of component-based pricing has plenty of economic logic behind it.

Jersey Marketing Service

Jersey Marketing Service continued to build its reputation as the most credible organization in the business, simply by doing right by both the buyers and the sellers of the animals it marketed. JMS reported its fourth-high year for total sales—$7,280,379—and its second-best year for average price —$1,369.03 on 5,315 lots—for 2003. Increased volume was reported for both public auction (12.5%) and private treaty (19.9%) sales compared to 2002.

The growth of JMS thus far in the '00 decade has been nothing short of spectacular. Compared to the '90s, JMS has increased its business by 52.1%, from annual average sales of $5,367,258 for the years 1990 to 1999, to $8,163,962 for the period 2000 to 2003. The average price per lot has increased by 37.6%, from $1,072 to $1,413 for the four most recent years.



$120,995,353 in revenue from 110,459 cows, heifers, bulls and embryos has been generated for Jersey owners since 1975 by Jersey Marketing Service. Never has one agency been able to capture the added value of Registered Jerseys™ for so many different sellers and do so with integrity for so many years.

Development

We shared the facts about Jersey adaptability, efficiency and profitability with the industry as never before in 2003. We talked about the Productive Life advantage of Jerseys, the greater profit margin to be had from Jerseys in MCP markets, and the remarkable equity growth potential of Jerseys during our *Improving the Bottom Line* sessions in California and Wisconsin, and then again at the World Dairy Expo virtual farm tour. Press coverage of those programs was terrific.

An audience of 125 people listened to Gregory "Butch" Dias Jr. of Delta View Farms, Visalia, Calif., as he explained why he switched to Registered Jerseys™ and enrolled on REAP at the first *Improving the Bottom Line* management discussion on May 8, 2003. "We're glad to be here, where we are" with Jerseys, he said.

The industry heard us, loud and clear.

The AJCC Research Foundation, a permanent trust operated exclusively to promote and sponsor scientific research, appropriated $18,500 for five investigations on Jersey-specific problems in 2003. Foundation net assets at year end were $895,424. Major contributions to the endowment were received from the Ohio, Minnesota and Vermont state associations. Nearly $15,000 was added from proceeds of the benefit auction held during the Annual Meetings last June.

Our Prospects

All the hard work that has been done to develop and keep the Jersey as the most profitable cow in the dairy business paid off last year. It will keep paying off. Manufacturers are now confronted with a deficit of milk components, a fact pointed out in a recent market analysis from Penn State University. Surging consumer demand for products like yogurt and the Italian and other cheeses needs to be met by producing more milk protein and milkfat. Need more components? Breed to Jerseys, or buy Jerseys!

We do like our prospects for the future.

It is apparent to us that 2004 will be a landmark year for our companies. National All-Jersey Inc. is in a period of staff transition, and that transition is encouraging us to think in new ways about the future. Our marketing opportunities are evolving, sometimes in unexpected directions. NAJ needs to become even more flexible than it has been in the past, so that we are in a position to capitalize on those new opportunities.

Jersey Marketing Service has already sold 3,379 lots for $5,145,772, making 2004—*not even half completed*—its 11th best year in history. In its best single month ever, JMS marketed over $2.25 million worth of cattle during April, a period that also included its first million-dollar weekend. The average price per lot to date—$1,522.86—is just under the all-time high for JMS set in 2001.

You are the one who determines the success of these organizations.

It is with this thought that I close my report to you. The missions of the American Jersey Cattle Association and National All-Jersey Inc. remain as always, to:

- Improve and promote the Jersey breed of cattle, and
- Increase the value of and demand for Jersey milk and for Jersey cattle.

The performance of these organizations in 2003 tells us that the goals are correct and the plan is working. What we do is done on your behalf, to help you make more money from your investment in Registered Jerseys™. Your elected representatives on the AJCA and NAJ Boards have set challenging goals that we are working hard to accomplish and high standards for how we do business. Will we average 70,000 registrations a year, have 110,000 cows on performance programs, and generate $12 million in gross sales by Jersey Marketing Service by 2005? I am confident the answer is yes, because the Jersey cow's time has come. But only you can help make it happen. Thank you for your loyalty to and support of these organizations in the past. It is a privilege to work for you, and we hope to continue to do so for many, many years down the road.

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 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 $3,367 for the year ended December 31, 2003.

