American Jersey Cattle Association
National All-Jersey Inc.
All-Jersey Sales Corporation
2006 Annual Report

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

The course was well charted. The progress continues.

Any year in which a company can report sustained growth in core services, increased productivity and forward-looking investments is a good one. Any year in which a company can report gains in market share plus enhanced regard for its product is a good one.

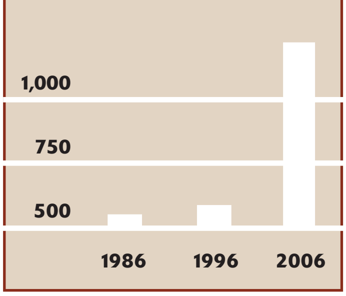
And so 2006 was a very, very good year for the USJersey organizations and the Jersey breed. It happened not by accident, but rather by a plan charted five decades ago. The accomplishments of 2006 are the result of the single-minded pursuit of two missions:

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

This report will detail, in turn, the Jersey breed's position in the U.S. dairy industry at the end of 2006, and then the performance of the USJersey organizations. It is a pleasure to present these results.

For the last 10 years, Jersey has been the only breed of dairy cattle to record substantial and continuous growth in the United States.

Based on DHI enrollments, Jersey grew to 4.39% of the U.S. milking cow population during 2006. This was the continuation of an accelerated growth spurt dating from 1999 when the final decision to implement Federal Order multiple component pricing on January 1, 2000 was announced. In actual numbers, the Jersey population has gone from just over 217,000 cows—3.28% of the U.S. total—in 1998 to an estimated 400,000 milking cows today.



Domestic Semen Sales
(units, thousands)

Over the past 10 years, Jersey semen sales have increased by 130% to set new records each year and claim over 7% domestic market share.

Combined, domestic and export sales of Registered Jersey™ semen in 2006 totaled 2,153,067 units, an all-time record and an increase of 9.1% over 2005 sales.

Domestic sales increased 7.4% to 1,424,679 units. The growth in export sales was 12.6%, to 728,388 units. Both are records, and so was the total units of Jersey semen custom frozen by NAAB members: 258,225, an increase of 86.4% from 2005. Jersey outperformed the industry as a whole, which reported domestic sales growth of 5.1%, export sales decline of 3.5% and a 2.2% drop in custom services.

Jersey's market share of domestically produced semen now stands at 7.6%, up from 7.45% in 2005. In the larger product mix, including semen imported and then sold in the U.S., Jersey's market share is 7.3%. Only one breed is larger, and no other breed is close to 1%.

2006 was the tenth consecutive year that Jersey domestic semen sales have set a new record. It was the third consecutive year that a new record was established for export sales, with double-digit growth each of those years. Interestingly, the total amount of Jersey semen exported in 2006 is nearly equal to what was sold domestically during 2000.

The fact that Jerseys are out in front for Productive Life means that they are meeting the expectations of their owners.

The industry's key measure of longevity, Productive Life, was revised in 2006. Accuracy of the index was improved by including all days in milk regardless of the length of lactation, but giving

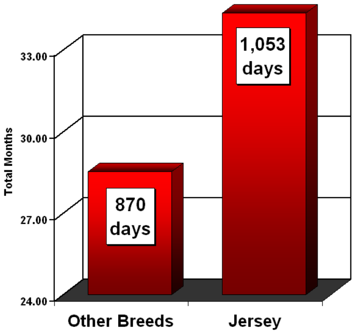
On The Cover

The American Jersey Cattle Association unveiled a commissioned oil painting by artist Denise Rich at the 2006 World Dairy Expo, then declared three series of limited edition prints, the proceeds of which were designated for support of the AJCA Scholarship Funds, a 501(c)(3) permanent trust that provides scholarship and internship funding for AJCA Junior Members.

greater weight to days early in lactation because those are more valuable to the bottom line. Unlike any other measure, the updated Productive Life index reflects the economic reality of cows' lives. This reality was succinctly stated by Virginia Tech Extension dairy scientist Bennet Cassell for the October 25 issue of *Hoard's Dairyman:*

> "For cows to achieve PL, they *may* calve early, and *may* calve often, but they *must* keep on living. To keep on living, they must meet the expectations of their owners when culling decisions are made." *(emphasis original)*

The update was implemented for the August genetic summaries. Jersey became the first—and only—breed to exceed 1,000 days of Productive Life. Jersey's advantage over the average U.S. dairy cow widened from 150 days earlier in the year to 183 days after the November proofs.



Productive Life of Jersey cows born in 1997 and 1998, in total days and months, compared to the weighted average of all other breeds. *Source: Animal Improvement Programs Laboratory, USDA, November 2006. Calculations by American Jersey Cattle Association.*

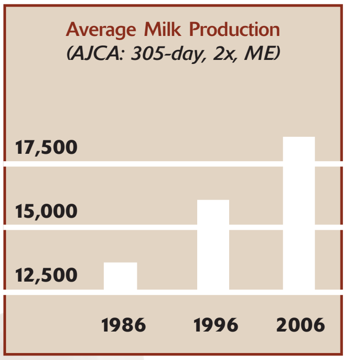
Jersey production rose to record heights in 2006.

All-time records for Jersey production were reported by both the national Dairy Herd Improvement program and the American Jersey Cattle Association. A total of 72,076 lactations were processed by the AJCA, with averages calculated on a 305-day, 2x mature equivalent basis.

Average milk yield per cow increased 1.64% to 18,337 lbs., a record. Fat yield gained 1.95% to 838 lbs., tying the record set in 2003. Protein yield increased 1.72% to a record 651 lbs.

At the upper end of performance, a record number of 95 herds were credited with averages of 20,000 lbs. milk or more. There were 49 herds posting averages of 1,000 lbs. fat or more, and 55 herds averaging at least 750 lbs. protein.

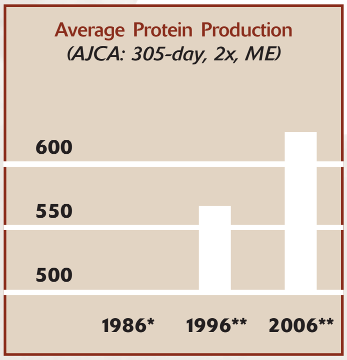
The fourth new record was for cheese yield per cow at 2,196 lbs. Jersey's average yield of Cheddar cheese increased to 12.35 lbs. per hundredweight, and is now 23.1% greater than the average U.S. cow product yield.



