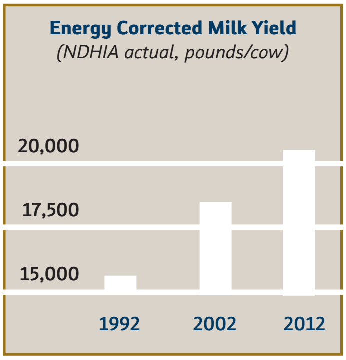
AMERICAN JERSEY CATTLE ASSOCIATION
NATIONAL ALL-JERSEY INC.
ALL-JERSEY SALES CORPORATION

2012 Annual Report

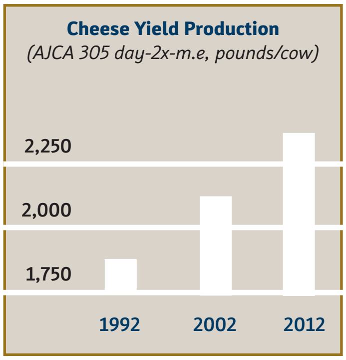
The Jersey business moved forward at full throttle in 2012.

On behalf of the elected leadership of the American Jersey Cattle Association and National All-Jersey Inc., it is an honor to submit to you our Annual Report for 2012—a milestone achievement year for the organizations built on progressive policies for breed improvement and milk marketing that have driven and are now accelerating Jersey breed growth in this country.



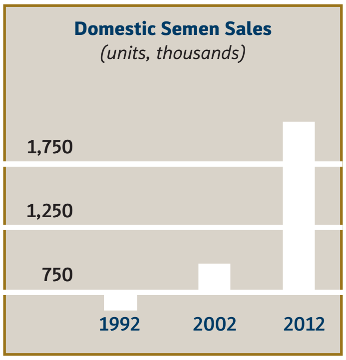
"There is an incredible breed trend taking place which is clearly beyond a fad or niche" said Doug Wilson, CEO of Cooperative Resources International at the company's 2012 annual meeting. "The appreciation level for what the Jersey cow provides has grown."

The smaller, more efficient Jersey cow is the solution to the challenges of profitability and sustainability confronting dairy herd owners, no matter how small or large their operations are. Jerseys produce the most valuable components of milk—proteins and fat—with less feed, using less energy, water and land, and with a smaller total carbon footprint. By consistently delivering this performance, the position of the Jersey breed was consolidated and enhanced in 2012.



Using actual yield information, National DHIA reported that 235,446 Jersey cows on official testing plans averaged 17,152 lbs. milk, 818 lbs. fat and 624 lbs. protein—20,476 pounds per cow on an energy-corrected milk basis. For the decade, Jersey productivity has increased 9% for milk, 12% for fat and 11% for protein. That Jerseys deliver total performance in commercial operations was evident in the 2012 DHI culling statistics. Jerseys ranked highest among all breed and crossbred groups for staying in production from one lactation to the next.

Demand for genetics that deliver this kind of performance drove semen sales to new records. NAAB reported that 2012 sales totaled 3,800,552 units, 15.5% greater than the previous record year of 2011. Domestic sales increased by 13.7% to 2,532,855 units, the largest year-over-year increase of any breed. Another 1,267,697 doses were exported, an 11.2% increase from 2011. For the decade, combined semen sales have increased by 152% and today, Jersey's domestic market share stands at 10.7%.



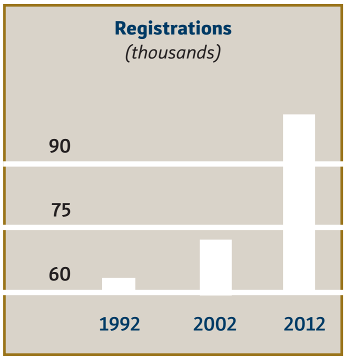
Across the country, nearly as many Jersey cows were added on DHI test during 2012 (39,672) as were added in the previous four years combined (40,050). Today, there are 70% more Jersey cows enrolled on DHI programs than there were on January 1, 2000. Taking into account information from both National DHIA and NAAB, we estimate that Jerseys now account for 9.25% of the U.S. dairy cow population, or approximately 854,000 cows. That is up from our estimate of 8.1% in last year's Annual Report.