Revenues and cost of operations for each company for the year ended December 31, 2003 are summarized as follows:

American Jersey Cattle Association

Revenues	$ 2,323,014
Expenditures	$ 2,280,168
Net Loss from All American Show & Sale	$ (2,370)
Increase in Net Assets	$ 40,476

National All-Jersey Inc. and Subsidiary

Revenues	$ 807,127
Expenditures	$ 844,236
Decrease in Net Assets	$ (37,109)

The organizations' defined benefit pension plan assets were transferred to a new pension plan administrator during 2003. It was determined that the pension liability was incorrect primarily due to the prior pension administrator not adjusting the plan's assets to fair market value at December 31, 2002. The financial statements have been restated to correct the pension obligation for the year ended December 31, 2002. The defined benefit pension plan was frozen effective December 31, 2002 by a unanimous vote of the Boards of Directors; no other changes were made during 2003.

Combined revenues are as follows:

Identification Services	33%
Performance Services	19%
Jersey Journal	15%
Cattle Marketing Service	12%
Equity	11%
Investments	7%
Other	3%

The organizations' marketable securities are reported at market value of $1,475,275. Accounting Standards require marketable securities to be reported at market value; therefore an unrealized gain was recorded at December 31, 2003 to reflect the variance in cost versus fair market value of the companies' investments.

Net assets, reported at fair market value as of December 31, 2003 were recorded as follows:

American Jersey Cattle Association	$1,082,297
National All-Jersey Inc. and Subsidiary	$426,253
Total (combined) net assets	$1,508,550

The AJCC Research Foundation reported net assets of $895,424 at year-end December 31, 2003. The Research Foundation funded five (5) projects totaling $18,500 in 2003. The eight (8) scholarship funds administered by the AJCA provided scholarships totaling $4,425 in 2003. Total combined net assets in the scholarship funds as of December 31, 2003 were $191,505.

We encourage the membership to review the financial statements and accompanying footnotes prepared by our certified public accounting firm, Hausser + Taylor LLC. These statements clearly state the financial position of the companies at December 31, 2003.

Respectfully submitted,

Vickie J. White

Vickie J. White
Treasurer

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

Independent Auditors' Report

We have audited the accompanying statements of financial position of American Jersey Cattle Association as of December 31, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2003 and 2002, 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 19, 2004

STATEMENTS OF FINANCIAL POSITION

December 31, 2003 and 2002

ASSETS	2003	2002 (Restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 33,869	$ 108,984
Investments *(Note 9)*	191,790	167,660
Accounts receivable, net of allowance for doubtful accounts of $50,000 and $58,400, respectively	189,557	244,091
Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation	53,720	59,195
Supplies and inventories, at cost	17,883	17,734
Prepaid expenses and other assets	58,530	60,152
Total current assets	545,299	657,816
PROPERTY AND EQUIPMENT, AT COST *(Notes 7 and 8)*		
Land	68,000	68,000
Building	494,448	429,060
Operating equipment	1,236,727	1,227,720
Software development	532,042	532,042
	2,331,217	2,256,822
Less accumulated depreciation	1,574,498	1,495,436
	756,719	761,386
OTHER ASSETS		
Investments:		
Building fund *(Notes 6, 7 and 9)*	816,681	699,289
Deferred compensation plan *(Note 3)*	—	6,464
Total other assets	816,681	705,753
	$2,118,699	$2,124,955

LIABILITIES AND NET ASSETS	2003	2002 (Restated)
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 7)*	$ 47,098	$ 48,171
Current portion of unexpired subscriptions and directory listings	24,083	37,070
Current portion of deferred compensation plan *(Note 3)*	—	7,563
Accounts payable	64,189	17,436
Accrued expenses	30,030	52,198
Awards, All American Show & Sale	45,026	39,997
Awards, National Jersey Jug Futurity	11,198	10,660
Unearned fees and remittances	167,821	260,532
Accrued pension obligation *(Notes 4 and 10)*	322,860	267,299
Total current liabilities	712,305	740,926
NONCURRENT LIABILITIES		
Long-term debt, net of current portion *(Note 7)*	257,866	304,730
Unexpired subscriptions and directory listings, net of current portion	66,231	37,478
	324,097	342,208
Total liabilities	1,036,402	1,083,134
NET ASSETS		
Unrestricted:		
Designated *(Note 6)*	891,564	774,172
Undesignated	190,733	267,649
Total net assets	1,082,297	1,041,821
	$2,118,699	$2,124,955