The revenue from an extra pound of butterfat and half-pound of protein in each hundredweight of Jersey milk was a considerable cushion when milk prices dropped in 2006.

The average component set for Jersey milk is about 1% higher for butterfat and about 0.5% higher for protein, compared to the average of milk that goes into Federal Order markets. That equates to an additional pound of butterfat and half-pound of protein in every hundredweight of Jersey milk. Those are big extras at any time, but in 2006 the added value of Jersey milk cushioned a dismal year for milk prices.

The pound of fat was worth $1.33 and the half-pound of protein $1.04, making Jersey milk worth $2.37 more a hundredweight through Federal Order minimum pricing, or about 18.5% more than the statistical blend price *(milk testing 3.5% fat, 2.99% protein)*.

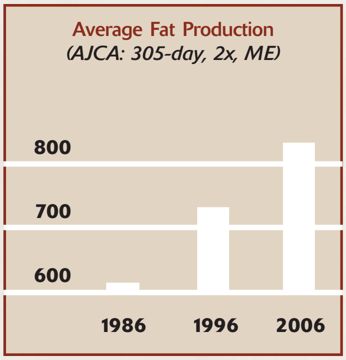


* *Not available*
** *Measured as true protein*

Auction prices for Registered Jerseys™ hovered at near-record levels.

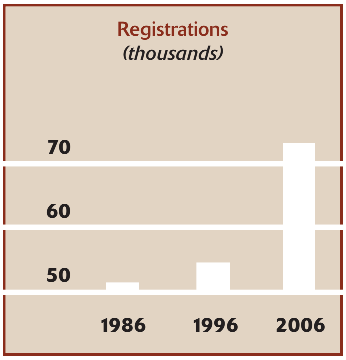
Public auction sales reported to *Jersey Journal* for 2006 generated gross receipts of $7.94 million, with 3,936 lots selling in 49 different sales for an average of $2,016.15. The average was second only to the record set in 2005: $2,257.16 on 3,451 lots. Milking cows averaged $2,232.37 and bred heifers $1,919.24, with highest prices paid for second trimester heifers, averaging $1,993.31.

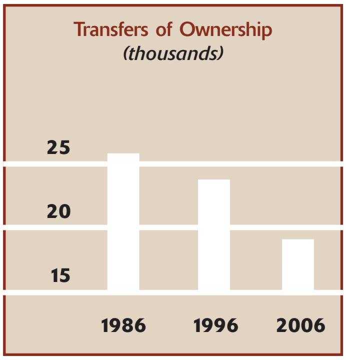
For the third time in as many years, a new record price was established for a Registered Jersey™ female selling at public auction. The only Jersey offered in the complete dispersal of Carrousel Farms, Stora of Oblong Valley, sold for a sale-topping $92,000. She was purchased by the partnership of Budjon Farms, Joel Kietzman and Les Davis, Lomira, Wis. Topping the list of sales was the Spring Valley 6th Edition Sale in Westminster, Md. It averaged $4,495.73 on 82 lots.



For the national Jersey organizations, 2006 was marked by activity sustained at near-record levels in major Herd Service programs.

2006's registration count ranked ninth all-time in the annals of the American Jersey Cattle





Association. A registration drive in December brought in 10,772 applications, pushing the year-end total to 71,253 registrations. Category breakdowns were Herd Register animals, 92.4%; Genetic Recovery (OA and PR prefixes), 4.9%; and Jersey Expansion (J1 prefix), 1.7%.

Adoption of tag ID continues to be pleasing, as orders of JerseyTags grew 21% from 2005 to 80,528 units. Of the 71,253 animals registered in 2006, 19,579 were identified by at least one approved ID tag. The vast majority of these, or 18,196 animals, were registered using two tags for permanent identification.

2006 was the fourth time in the past five years that the Association has recorded at least 70,000 registrations. Registrations have exceeded 60,000 animals in each of the past eight years, each of which ranks among the top 25 in 138 years of AJCA history.

Transfers increased 18.0% from 2005 to 19,110 head. Included in that total were 679 bulls transferred to new owners from REAP herds.

Cow enrollment on all AJCA performance programs declined 2.8% from 2005's record of 112,840 cows. But at 109,702 cows, 2006 still ranks as the second-best year in history. The number of herds using these services grew to 1,059, up 3.5% from 2005.

Cows on REAP dropped 3.6% to 104,925 on December 31, but that number likewise is second only to 2005's record of 108,786 cows. Herds on REAP set an all-time record, however, at 734. The average size of a herd enrolled on REAP was 143 cows.

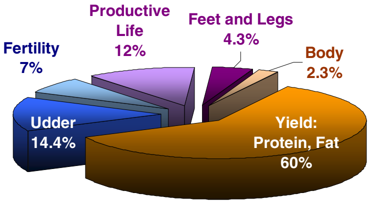
For a fifth consecutive year, more than 60,000 cows were scored in the linear type traits appraisal program. 2006's total was a near-record 68,666 cows, of which 86% (57,311) were first- and second-lactation cows. Like performance program cows and REAP cows, the number of cows evaluated last year ranks second only to 2005 (70,165 cows scored).

At its first meeting in 2006, the Association's Board of Directors set aggressive goals for Herd Service performance at the end of 2010. These are 90,000 registrations, 25,000 transfers and 150,000 performance program cows. Progress is evaluated against the most recent three-year average for each program area, which for 2004-06 are 72,289 registrations, 18,335 transfers, and 109,189 performance cows.

The engine of breed expansion is profitable production from all Jersey cows and Jersey-specific genetic selection tools.

Because of this fact, the Association is continuously developing, testing, implementing, evaluating and updating tools to help Jersey owners breed more profitable cattle. The premier tool in the toolbox—Jersey Performance Index™—and one of its major components, the Functional Trait Index, underwent major revisions in 2006.

The decisions were based on analysis of an extensive data set, comprised of production and type information from Jersey cows born since 1991 and located in herds where they had the opportunity to reach their eighth birthday.