The milestone of 100,000 registrations was accomplished in 2012.

Records are made to be broken, and no record could be broken that is of greater significance to this organization than that for registrations. Registrations are the single most important measure of the current status and future prospects for the breed, as well as the association's success in meeting the needs of Jersey owners.

The record of 96,174 set in 2011 was broken early in the day on December 26. Then on December 27, for the first time in history, the American Jersey Cattle Association recorded 100,000 animals in a single year. In the remaining 106 hours of the year, another 3,345 animals were recorded, establishing the all-time record at 103,345.

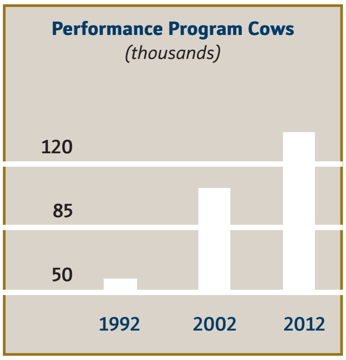
2012 was the fifth consecutive year in which the association recorded at least 90,000 animals, with the most recent three-year period (2010-12) averaging 96,628 per year.



For the year, 51.7% of calves registered were identified by double-matched approved eartags, 74.4% of applications were processed electronically, and 78.4% of registrations originated from REAP-enrolled herds. JerseyTag sales set a new record of 256,085 units sold, erasing the record set in 2011 by 52%.

2012 was a rebound year for the Genetic Recovery identification program, with a 47% increase in animals recorded to 14,269. For the year, 16.5% of all registrations came from the GR and Jersey Expansion programs. These programs have been, and will continue to be, essential to our association. Through December 31, 465,820 animals have been recorded by the AJCA under these programs, representing 19.7% of all registrations since the 1975 implementation of Genetic Recovery.

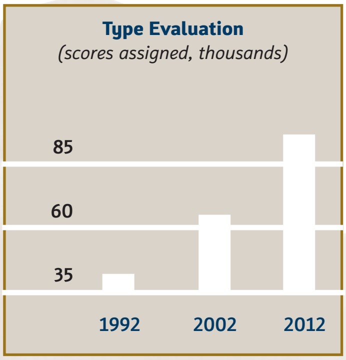
Transfers for 2012, at 22,484, were 25% higher than the previous year.



Growth continued in AJCA services for performance and type evaluation.

The records established in 2011 for performance program enrollment quickly became memories as the months passed in 2012. For all programs, 149,371 cows in 1,104 herds were enrolled at December 31, an increase of 8.2% over the previous year. This was largely driven by REAP, the cost-effective, profit-oriented package of the core services delivered by AJCA and NAJ. The number of cows enrolled on REAP at December 31 was 145,480, up 9.4% from 2011. REAP herd enrollment grew 3% for a year-end total of 930 herds.

The AJCA processed 100,211 lactations, a 10.1% gain over 2011. Production per cow was 18,995 lbs. milk, 903 lbs. fat and 691 lbs. protein on a 305-day, 2x mature equivalent basis. For cheese yield, the breed average is now 2,345 pounds. Actual cheese yield per lactation increased to 2,064 pounds. The rate of gain for Jersey production turned dramatically upwards in 2012. Milk is now increasing at a rate of 81 lbs. per year, compared to 65 lbs. at the end of 2011. For components, fat prodution improved to an annual gain of 8.3 lbs. *(vs. 6.7 lbs. in 2011)*, and protein to 5.2 lbs. *(vs. 4.1 lbs.)*.



Sustained breed growth also resulted in a new record for the linear type appraisal program, with 95,945 scores and breakdowns made by the appraisal team in 1,640 herd visits during the year. This was the second consecutive year over 94,000 scores. PTAs for all functional type traits show a positive trend. The selection pressure on udders has resulted in continuous improvement for those traits since 1991. Most notable is the continued progress in udder depth.

2012 capped a decade of dramatic growth in use of association services:

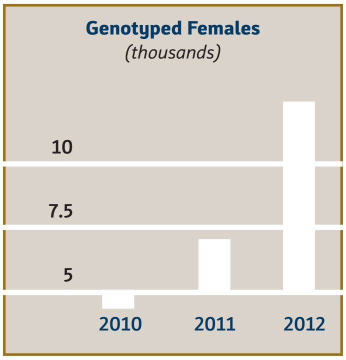
- a 49% increase in animals identified;
- a 52% increase in performance program enrollments;
- a 57% increase in REAP cow enrollments; and
- a 43% increase in cows scored in the Jersey type appraisal program.