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2003 and 2002

	2003	2002 (Restated)
REVENUES		
Fees	$1,684,869	$1,731,934
Jersey Journal advertising and subscriptions	465,445	445,660
Interest and dividend income	21,517	23,291
Other	17,964	25,981
Total revenues	2,189,795	2,226,866
COST OF OPERATIONS (Note 2)		
Salaries, service, and administrative	1,677,618	1,666,636
Jersey Journal publishing	417,352	409,755
Depreciation	112,930	124,842
Interest expense	16,707	21,963
Total cost of operations	2,224,607	2,223,196
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	(34,812)	3,670
OTHER INCOME (EXPENSE)		
Net loss from All American Show and Sale	(2,370)	(24,105)
Net unrealized gain (loss) on investments	133,219	(147,473)
Net pension cost (Notes 4 and 10)	(55,561)	(106,898)
Total other income (expense)	75,288	(278,476)
INCREASE (DECREASE) IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	40,476	(274,806)
EXPENDITURES FROM DESIGNATED NET ASSETS (Note 6)		
Research and development	—	2,500
Total expenditures from designated net assets	—	2,500
INCREASE (DECREASE) IN NET ASSETS	40,476	(277,306)
NET ASSETS—Beginning of year	1,041,821	1,319,127
NET ASSETS—End of year	$1,082,297	$1,041,821

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

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

Note 1. Significant Accounting Policies

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

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

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

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

D. Accounts Receivable. AJCA extends unsecured credit to members under normal terms. Unpaid balances begin accruing interest 30 days after the invoice date at a rate of 1.5% per month. Unless specified by the member, payments are applied first to accrued interest, then to the oldest unpaid invoice. Accounts receivable are presented at the amount billed plus any accrued and unpaid interest. Management estimates an allowance for doubtful accounts, which was $50,000 and $58,400 as of December 31, 2003 and 2002, respectively. The estimate is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. Bad debt expense of $67,281 and $18,000 was recognized for the years ended December 31, 2003 and 2002, 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 $71,285 and $65,369 for 2003 and 2002, 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, 2003 or 2002.

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 2003 and 2002 these activities include primarily magazine advertising. Income tax expense for 2003 and 2002 amounted to $3,482 and $5,445, 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. Deferred Costs. The Association has capitalized certain costs, amounting to $138,273, associated with the development of a long-term strategic information system plan and a business re-engineering project. These costs are being amortized over a five-year period, which ended in 2002, utilizing the straight-line method. Amortization expense amounted to $8,043 in 2002.

J. 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.

K. 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.

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

Note 2. Functional Expenses

The Association's operating expenses by functional classification for 2003 and 2002 are as follows:

	2003	2002
Records	$ 331,688	$ 337,831
Data Processing	259,232	271,639
Performance	436,176	416,181
Jersey Journal	417,353	409,755
Information	118,979	81,926
Field	291,637	349,163
Accounting, Administration, and General	369,542	356,701
Total cost of operations	$2,224,607	$2,223,196

Note 3. Investments Restricted for Deferred Compensation

AJCA has entered into a deferred compensation plan with a former executive. An investment trust has been established to fund the plan. At December 31, 2003 and 2002, the balances in the trust, at fair market value, are $0 and $6,464, respectively. The cost of the plan is shared by National All-Jersey Inc. and American Jersey Cattle Association. The compensation was fully paid in 2003.

Note 4. Pension Plans

Effective December 31, 2002, the Board of Directors of AJCA and National All-Jersey Inc. and Subsidiary have frozen the defined benefit pension 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.

AJCA and National All-Jersey Inc. and Subsidiary have a non-contributory defined benefit pension plan covering 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 is 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. However, during 2003 it was determined the pension liability was incorrect primarily due to the prior pension administrator not adjusting the plan's assets to fair value at December 31, 2002. An adjustment was made to reflect this properly at December 31, 2002 as discussed in Note 10. At December 31, 2003, the new pension administrator reported a requirement for an accrued pension liablity of $421,393 and as a result, AJCA and NAJ and subsidiary have adjusted their financial statements at December 31, 2003 to reflect this liability resulting in pension expense of $70,484 for 2003. At December 31, 2002, the new pension administrator reported a revised requirement for an accrued pension liability of $350,909 and as a result AJCA and NAJ and subsidiary have adjusted their financial statements at December 31, 2002 to reflect this liablity resulting in pension expense of $153,405 for 2002. AJCA's portion of pension expense amounted to $55,561 and $106,898 for 2003 and 2002, respectively, which includes amortization of past service costs over 30 years.