Distribution of emphasis by trait categories in Jersey Performance Index™ as revised August, 2006.

The ratio of production to fitness traits in JPI™ was changed from 70:30 to 60:40, thus putting more emphasis on selecting for udder traits, mastitis resistance and female fertility primarily through a major increase in emphasis on Productive Life and Daughter Pregnancy Rate. Weights for the component traits in JPI™, with changes from the earlier version noted in parentheses, were set at 40% PTA Protein *(-10%)*; 20% PTA Fat *(unchanged)*; 15% Functional Trait Index *(unchanged)*; 12% Productive Life *(+8.25%)*; 7% Daughter Pregnancy Rate *(+3.25%)*; 3% Functional Udder Index *(-0.75%)*; and 3% Somatic Cell Score *(-0.75%)*.

The updated Jersey Performance Index™ was implemented in August, to positive response from Jersey breeders and the A.I. industry.

March's Young Sire Summit shed new light on the Jersey progeny test challenge. Breeders and the industry responded.

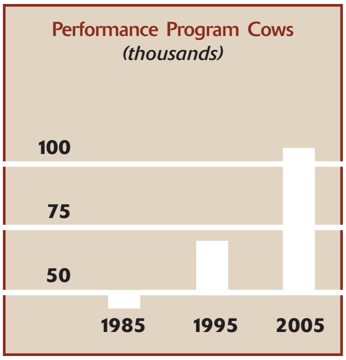
In the face of semen sales growing at double-digit rates each year, but little change in the number of Jersey bulls entering progeny test programs, the Association sponsored the Young Sire Summit on March 4. The event galvanized the membership and A.I. into action.

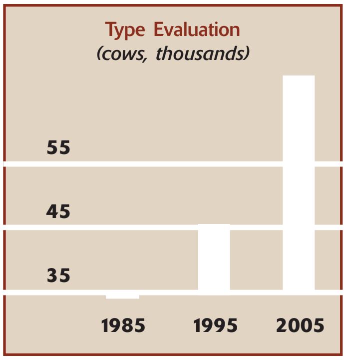
Membership in the regional young sire proving cooperatives grew by 32% to 412 herds. Most were REAP herds taking advantage of membership as a REAP program benefit. Such herds, according to Summit speaker Duane Norman of USDA's Animal Improvement Programs Laboratory, are optimum progeny test herds, because they:

- have systematic and accurate animal identification;
- raise heifers consistently and well, control the interval from birth to calving, and manage cows so that they can express genetic potential; and
- will be in business and on test so the necessary data can be accurately collected.

So while the five groups—Dixieland, New England, Liberty, Dairyland and Great Western—sampled 12 bulls in 2006, they are scheduling at least 18 bulls for progeny testing in 2007.

Earlier efforts to increase the number of bulls sampled bore fruit in 2006. First-evaluation A.I. sires increased to 142 from 2005's tally of 137. The pace appears to be picking up, as evidenced by summaries for 45 bulls in August and 40 in November, compared to 29 and 28 first-evaluation bulls on the February and May summaries, respectively. Also, 2,835 eligible daughters of 142 bulls enrolled in either the Young Sire Incentive Program or the Genetic Diversity Program qualified for reduced registration fees in 2006. The savings to their 428 owners was $8,493.





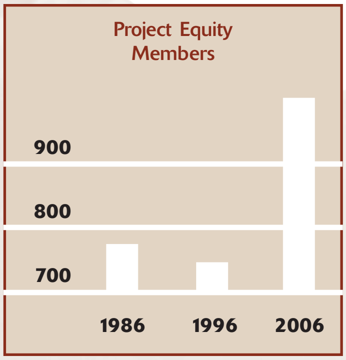
A program that effectively sells Jersey milk also effectively sells Jersey cows.

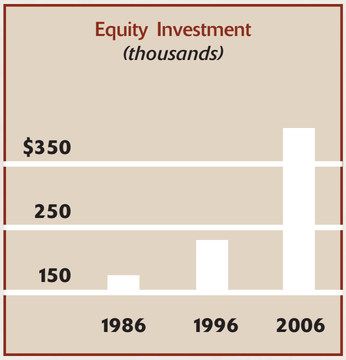
Since its inception in 1957 as an agency for marketing milk produced only by Registered Jersey™ cows, to becoming an advocate for market-driven milk pricing to better serve the needs of the dairy industry, National All-Jersey Inc. has been, and will continue to be essential to our breed growth strategy.

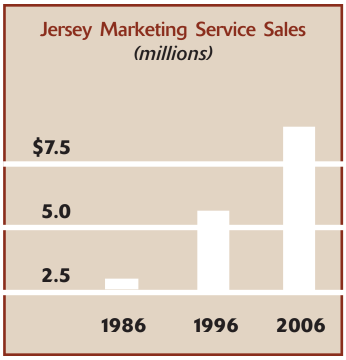
In 2006, NAJ responded to USDA's call for proposals on Class III and Class IV product price formulas with a forward-looking plan to value dry whey on a protein rather than the current other solids basis. Despite the fact that current whey valuations are causing problems in the industry, NAJ was the only entity to submit a proposal to change whey valuation. The proposal has been regarded as having merit and will be a priority for NAJ staff in the coming year. The cornerstones of NAJ's argument are:

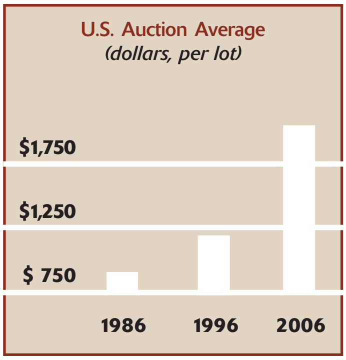
- The value of whey is in its protein content.
- Higher protein milk yields higher protein whey.
- A majority of whey solids are now used in protein standardized whey products. The yields of these products are protein dependent and their value is protein based.
- There is a disconnect between the market value of whey (protein) and how producers are paid for whey value (through other solids, which consists of lactose, ash and non-protein nitrogen).