Three years after their introduction, genomic evaluations passed the ultimate test.

"To a dairy farmer, the ultimate test would be to see if a bull chosen on the basis of a high genetic evaluation including genomics but no daughter records actually was that good when progeny data were available."

Since 2005 the AJCA and NAJ have made significant financial investments to promote genotyping, to develop genomic selection tools and to deliver information on how to use the bulls at the leading edge of genetic improvement while managing the risk of doing so.

Genomic evaluations became official in January of 2009, and in April of that year, a new class of young bulls was defined for marketing: genomic evaluated with no daughter information in the proofs. Almost immediately, these G-code bulls began to have a huge impact in Jersey breeding programs despite the fact that at 60% reliability, their proofs were not comparable with the reliability of progeny-tested bulls. Since 2010, there have been more G-code Jersey bulls marketed than progeny-tested Active A.I. bulls. For 2011, 22% of calves registered by the AJCA were sired by genomic young sires, raising the all-important question, “Will genomic proofs hold up?”



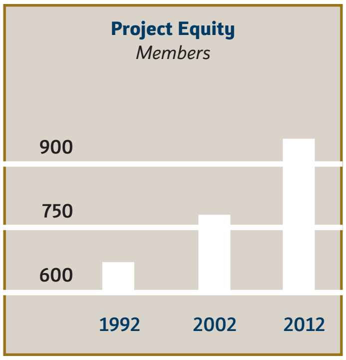
The first opportunity to answer that question came in 2012, and the answer was, “Yes.” Analyzing the first 81 genomic evaluated bulls to obtain progeny-test proofs, as a group and across three summaries during the year, the genomic evaluations without daughter records were excellent predictors of their proofs and relative ranking after progeny testing.

Jersey breeders accelerated their genotyping efforts in 2012. The Animal Improvement Programs Laboratory (AIPL) reported that 12,702 female genotypes were added to the national cooperative database during 2012, compared to 7,336 the previous year. Genotyping added value in sale after sale during the year; nine of the 13 high selling females of 2012 were heifers ranked on the top GJPI™ lists.

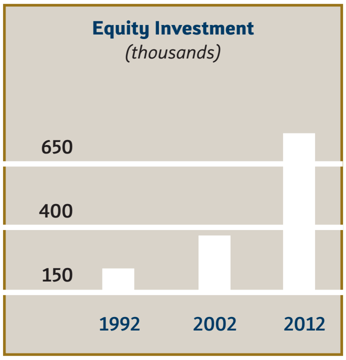
At the close of 2012, AIPL reported 31,161 Jersey genotypes (23,973 females and 7,188 males) on file. For 2012, 40% (41,479) of the calves registered by the AJCA were sired by G-code bulls.

Driving breed growth is National All-Jersey Inc., always working to increase the value of and demand for Jersey milk.

Since 1976, the Equity program of National All-Jersey Inc. has served the needs of Jersey milk producers and sought a fair return for Jersey milk because it has additional economic value in the marketplace. A wide variety of activities are undertaken in pursuit of this aim, and in 2012 ranged from analysis of dairy policy proposals for the new Farm Bill and in different Federal milk marketing orders, to ongoing efforts to raise the national minimum nonfat solids standards for fluid milk to meet existing California levels, to funding and conducting research and promoting the Jersey milk sustainability message.



A primary focus was on the Farm Bill and particularly proposals to replace the Milk Income Loss Contract, the Dairy Product Price Support Program, and the Dairy Export Incentive Program with a voluntary margin insurance program combined with a market stabilization program. While there was broad support for the idea of a margin-based insurance plan in place of direct payments, the inclusion of production restrictions was controversial. The NAJ Board of Directors clearly expressed its position that the market stabilization program should not be mandatory for herds enrolling in margin insurance. The primary issue was one of inequity for producers of high component milk. With 100% assessment on milk marketed above allowable limits, the market stabilization program would impose the highest penalties on milk most valued by the marketplace and therefore be counterproductive to creating a more market-oriented industry. NAJ continues to be involved in Farm Bill discussions and remains supportive of a margin insurance program, but without the inequitable burdens of the proposed market stabilization program.