The projected status of accumulated plan benefits for the combined entities as of December 31, 2003 and 2002, is as follows:

Net periodic pension cost for 2003 and 2002 includes the following components:

	2003	2002
Service cost - benefits earned during the period	$ —	$ 73,300
Interest cost on projected benefit obligation	70,925	90,433
Expected return on assets	(62,970)	(86,259)
Net amortization and deferral	—	(1,614)
Contributions	(8,996)	(8,349)
FAS 88 expense	(69,443)	(220,916)
Net periodic pension cost for the plan	(70,484)	(153,405)
Less net periodic pension cost of NAJ and Subsidiary	14,923	(46,507)
Net periodic pension cost	$ (55,561)	$ (106,898)

Assumptions used in the accounting as of December 31, 2003 and 2002 were:

	2003	2002
Discount rate	6.25%	7.50%
Rate of increase in compensation levels	—	—
Long-term rate of return	9.00%	9.00%

The following table sets forth the plan's funded status and amounts recognized in AJCA's Statement of Financial Position at December 31, 2003 and 2002 for its pension plan.

	2003	2002
Actuarial present value of benefit obligation:		
Vested benefit obligation	$1,053,043	$1,037,285
Accumulated benefit obligation	$1,167,300	$1,067,208
Projected benefit obligation	$1,167,300	$1,067,208
Plan assets at fair value	(745,907)	(716,299)
Plan assets in excess of projected benefit obligation	421,393	350,909
Unrecognized net asset at transition	—	—
Unrecognized net gain	—	—
Accrued pension obligation for the plan	421,393	350,909
Less accrued pension obligation of NAJ and Subsidiary	(98,533)	(83,610)
Accrued pension obligation	$ 322,860	$ 267,299

The Association maintains a 401(k) plan covering substantially all employees. The plan allows for a matching contribution of 25% of employees' contributions. Contributions for 2003 and 2002 amounted to $14,236 and $14,661, respectively.

Note 5. 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
2004	$21,145
2005	15,948
2006	15,948
2007	5,316
	$58,357

Lease expense for 2003 and 2002 amounted to $31,774 and $29,371, respectively.

Note 6. Designation of Net Asset

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

	2003	2002
Building - established with original proceeds from sale of former operating facility; invested in securities and used as collateral for building loan (see Notes 7 and 9)	$816,681	$699,289
Research and development - 50% of American Jersey Cattle Association's excess of revenues over cost of operations after preceding appropriations - established in 1987	74,883	74,883
	$891,564	$774,172

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

Note 7. 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.

AJCA's share consists of a fifteen-year variable rate note, amounting to $0 and $3,365 at December 31, 2003 and 2002, respectively. Interest is equal to prime (4.00% and 4.25% at December 31, 2003 and 2002, respectively). Final payment was made February 2003.

In 2002, long-term debt was refinanced in the amount of $423,931 for financing of the development of computer software and building improvements. The new note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2003 and 2002, the note has an outstanding balance of $358,505 and $411,217, respectively. Liability for this debt is shared jointly by AJCA, National All-Jersey Inc. and All-Jersey Sales Corp. The Boards 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 $304,964 and $349,536 at December 31, 2003 and 2002, respectively. The note was collateralized by AJCA's investment securities obtained from the proceeds of the sale of a former operating facility (see Notes 6 and 9).

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

Year Ending December 31	Amount
2004	$ 47,098
2005	49,507
2006	52,040
2007	54,703
2008	57,501
Thereafter	44,115
	$304,964

Note 8. Line of Credit

At December 31, 2003, the Association has available a $100,000, due on demand, line of credit with interest payable monthly at prime. The line is collateralized by investments held by AJCA and NAJ (Note 9). No funds were drawn on the line as of December 31, 2003 or 2002.

Note 9. Investments

Investment securities are carried at fair market value, based on market quotes, at December 31, 2003 and 2002 and are composed of the following:

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Investments included in:				
Current assets:				
Money market	$ 33,593	$ 33,593	$ 33,955	$ 33,955
Mutual funds	185,837	158,197	185,497	133,705
	219,430	191,790	219,452	167,660
Building fund:				
Money market	45,233	45,223	46,625	46,625
Mutual funds	905,795	771,448	904,208	652,664
	951,028	816,681	950,833	699,289
	$1,170,458	$1,008,471	$1,170,285	$866,949

Investment income for 2003 and 2002, consists of the following:

	2003	2002
Interest and dividend income	$ 22,786	$ 24,685
Capital gain distributions	—	25
Net unrealized gain (loss) on investments	141,297	(156,022)
	$164,083	$(131,312)