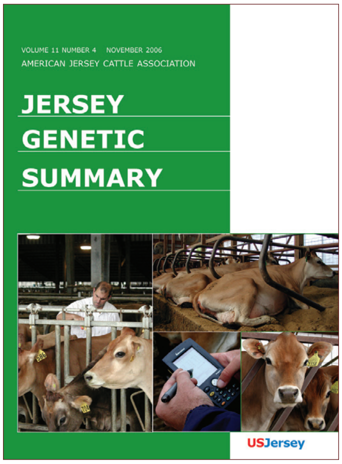
This was but one of the many activities NAJ pursued in the Federal Order policy arena for 2006. Beyond that, NAJ took on a greater role as consultant, providing both general and specific financial analysis of milk marketing options for members and milk buyers. Staff delivered service to existing markets and sought out new marketing opportunities for Jersey milk, and represented Jersey milk producers at the key meetings and conventions of 2006. It continued publication of the *Equity Newsletter*, *Weekly Market Update* and *NAJ Milk & Component Outlook* plus articles for *Jersey Journal*, among which was the ongoing cost of production report based on extensive data published by the California Department of Food and Agriculture.











Improving access to its content by at least a week over mail service, the August 2006 *Jersey Genetic Summary* (aka "Green Book") was published in its entirety on the USJersey web site. Breeder and industry response to the pilot project was overwhelmingly positive, resulting in a Board decision to expand "Green Book" production from a twice-annual schedule to after each evaluation run.

Jersey Marketing Service completed its fourth-best year in history.

The total value of 5,871 lots of Registered Jersey™ cattle and genetics marketed in 2006 was $9,235,767. This was a 29.3% increase in volume and 6.7% increase in gross revenue compared to the previous year.

Average price per lot, all sales, was $1,573.12, Live animals sold at public auction (3,379 lots, 23 sales) averaged $1,671.99. Receipts from private treaty sales increased 38.5% from 2005 to total $3,530,506, the second-best performance in JMS history. Average lot price for private treaty was $1,530.35, a decrease of $139 from 2005 but $158 greater than the decade average of $1,372.

Four of the year's top 10 auction sales were managed by JMS. The 54th All American Jersey Sale was the high-ranked annual sale of 2006 on its average of $4,239.58 for 60 lots. JMS managed four of the top 5 grossing sales of 2006. First on that list was the Deep South–Southeast Heifer Growers South Sale (474 lots, $819,875). Ranked third was the first breeder's showcase sale for Ahlem Farms Partnership, offering 170 head from the herd plus 26 invited consignments. It generated receipts of $574,400. The fourth- and fifth-ranked sales—the Vermont State Sale and the New England Spring Sale, respectively—marketed a combined total of 600 head for 108 different consignors from the northeast U.S. Receipts from the two sales totaled $889,100.

JMS's market share in 2006, measured by percentage of ownership transfers, was 29.0%. The three-year (2004–2006) average for gross sales is $9,380,973, and for volume, 5,517 lots.

Continuing our momentum requires communicating science-based information about Jerseys to dairymen and persons in support segments of the industry.

This strategy was pursued through the combination of *Jersey Journal*, the USJersey family of web sites, trade shows, regional and national print media advertising, invited presentations, news releases and special events organized by USJersey staff.

The *Journal* published 1,000 pages in 2006, half of which covered breed-related events, herd and animal performance and Association activities, plus in-depth articles addressing topics and issues related to profitability. Advertising totaled 503 pages, making 2006 the eighth consecutive year that sales exceeded 500 pages. The *Journal* also published the sixteenth *Jersey Directory*, listing 574 breeders and 85 dairy service firms. Magazine circulation on December 31 was 2,997.

The special events presented in 2006 were successful in both attendance and post-event reporting by widely read publications. More than 150 people attended the *Opportunities with Jerseys* program on March 8 and 9, held in conjunction with the groundbreaking for the Hilmar cheese plant in Dalhart, Texas. The Virtual Farm Tour program on October 4 at World Dairy Expo featuring Heartland Jerseys, Seneca, Kans., drew an audience of over 100 people. USJersey was also invited by Cygnus Farm Shows to organize and present a program at the 2006 Amarillo Farm & Ranch Show. More than 100 producers and ag business representatives attended the *High Plains Dairy Growth Forum* on November 30. The program was rated "excellent" in audience member evaluations.

A single, spectacular show highlighted the glamorous side of the Jersey business.

The All American Show & Sale impressed and inspired young and old alike for the fifty-fourth time November 4, 5 and 6 in Louisville, Ky. A total of 527 Jersey cows and heifers, valued at over $2.1 million, representing more than 200 operations, were on display. The open show, with 355 exhibited, was the largest Jersey show in the world and the third largest single-breed show in the U.S. for 2006. The junior show, with 207 animals shown by 130 young people, was the largest of its kind. The Jersey Jug Futurity burnished its reputation as the most glamorous and richest event in the dairy world, offering a total purse of $9,770 and a near-record $2,055 to the Winner. The All American and Pot O'Gold sales produced a combined gross of $314,525. An extra $24,800 was raised at The All American Sale to help fund educational, marketing and promotional activities for Jersey youth, who were also feted at a banquet attended by nearly 500 people.

The three-day All American marathon thrives on an incredibly broad base of support and the collective investment by its participants in excess of $1 million. All agreed: the 54th All American was worth every penny spent and every ounce of effort expended. Our deepest thanks goes out to all the exhibitors, consignors, the event host, sponsors, buyers, and spectators.

The USJersey organizations ended 2006 with a positive net income, increased value of key investment portfolios, and a strong membership base.

The AJCA and NAJ had combined net income of $450,430 for the year ended December 31, 2006. The balance sheet of the organizations is strong with combined net assets of $2,503,454.

Assets of the AJCC Research Foundation, a 501(c)(3) permanent trust operated exclusively to promote and sponsor scientific research, increased to $1,496,000 on December 31. In 2006 the AJCA Board of Directors appropriated $25,000 to fund four research projects. In addition the NAJ Board of Directors approved one project funded at $4,500 from NAJ operating expense.

The combined net assets of the AJCA Scholarship Funds were $325,649 on December 31, an increase of $44,203 over its 2005 position and reflecting a special focus on fundraising in 2006. Assets of the Maurice E. Core Jersey Youth Fund were $71,553 on December 31.

A total of 125 new lifetime members joined the American Jersey Cattle Association in 2006; membership now stands at 2,246 active members. The junior membership rolls grew by 17.3% during the year, to a current total of 2,462 junior members.