In January of 2012, the life-cycle assessment of the environmental impacts of Jersey and Holstein milks by Judith L. Capper and Roger A. Cady was published in the peer-reviewed *Journal of Dairy Science*. The findings—that to make a given amount of Cheddar cheese, using milk produced by Jersey cows requires 32% less water and 11% less land, and reduces total carbon emissions by 20%—could not have been more timely, as high feed prices became the operational norm and drought descended across many regions of the U.S.

To build awareness of the findings of this NAJ-funded study, a promotional campaign was undertaken through the International Dairy Foods Association *SmartBrief* e-newsletter leading up to, and directly following, IDFA’s 2012 Sustainability Symposium. An advertisement promoting the advantages of Jersey milk and linked to an informational website *(www.usjersey.com/sustainability.htm)* reached more than 13,000 subscribers representing not just processors but every segment of the allied industries. NAJ staff attended the symposium to discuss the study's findings with attendees. Then, NAJ staff coordinated presentations by both researchers at industry events in the U.S. and Australia.

Research, analysis and consulting activities continued throughout the year. NAJ maintains price comparisons and information for the 10 Federal milk marketing orders and California, provides economic analysis services for individual members, and also analyzes other industry reports, including the annual California Department of Food and Agriculture Cost of Production survey.

Five producers joined the Queen of Quality® program in 2012, bringing the current total to 31 producers across 18 different states. The All-Jersey® and Queen of Quality® trademarks can be found on cheese, bottled milk, cream, ice cream, yogurt, kefir, and butter from Vermont to Alabama to Washington.

Equity—the most successful program ever undertaken by a breed association—received its funding in 2012 from 1,007 members who invested $755,936 to support its work. The total investment to date—$10,415,948—has been returned many times over through fair values paid for high-component milk, the creation of equitable markets for Jersey milk, and increased demand for Jersey cattle across the country.

2013 Objectives of National All-Jersey Inc.

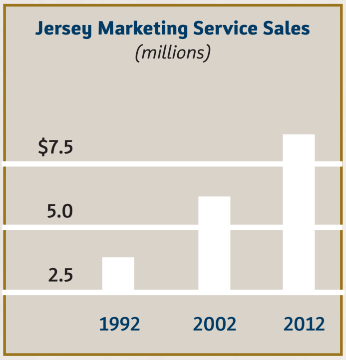
- To the extent possible, be involved in the Farm Bill process until its passage.
- Examine opportunities to improve marketing conditions for producers in the Southeast, especially pooling.
- Monitor developments in California milk pricing and support Jersey interests.
- Recruit research opportunities and promote research that demonstrates the value of high solids milk and the efficiency and sustainability of Jerseys.
- In the All-Jersey® and Queen of Quality® brand programs, enroll new producers and distributors, expand services provided and support, and develop and promote new products using Jersey milk.
- Develop economic analyses that promote increased use of Jersey genetics.
- Look for and advance market arrangements, voluntary and regulated, that obtain or improve Multiple Component Pricing (MCP) for producers currently not receiving MCP or sub-standard MCP pricing.
- Continue work to raise the national minimum nonfat solids standards for fluid milk to meet existing California levels.

Producer owned and governed, Jersey Marketing Service had another Top 10 year.

Operating in a volatile cattle market, Jersey Marketing Service, a wholly owned subsidiary of National All-Jersey Inc., marketed 5,390 live animals, plus embryos and semen, for a gross value of $8,621,175, ranking as the ninth best year in company history. Average sale price for live animals was $1,587.75, with little difference between prices paid at public auction or private treaty.

Gross revenues from public auction sale management (including the monthly JerseyBid online auctions) were $6,448,997. Included were the two high grossing sales of 2012 reported by *Jersey Journal* in its annual summary. JMS managed the 55th Pot O'Gold Sale and the 55th National Heifer Sale to series records, at $5,331.67 and $4,684.09 respectively, and The 60th All American Sale to its second-best average in history at $7,086.32.