Note 10. Prior Period Adjustment

The financial statements for the year ended December 31, 2002 have been restated to correct an accounting error related to pension obligation. The correction resulted in a net reduction of net assets of $249,885 from the amount previously reported as follows:

	Other Income (Expense)	Net Assets
As previously reported	$ (28,591)	$1,291,706
Adjustment	(249,885)	(249,885)
As restated	$(278,476)	$1,041,821

Note 11. Subsequent Event

Subsequent to December 31, 2003, American Jersey Cattle Association was notified that it owned shares in a health insurance company due to a transaction that occurred in a prior year. It was determined that there is also a related liability due to employees who were participating in the health plan at the time of the transaction. A portion of the investment and related liability are allocable to NAJ and AJSC. The amounts of the investment and related liability had not yet been determined as of the date of this report.

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, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2003 and 2002, 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 19, 2004

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2003 and 2002

ASSETS	2003	2002 (Restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 34,781	$ 434,216
Custodial cash	181,793	152,611
Investments *(Note 10)*	466,804	432,342
Accounts receivable, net of allowance for doubtful accounts of $6,500 in 2003 and 2002	132,429	55,436
Interest receivable	1,048	347
Prepaid expenses	1,728	2,639
Recoverable income taxes *(Note 8)*	—	8,417
Deferred income taxes *(Note 8)*	1,400	3,400
Total current assets	819,983	1,089,408
PROPERTY AND EQUIPMENT, AT COST (Note 7)		
Land	12,000	12,000
Building	87,256	75,717
Furniture and Equipment	4,377	—
Software development	79,652	79,652
Vehicles	83,955	83,955
	267,240	251,324
Less accumulated depreciation	114,201	85,925
	153,039	165,399
OTHER ASSETS		
Investments restricted for deferred compensation plan *(Note 3)*	—	2,155
Deferred income taxes *(Note 8)*	10,700	2,800
	10,700	4,955
	$983,722	$1,259,762

LIABILITIES AND NET ASSETS	2003	2002 (Restated)
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 7)*	$ 19,671	$ 19,861
Current portion of deferred compensation plan *(Note 3)*	—	2,522
Accounts payable	5,683	24,584
Advances due to American Jersey Cattle Association	53,720	59,195
Fees due consignors	267,270	463,386
Accrued expenses	20,336	18,285
Advances and reserves for advertising *(Note 4)*	31,828	31,828
Deferred income	14,922	27,994
Accrued pension obligation *(Note 6)*	98,533	83,610
Total current liabilities	511,963	731,265
NONCURRENT LIABILITIES		
Long-term debt, net of current portion *(Note 7)*	45,506	65,135
	45,506	65,135
Total liabilities	557,469	796,400
NET ASSETS		
Unrestricted:		
Designated *(Note 5)*	61,855	61,855
Undesignated	364,398	401,507
Total net assets	426,253	463,362
	$ 983,722	$1,259,762

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2003 and 2002

	2003	2002 (Restated)
REVENUES		
Equity project fees	$357,956	$372,485
Commissions	372,476	328,121
Interest and dividend income	9,410	13,030
Other	18,845	16,735
Total revenues	758,687	730,371
COST OF OPERATIONS *(Note 2)*		
Salaries, service, and administrative	757,265	736,496
Field services	40,935	39,988
Bad debt expense	—	3,000
Depreciation	33,527	31,971
Interest	2,945	3,876
Total costs of operations	834,672	815,331
DECREASE IN NET ASSETS FROM OPERATIONS	(75,985)	(84,960)
OTHER INCOME (EXPENSE)		
Net unrealized gain (loss) on investments	48,440	(53,391)
Net pension cost *(Note 6)*	(14,923)	(46,507)
	33,517	99,898
DECREASE IN NET ASSETS BEFORE INCOME TAXES AND EXPENDITURES FROM DESIGNATED NET ASSETS	(42,468)	(184,858)
INCOME TAX BENEFIT *(Note 8)*	(5,359)	(18,719)
DECREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	(37,109)	(166,139)
EXPENDITURES FROM DESIGNATED NET ASSETS *(Note 5)*		
Research and development	—	1,500
DECREASE IN NET ASSETS	(37,109)	(167,639)
NET ASSETS - Beginning of year	463,362	631,001
NET ASSETS - End of year	$426,253	$463,362

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 2003 and 2002 include reimbursements of $71,285 and $65,369, 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).