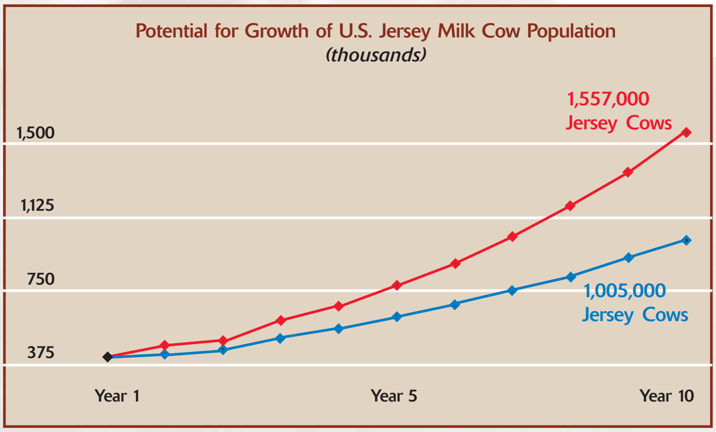
"Tomorrow is today's constant consideration. What we do today—the plans we make, the programs we build, the youth we train, the interest we create in Jerseys—are tomorrow's gains or losses."

Let me conclude this report by returning to its beginning. It's easy to overlook this point, but the Jersey population in the U.S. has essentially doubled in size in just the past 10 years. With 400,000 cows as a starting point today, with the building blocks and a plan for growth in place, we are convinced that in another decade, rather than counting the Jersey population in the hundreds of thousands, we are on the path to numbering it in the millions.

The demand is here now. It is not regional, it is national. It exists because of the extra value of Jersey milk, the productivity of the Jersey cow, her efficiency of feed conversion, her health and her fertility.

It is now well established that Jerseys please their owners. We can now be bold about making more of them to meet the demand.

How quickly we can grow—how large the Jersey population can become in the next 10 years—is entirely in our control. We need to keep every heifer calf born alive. We need to be diligent about getting our heifers grown out, big enough, and calving them earlier. We need to get them bred back sooner after calving. The cow will take care of the rest.



Forecasts of U.S. Jersey milking cow population at average annual growth rates of 10% *(blue line)* and 15% *(red line)* from initial population of 400,000 cows, based upon culling rate, calving interval, age at first calving, dead births, and heifer death/cull rate. *Spreadsheet: N. St-Pierre, The Ohio State University.*

The stars are lining up for the Jersey breed to grow as never before. We need more good Jerseys to fill the demand. It will pay you to register, test and promote them.

Neal Smith

Executive Secretary and Chief Executive Officer

Neal Smith
Executive Secretary and Chief Executive Officer

Accounting
Vickie J. White

Development
Cherie L. Bayer, Ph.D.

Information Technology
Mark Chamberlain

Jersey Journal
Kimberly A. Billman

Jersey Marketing Service and Field Service
Herby D. Lutz

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

Research and Genetic Development
Cari W. Wolfe

USJersey

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 $450,430 for the year ended December 31, 2006.

Revenues and cost of operations for each company for the year ended December 31, 2006 are summarized as follows:

American Jersey Cattle Association

Revenues	$ 2,590,658
Expenditures	$ 2,269,988
Net Loss from All American Show & Sale	$ (17,168)
Increase in Net Assets	$ 303,502

National All-Jersey Inc. and Subsidiary

Revenues	$ 1,044,395
Expenditures	$ 897,467
Increase in Net Assets	$ 146,928

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

Identification Services	32%
Performance Services	19%
Jersey Journal	14%
Equity	13%
Cattle Marketing Services	13%
Investments and Other	9%

The organizations' marketable securities are reported at market value of $1,693,174. Accounting Standards require marketable securities to be reported at market value, therefore an unrealized gain was recorded at December 31, 2006 to reflect the variance in cost versus fair market value of the companies' investments. In addition, the companies were required to report pension-related changes of $145,161.

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

American Jersey Cattle Association	$ 1,759,482
National All-Jersey Inc. and Subsidiary	$ 743,972
Total (combined) net assets	$ 2,503,454

The AJCC Research Foundation reported net assets of $1,496,000 at year-end December 31, 2006. The Research Foundation, along with partial funding from NAJ, supported five projects totaling $29,500 in 2006. The scholarship funds administered by the AJCA provided nine scholarships totaling $10,950. Total combined net assets in the scholarship funds as of December 31, 2006 were $325,649.

We encourage the membership to review the financial statements and accompanying footnotes prepared by our certified public accounting firm, Hausser + Taylor LLP. These statements clearly state the financial position of the companies at December 31, 2006.

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, 2006 and 2005, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Jersey Cattle Association as of December 31, 2006 and 2005, 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
May 2, 2007

STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	$ 118,729	$ 236,485
Investments *(Note 8)*	220,780	204,456
Accounts receivable, net of allowance for doubtful accounts of $55,000 and $45,000 for 2006 and 2005, respectively	203,934	163,318
Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation	430,692	320,539
Supplies and inventories, at cost	17,947	17,836
Prepaid expenses and other assets	57,499	61,283
Total current assets	1,049,581	1,003,917
PROPERTY AND EQUIPMENT, AT COST *(Notes 5, 6 and 7)*		
Land	68,000	68,000
Building	494,448	494,448
Operating equipment	1,372,674	1,323,086
Software development	540,379	533,846
	2,475,501	2,419,380
Less accumulated depreciation	1,770,499	1,662,670
	705,002	756,710
OTHER ASSETS		
Investments:		
Building fund *(Notes 4, 5 and 8)*	945,261	875,586
Total other assets	945,261	875,586
	$2,699,844	$2,636,213

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 5)*	$ 54,703	$ 52,040
Current portion of capital lease obligations *(Note 7)*	23,563	14,836
Current portion of unexpired subscriptions and directory listings	44,772	33,343
Accounts payable	36,115	60,054
Accrued expenses	91,733	103,992
Awards, All American Show & Sale	48,104	52,935
Awards, National Jersey Jug Futurity	14,023	11,929
Unearned fees and remittances	247,965	320,889
Accrued pension obligation *(Note 3)*	39,000	15,000
Total current liabilities	599,978	665,618
NONCURRENT LIABILITIES		
Long-term debt *(Note 5)*	102,236	156,771
Capital lease obligations, net of current portion *(Note 7)*	75,067	62,169
Unexpired subscriptions and directory listings, net of current portion	40,067	44,038
Accrued pension obligation *(Note 3)*	123,014	251,637
	340,384	514,615
Total liabilities	940,362	1,180,233
NET ASSETS		
Unrestricted:		
Designated *(Note 4)*	1,070,143	950,468
Undesignated	689,339	505,512
Total net assets	1,759,482	1,455,980
	$2,699,844	$2,636,213

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2006 and 2005

	2006	2005
REVENUES		
Fees	$1,851,199	$1,814,225
Jersey Journal advertising and subscriptions	499,243	496,895
Interest and dividend income *(Note 8)*	34,535	27,442
Other	18,951	15,345
Total revenues	2,403,928	2,353,907
COST OF OPERATIONS *(Note 2)*		
Salaries, service, and administrative	1,753,706	1,734,981
Jersey Journal publishing	372,694	391,895
Depreciation	130,219	99,804
Interest expense	13,369	13,560
Total cost of operations	2,269,988	2,290,177
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	133,940	102,729
OTHER INCOME (EXPENSE)		
Net gain (loss) from The All American Show and Sale *(Note 8)*	(17,168)	2,919
Net unrealized gain on investments *(Note 8)*	39,313	71,612
Realized gain (loss) on investment *(Note 8)*	34,637	(54,965)
Pension-related changes other than net periodic pension cost	112,780	(38,999)
Total other income (expense)	169,562	(19,433)
INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	303,502	83,296
NET ASSETS	303.502	83,296
EXPENDITURES FROM DESIGNATED NET ASSETS		
Research and development	—	28,000
Total expenditures from designated net assets	—	28,000
INCREASE IN NET ASSETS	303,502	55,296
NET ASSETS—Beginning of year	1,455,980	1,400,684
NET ASSETS—End of year	$1,759,483	$1,455,980

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

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

Note 1. Significant Accounting Policies

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

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

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

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

D. Accounts Receivable. AJCA extends unsecured credit to members under normal terms. Unpaid balances begin accruing interest 30 days after the invoice date at a rate of 1.5% per month. Payments are applied first to the oldest unpaid invoice. Accounts receivable are presented at the amount billed plus any accrued and unpaid interest. Management estimates an allowance for doubtful accounts, which was $55,000 and $45,000 as of December 31, 2006 and 2005, 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 $12,559 and bad debt recovery of $5,526 was recognized for the years ended December 31, 2006 and 2005, 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 $114,596 and $85,939 for 2006 and 2005, 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, 2006 or 2005.

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 2006 and 2005 these activities include primarily magazine advertising. Income tax expense for 2006 and 2005 amounted to $23.040 and $25,428, respectively.

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

I. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

M. Recent Accounting Pronouncements. In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 "Accounting for Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 becomes effective for the Company beginning in 2007. The Company is currently evaluating the impact of its adoption on its financial position and results of operations.

The Company is required to adopt a new pronouncement by the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R). Adoption of this statement is required on or before the employer's fiscal year-end no later than December 31, 2007. This Statement requires a not-for-profit employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which changes occur through changes in unrestricted net assets. This Statement also requires an employer to measure the funded status of a plan as of the year-end statement of financial position, with limited exceptions. The Company is currently evaluating the impact of the pronouncement on its financial statements.

N. Reclassifications. Certain reclassifications have been made to the 2005 financial statements to be in conformity with the current year presentation.

Note 2. Functional Expenses

The Association's operating expenses by functional classification for 2006 and 2005 are as follows:

	2006	2005
Records	$ 337,439	$ 354,589
Data Processing	243,977	277,275
Performance	474,466	509,756
Jersey Journal	398,169	417,762
Information	120,590	125,552
Field	327,065	307,100
Accounting, Administration, and General	255,502	298,143
Total cost of operations	$2,157,208	$2,290,177

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 2006 and 2005.

	2006	2005
Pension benefit obligations		
Balance, beginning of year	$1,432,485	$1,318,333
Interest cost	79,094	77,363
Actuarial (gain) loss	(54,071)	81,701
Benefits paid	(44,912)	(44,912)
Balance, end of year	$1,412,596	$1,432,485
Plan Assets		
Fair value, beginning of year	$1,054,939	$ 884,580
Actual returns on plan assets	131,290	75,835
Employer contributions	20,000	139,436
Benefits paid	(44,912)	(44,912)
Fair value, end of year	$1,161,317	$1,054,939
Total accrued pension obligation	$ 251,279	$ 377,546
Less accrual of NAJ and Subsidiary	89,265	110,309
Accrued pension obligation of AJCA	$ 162,014	$ 267,237

Assumptions used in the accounting as of December 31, 2006 and 2005 were:

	2006	2005
Discount rate	5.87%	5.48%
Long-term rate of return	7.50%	7.50%

Pension expense for 2006 and 2005 comprised the following:

	2006	2005
Interest cost	$ 79,094	$ 77,363
Actuarial return on Plan assets	(131,290)	(75,835)
Actuarial (gain) loss	(54,071)	81,701
Total pension (benefit) expense	(106,267)	83,229
Less pension benefit (expense) of NAJ and Subsidiary	(23,825)	(20,573)
Pension (benefit) expense of AJCA	$ (82,442)	$ 62,656

Weighted-average Plan asset allocations, by asset category:

	2006	2005
Equity securities	76%	74%
Debt securities	24%	26%
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:

2007	$ 50,796
2008	$ 49,981
2009	$ 51,814
2010	$ 51,743
2011	$ 61,939
Years 2012 - 2016	$402,961

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. Contributions for 2006 and 2005 amounted to $17,092 and $16,927, respectively.

Note 4. Designation of Net Assets

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

	2006	2005
Building - established with original proceeds from sale of former operating facility; invested in securities *(see Note 8)*	$ 945,261	$ 875,586
Research and development - increased annually on a discretionary basis	124,882	74,882
	$1,070,143	$ 950,468

In 2006 and 2005, there were expenditures of $0 and $28,000, respectively, from the research and development designated net assets.