During 2003, the subsidiary increased its estimate of useful lives of its vehicles to more accurately reflect their actual useful lives. This change had the effect of increasing net assets by $8,522 for 2003.

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. Jersey Marketing Service extends credit to buyers of cattle at public auction. Jersey Marketing Service 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, 2003 and 2002. Bad debt expense of $0 and $3,000 was recognized for 2003 and 2002, 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 10 for further discussion with respect to investments.

Note 2. Functional Expenses

The Company's operating expenses by functional classifications for 2003 and 2002 are as follows:

	2003	2002
National All-Jersey Equity program	$300,348	$303,166
Accounting, administration, general and field service	65,074	63,027
All-Jersey Sales (JMS)	469,250	449,138
Total cost of operations	$834,672	$815,331

Note 3. Investments Restricted for Deferred Compensation

National All-Jersey Inc. has entered into a deferred compensation plan with a former executive. At December 31, 2003 and 2002, the balances in the trust at fair market value are $0 and $2,155, respectively. The cost of the plan is shared by National All-Jersey Inc. and American Jersey Cattle Association. The compensation was fully paid in 2003.

Note 4. Advances and Reserves for Advertising

	December 31, 2003	December 31, 2002
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 5. Designation of Net Assets

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

	December 31, 2003	December 31, 2002
Research and development: Approximately 2.5% of annual gross revenues and 50% of National All-Jersey excess revenues over cost of operations after 2.5% appropriation. In 2003 and 2002, no appropriations were made.	$61,855	$ 61,855

In 2002, $1,500 was expended from the research and development designated net assets.

Note 6. Pension Plans

Effective December 31, 2002, the Board of Directors of National All-Jersey Inc. and AJCA have frozen the defined benefit pension 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 Company and Subsidiary and American Jersey Cattle Association have a non-contributory defined benefit pension plan covering substantially all employees 21 years of age or older, who have been employed for one year with at least 1,000 hours of service. The Company's funding policy is 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. However, during 2003 it was determined the pension liability was incorrect primarily due to the prior pension administrator not adjusting the plan's assets to fair market value at December 31, 2002. An adjustment was made to reflect this property at December 31, 2002 as discussed in Note 11. At December 31, 2003 the new pension administrator reported a requirement for an accrued pension liability of $421,393 and, as a result, the Company and Subsidiary and American Jersey Cattle Association have adjusted their financial statements at December 31, 2003 to reflect this liability resulting in pension expense of $70,484 for 2003. At December 31, 2002, the pension administrator reported a revised requirement for an accrued pension liability of $350,909 and, as a result, the Company and Subsidiary and American Jersey Cattle Association have adjusted their financial statements at December 31, 2002 to reflect this liability resulting in pension expense of $153,405 for 2002. The Company's portion of pension expense amounted to $14,923 and $106,898 for 2003 and 2002, respectively, which includes amortization of past service costs over 30 years.

The projected status of accumulated plan benefits for the combined entities as of December 31, 2003 and 2002 is as follows:

Net periodic pension cost for 2003 and 2002 includes the following components:

	2003	2002
Service cost - benefits earned during the period	$ —	$ 73,300
Interest cost on projected benefit obligation	70,925	90,433
Expected return on assets	(62,970)	(86,259)
Net amortization	—	(1,614)
Contributions	(8,986)	(8,349)
FAS 88 expense	(69,453)	(220,916)
Net periodic pension cost for the plan	(70,484)	(153,405)
Less net periodic pension cost of AJCA	55,561	(106,898)
Net period pension cost	$ (14,923)	$ (46,507)

Assumptions used in the accounting as of December 31, 2003 and 2002 were:

	2003	2002
Discount rate	6.25%	7.50%
Rate of increase in compensation levels	—	—
Long-term rate of return	9.00%	9.00%

The following table sets forth the plan's funded status and amounts recognized in the Company's Statement of Financial Position at December 31, 2003 and 2002 for its pension plan.

	2003	2002
Actuarial present value of benefit obligation:		
Vested benefit obligation	$1,053,043	$1,037,285
Accumulated benefit obligation	$1,167,300	$1,067,208
Projected benefit obligation	$1,167,300	$1,067,208
Plan assets at fair value	(745,907)	(716,299)
Plan assets in excess of projected benefit obligation	421,393	350,909
Unrecognized net asset at transition	—	—
Unrecognized net gain	—	—
Accrued pension obligation for the plan	421,393	350,909
Less accrued pension obligation of AJCA	(322,860)	(267,299)
Accrued pension obligation	$ 98,533	$ 83,610

The Company maintains a 401(k) plan covering substantially all employees. The plan allows for a matching contribution of 25% of employees' contributions. Contributions for 2003 and 2002 amounted to $3,762 and $3,803, respectively.