Note 5. Long-Term Debt

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

Long-term debt consists of the financing for the development of computer software and building improvements. The long-term note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2006 and 2005, the note has a total outstanding balance of $184,634 and $245,659, respectively. Liability for this debt is shared jointly by AJCA, National-All Jersey Inc. and All-Jersey Sales Corp. The Board of Directors of AJCA and NAJ have agreed to allocate the cost of the software and applicable debt at a ratio of 85% to AJCA, 7.5% to NAJ, and 7.5% to AJSC, based on expected utilization by the respective organizations. AJCA's share amounts to $156,939 and $208,811 at December 31, 2006 and 2005, 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 these long-term notes are summarized as follows:

Year Ending December 31	Amount
2007	$ 54,703
2008	57,501
2009	44,567
	$ 156,939

Note 6. Line of Credit

At December 31, 2006 and 2005, the AJCA has available a $100,000, due on demand, line of credit with interest payable monthly at prime (8.25% and 7.25% at December 31, 2006 and 2005, 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, 2006 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 the capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The assets are amortized over their 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:

	2006	2005
Machinery and equipment	$ 124,152	$ 81,665
Less accumulated amortization	(22,706)	(5,444)
	$ 101,446	$ 76,221

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:

2007	$ 29,400
2008	29,400
2009	29,400
2010	23,754
	111,954
Less amount representing interest	(13,324)
Present value of minimum lease payments	98,630
Less current portion	(23,563)
Noncurrent portion	$ 75,067

Note 8. Investments

Investment securities are carried at fair market value, based on market quotes, at December 31, 2006 and 2005 and are composed of the following:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Investments included in:				
Current assets:				
Money market	$ 17,716	$ 17,716	$ 17,436	$ 17,436
Mutual funds	200,631	203,064	193,093	187,020
	218,347	220,780	210,529	204,456
Building fund:				
Money market	29,154	29,154	27,402	27,402
Mutual funds	912,632	916,107	878,287	848,184
	941,786	945,261	905,689	875,586
	$1,160,133	$1,166,041	$1,116,218	$1,080,042

Investment income for 2006 and 2005 consists of the following:

	2006	2005
Interest and dividend income	$ 36,847	$ 29,238
Net unrealized gain on investments	42,046	75,675
Realized gain (loss) on investments	36,731	(58,036)
	$ 115,624	$ 46,877

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

	2006	2005
Interest	$ 2,312	$ 1,796
Net unrealized gain	2,733	4,063
Realized loss on investments	2,091	(3,071)
	$ 7,139	$ 2,788

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, 2006 and 2005, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National All-Jersey Inc. and Subsidiary as of December 31, 2006 and 2005, 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
May 2, 2007

Notes continued from page 15:

Note 8. Line of Credit

At December 31, 2006 and 2005, the Company has available a $175,000, due on demand, line of credit with interest payable monthly at prime (8.25% and 7.25% at December 31, 2006 and 2005, 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, 2006 or 2005.

Note 9. Investments

Investment securities are carried at fair value, based on market quotes at December 31, 2006 and 2005 and are composed of the following:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Money market	$ 119,846	$ 119,846	$118,373	$ 118,373
Mutual funds	402,408	407,287	387,287	375,108
	$ 522,254	$ 527,133	$505,660	$ 493,481

Investment income for 2006 and 2005 consists of the following:

	2006	2005
Interest and dividend income	$ 31,155	$ 11,950
Net realized and unrealized gain on investments	30,131	6,191
	$ 61,286	$18,141

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	$ 645,416	$ 224,892
Custodial cash	322,905	737,988
Investments *(Notes 6, 8 and 9)*	572,133	493,481
Accounts receivable, net of allowance for doubtful accounts of $11,250 and $6,500 in 2006 and 2004, respectively	41,872	178,813
Interest receivable	2,516	1,947
Prepaid expenses	450	2,151
Deferred income taxes *(Note 7)*	2,300	1,300
Total current assets	1,542,592	1,640,572
PROPERTY AND EQUIPMENT, AT COST *(Note 6)*		
Land	12,000	12,000
Building	87,256	87,256
Furniture and Equipment	5,190	4,735
Software development	79,652	79,652
Vehicles	98,076	98,076
	282,174	281,719
Less accumulated depreciation	187,683	164,841
	94,491	116,878
OTHER ASSETS		
Deferred income taxes *(Note 7)*	3,900	9,700
	$1,640,983	$1,767,150

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES		
Current portion of long-term debt *(Note 6)*	$ 9,653	$ 9,184
Accounts payable	7,162	40,611
Advances due to American Jersey Cattle Association	430,692	320,539
Fees due consignors	259,309	583,907
Accrued expenses	26,224	23,924
Advances and reserves for advertising *(Note 3)*	31,828	31,828
Deferred income	24,836	22,140
Accrued pension obligation *(Note 5)*	11,000	4,400
Total current liabilities	800,704	1,036,533
NONCURRENT LIABILITIES		
Long-term debt, net of current portion *(Note 6)*	18,042	27,664
Accrued pension obligation *(Note 5)*	78,265	105,909
	96,307	133,573
Total liabilities	897,011	1,170,106
NET ASSETS		
Unrestricted:		
Designated *(Note 4)*	111,855	61,855
Undesignated	632,117	535,189
Total net assets	743,972	597,044
	$1,640,983	$1,767,150

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2006 and 2005

	2006	2005
REVENUES		
Equity project fees	$472,728	$450,361
Commissions	464,456	426,969
Interest and dividend income	31,155	11,950
Other	13,544	16,520
Total revenues	981,833	905,800
COST OF OPERATIONS *(Note 2)*		
Salaries, service, and administrative	813,623	756,556
Field services	52,820	49,707
Bad debt expense	420	—
Depreciation and amortization	22,842	25,088
Consultant salaries	—	7,500
Interest	1,657	2,109
Total costs of operations	891,362	830,217
INCREASE IN NET ASSETS FROM OPERATIONS	90,521	75,583
OTHER INCOME (EXPENSE)		
Net realized and unrealized gain on investments	30,131	6,191
Pension-related changes other than net periodic pension cost	32,381	(10,743)
Total other income (expense)	62,512	(4,552)
INCREASE IN NET ASSETS BEFORE INCOME TAX AND EXPENDITURES FROM DESIGNATED NET ASSETS	153,033	71,031
INCOME TAX EXPENSE *(Note 7)*	6,105	1,502
INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	146,928	69,529
EXPENDITURES FROM DESIGNATED NET ASSETS		
Research and development	—	9,920
Total expenditures from designated net assets	—	9,920
INCREASE (DECREASE) IN NET ASSETS	146,928	59,609
NET ASSETS - Beginning of year	597,044	537,435
NET ASSETS - End of year	$743,972	$597,044

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 2006 and 2005 include reimbursements of $114,596 and $85,939, 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
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).