Note 7. Long-Term Debt

Liability for long-term debt on the building is shared jointly by the Company and American Jersey Cattle Association. The management of the Company and AJCA have agreed to reflect the building and debt on a ratio of 15% to the Company and 85% to American Jersey Cattle Association, based on the occupancy being utilized by the respective organizations.

The Company's share consists of a fifteen-year variable rate note, amounting to $0 and $594 at December 31, 2003 and 2002, respectively, with fixed principal payments which total $4,651 annually. Interest is equal to prime (4.00% and 4.25% at December 31, 2003 and 2002, respectively). Final payment was due February, 2003.

In 2002, long-term debt was refinanced in the amount of $423,931 for the financing of the development of computer software and building improvements. The new note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2003 and 2002, the note has an outstanding balance of $358,505 and $411,217, 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 $53,817 and $61,681 at December 31, 2003 and 2002, respectively. The long-term debt is collateralized by AJCA's investment securities obtained from the proceeds of the sale of a former operating facility.

During 2001, the Company financed the purchase of a vehicle by incurring a note payable amounting to $34,078. The note requires monthly payments of $947, with interest at 0%, through December, 2004. The note is collateralized by the vehicle. At December 31, 2003 and 2002, the note has a balance of $11,360 and $22,721, respectively.

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

Year Ending December 31:	Amount
2004	$19,671
2005	8,737
2006	9,184
2007	9,653
Thereafter	17,932
	$65,177

Note 8. 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.

Recoverable income taxes at December 31, 2002 primarily represent refunds of federal income taxes as a result of the net operating loss carryback generated in 2002.

The provision (benefit) for income taxes for the years ended December 31, 2003 and 2002 consists of the following:

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

At December 31, 2003, the Company has available federal and state net operating loss carryforwards of approximately $132,000 and $174,000 respectively, which expire between 2022 and 2023 as follows:

	Federal	State
2022	$ 48,000	$ 90,000
2023	84,000	84,000
	$132,000	$174,000

	2002		
	Federal	State and Local	Total
Current	$ (6,776)	$ (543)	$ (7,319)
Deferred	(7,100)	(4,300)	(11,400)
	$(13,876)	$(4,843)	$(18,719)

The Company's effective income tax rate for 2003 and 2002 is higher than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of exempt activities from not-for-profit activities.

Note 9. Line of Credit

The Company had available a $175,000, due on demand, line of credit with interest payable monthly at prime at December 31, 2003 and 2002. 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, 2003 or 2002.

Note 10. Investments

Investment securities are carried at fair value, based on market quotes at December 31, 2003 and 2002 and are composed of the following:

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Money market	$ 149,506	$ 149,506	$ 164,168	$ 164,168
Mutual funds	372,736	317,298	372,052	268,174
	522,242	466,804	536,220	432,342

Investment income for 2003 and 2002, consists of the following:

	2003	2002
Interest and dividend income	$ 9,410	$ 13,005
Capital gain distributions	—	25
Net unrealized gain (loss) on investments	48,440	$(53,391)
	$57,850	$(40,361)

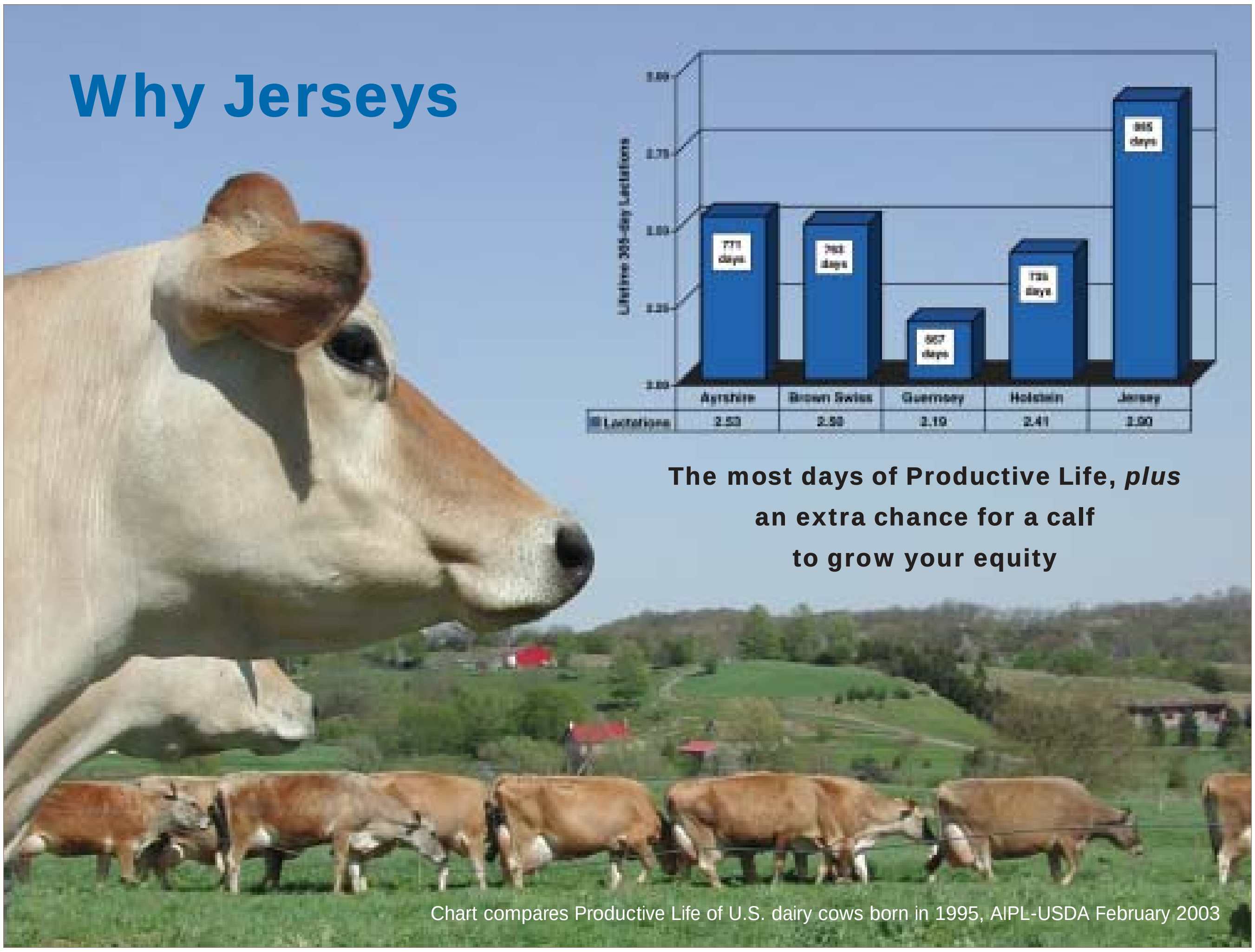
Note 11. Prior Period Adjustment

The financial statements for the year ended December 31, 2002 have been restated to correct an accounting error related to pension obligation. The correction resulted in a net reduction of net assets of $78,510 from the amount previously reported as follows:

	Other Income (Expense)	Net Assets
As previously reported	$(21,388)	$ 541,872
Adjustment	(78,510)	(78,510)
As restated	$(99,898)	$ 463,362

Note 12. Subsequent Event

Subsequent to December 31, 2003, American Jersey Cattle Association was notified that it owned shares in a health insurance company due to a transaction that occurred in a prior year. It was determined that there is also a related liability due to employees who were participating in the health plan at the time of the transaction. A portion of the investment and related liability are allocable to NAJ and AJSC. The amounts of the investment and related liability had not yet been determined as of the date of this report.



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

Leading Indicators of Jersey Breed Growth and Improvement

	2003	1993	1983	Change ('03 v. '83)
Identification				
Animals recorded	69,244	54,287	53,987	+ 28.3%
Animals transfered	17,618	24,338	24,932	- 29.3%
Performance Programs				
Herds enrolled	929	737	688	+ 35.0%
Cows enrolled	98,215	54,073	47,031	+108.8%
Production (DHIR: 305-day, 2x, ME)				
Protein *(*true protein)*	646*	564	—	
Milk	18,283	15,231	12,234	+ 49.4%
Fat	838	706	584	+ 43.5%
Equity Investment	$357,946	$208,459	$125,758	+184.6%
Jersey Marketing Service				
Gross for private treaty sales	$2,285,859	$1,347,190	$1,081,774	+ 111.3%
Gross for public sales	4,990,580	2,835,250	1,263,595	+295.0%
Combined Net Assets	$1,508,550	$1,779,045	$1,352,938	+ 11.5%

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