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

I. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

L. Accounts Receivable. JMS extends credit to buyers of cattle at public auction 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 and $6,500 as of December 31, 2006 and 2005, respectively. Bad debt expense of $420 and $-0- was recognized for 2006 and 2005, respectively, as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence that the account is uncollectible.

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

N. Recent Accounting Pronouncements. In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 "Accounting for Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 becomes effective for the Company beginning in 2007. The Company is currently evaluating the impact of its adoption on its financial position and results of operations.

The Company is required to adopt a new pronouncement by the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R). Adoption of this statement is required on or before the employer's fiscal year-end no later than December 31, 2007. This Statement requires a not-for-profit employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which changes occur through changes in unrestricted net assets. This Statement also requires an employer to measure the funded status of a plan as of the year-end statement of financial position, with limited exceptions. The Company is currently evaluating the impact of the pronouncement on its financial statements.

O. Reclassifications. Certain reclassifications have been made to the 2005 financial statements to be in conformity with the current year presentation.

Note 2. Functional Expenses

The Company's operating expenses by functional classifications for 2006 and 2005 are as follows:

	2006	2005
National All-Jersey Equity program	$316,319	$329,911
Accounting, administration, general and field service	76,659	72,605
All-Jersey Sales (JMS)	466,003	438,444
Total cost of operations	$858,981	$840,960

Note 3. Advances and Reserves for Advertising

	December 31, 2006	2005
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, 2006	2005
Research and development: Increased annually on a discretionary basis. In 2006 and 2005, there were expenditures of $–0– and $9,920, respectively, from the research and development of designated net assets.	$111,855	$61,855

Note 5. Pension Plans

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

The Plan was non-contributory and covered substantially all employees 21 years of age or older 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 2006 and 2005.

	2006	2005
Pension benefit obligations		
Balance, beginning of year	$1,432,485	$1,318,333
Interest cost	79,094	77,363
Actuarial (gain) loss	(54,071)	81,701
Benefits paid	(44,912)	(44,912)
Balance, end of year	$1,412,596	$1,432,485
Plan Assets		
Fair value, beginning of year	$1,054,939	$ 884,580
Actual returns on plan assets	131,290	75,835
Employer contributions	20,000	139,436
Benefits paid	(44,912)	(44,912)
Fair value, end of year	$1,161,317	$1,054,939
Total accrued pension obligation	$ 251,279	$ 377,546
Less accrual of AJCA	162,014	267,237
Accrued pension obligation of NAJ and Subsidiary	$ 89,265	$ 110,309

Assumptions used in the accounting as of December 31, 2006 and 2005 were:

	2006	2005
Discount rate	5.87%	5.48%
Long-term rate of return	7.50%	7.50%

Pension expense for 2006 and 2005 comprised the following:

	2006	2005
Interest cost	$ 79,094	$ 77,363
Actuarial return on Plan assets	(131,290)	(75,835)
Actuarial (gain) loss	(54,071)	81,701
Total pension (benefit)expense	(106,267)	83,229
Less pension benefit (expense) of AJCA	82,442	(62,656)
Pension (benefit) expense of NAJ and Subsidiary	$ (23,825)	$ 20,573

Weighted-average plan asset allocations, by asset category:		
Equity securities	76%	74%
Debt securities	24%	26%
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:

2007	$ 50,796
2008	$ 49,981
2009	$ 51,814
2010	$ 51,743
2011	$ 61,939
Years 2012 - 2016	$402,961

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. Contributions for 2006 and 2005 amounted to $5,426 and $5,068, respectively.

Note 6. Long-Term Debt

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

Long-term debt consists of the financing of the development of computer software and building improvements. The long-term note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2006 and 2005, the note has a total outstanding balance of $184,634 and $245,659, 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 $27,695 and $36,848 at December 31, 2006 and 2005, respectively. The long-term debt is collateralized by AJCA's investment securities obtained from the proceeds of the sale of a former operating facility.

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

Year Ending December 31:	Amount
2007	$ 9,653
2008	10,148
2009	7,894
	$27,695

Note 7. Income Taxes

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

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

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

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

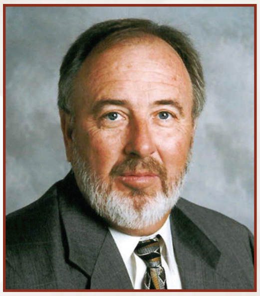
At December 31, 2006, the Company has available federal and state net operating loss carryforwards of approximately $17,000 and $80,000, respectively, which expire in 2023. *(Notes continued on page 12, column 2, bottom)*

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

Leading Indicators of Jersey Breed Growth and Improvement

	2006	1996	1986	Change ('06 v. '86)
Identification				
Animals recorded	71,253	54,426	50,269	41.7%
Animals transfered	19,110	24,402	25,708	– 25.7%
Performance Programs				
Herds enrolled	1,059	823	725	45.1%
Cows enrolled	109,702	72,363	47,753	127.8%
Production (AJCA lactations, 305-day, 2x, ME)				
Protein *(true protein)*	651	561	–	
Milk	18,337	16,051	13,068	40.3%
Fat	838	737	616	36.0%
Equity Investment	$472,728	$252,070	156,379	202.3%
Jersey Marketing Service				
Gross for private treaty sales	$3,530,506	$2,713,998	$966,274	265.4%
Gross for public sales	5,704,301	3,963,321	1,442,205	295.5%
Combined Net Assets	$2,503,454	$2,141,062	$1,559,603	60.5%

American Jersey Cattle Association Board of Directors



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