Private treaty transactions totaled $2,172,178. In the domestic market, JMS assisted 45 different sellers from 17 states in supplying 34 buyers located in 18 states. An export order to Panama of 385 head involved five sellers from three states.



An expanded set of online services was introduced as the year unfolded, with positive response from buyers and sellers alike. Through live streaming video on the internet, Jersey Auction Live brought 269 remote bidders to 13 sales in 2012 including the All American, National Heifer and Pot O'Gold sales, plus the Western National and Top of the World Sale from World Dairy Expo. Fast and easy to use, a total of 1,455 bids were placed and 164 lots sold via Jersey Auction Live for a gross value of $297,550 in its first year.

Our vigorous communication and promotion efforts were expanded in 2012.

Our organizations use many communication channels and participate in numerous industry events to spread the USJersey message across the globe.

The official publication of the American Jersey Cattle Association and National All-Jersey Inc. since 1953 is the *Jersey Journal*. The only monthly publication in the world devoted to the Jersey breed, the 2012 *Journal* included 1,160 pages, of which 528 pages were paid advertising, and reached 2,556 subscribers. The reach of its editorial content was extended through its website as well as promoted on the Facebook and Twitter social media platforms.

Numerous promotional and educational activities were carried out during the year, among them exhibits at industry trade shows from coast to coast, organization and sponsorship of special programs including a seventh virtual farm tour on the World Dairy Expo stage, news releases and e-newsletters, and via three more audience-specific Facebook pages.

As a member of U.S. Livestock Genetics Export Inc., our staff also participated in international promotional activities in Australia (including an invited address during the annual meeting of Jersey Australia), Costa Rica, Mexico and Turkey, and met with buyer and government delegations from China, India, Liberia, Morocco and Tunisia at our offices.

The Boards drew a new roadmap for the organizations to enhance member service and drive breed growth.

As much as we are excited by Jersey breed growth, that has created growing pains for our organizations and generated new demands on the services that help make owning Jerseys more profitable than any other breed of dairy cattle.

To examine our ability and resources to meet those challenges, an organizational assessment and planning conference for the AJCA and NAJ Boards plus management staff was held last August in Columbus. No service was left unexamined, assumption unchallenged or idea unstated as we developed a list of strategic priorities to guide our planning and future work in this fast-changing business. For the AJCA, priorities are improving the value and delivery of services, finding ways to utilize the unique information and knowledge we have at hand, and to apply the power of genomics for herd and breed improvement. For NAJ, the priorities are milk marketing policy and consulting services, the branding of our products, and cattle and genetics marketing.

In 2008, after the registration record that stood for 55 years was broken, we stated:

"These records are not simply great accomplishments. They are now the basis by which the future performance of your organizations will be measured. At the same time, the demand for Jersey cattle and genetics has raised our expectations for breed growth. We are moving boldly into the future."

As promised then and documented in this Annual Report, we have. And we will continue to do so. Our goals by 2015 are to record 135,000 animals in our database each year, provide service to 175,000 cows, for Jerseys to be 15% of the U.S. dairy cow herd, and as always, to work so that 100% of Jersey milk producers are paid full value for their milk components.

We are aiming high, yes, and intend to hit these targets with the help of dedicated staff, forward-thinking leaders on our Boards, but above all, members who believe in and support the aims of our organizations:

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

By exploiting the strengths of the Jersey cow, we will achieve a more efficient and profitable dairy industry in the United States. Thank you for your support of and loyalty to the American Jersey Cattle Association and National All-Jersey Inc. We look forward to working with you as we continue to grow.

Neal Smith

Executive Secretary and Chief Executive Officer

Neal Smith
Executive Secretary and Chief Executive Officer

Management Team

Accounting
Vickie J. White, Treasurer

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

Development
Cherie L. Bayer, Ph.D.

Field Service
Kristin Paul

Jersey Journal
Kimberly A. Billman

Research and Genetic Development
Cari W. Wolfe

Jersey Marketing Service
Jason Robinson

AMERICAN JERSEY CATTLE ASSOCIATION

Treasurer's Report • Independent Auditors' Report

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 from operations of $49,384 for the year ended December 31, 2012.

American Jersey Cattle Association

Revenues	$ 3,115,647
Expenditures	$ 3,031,512
Net Income from Operations (Before All American and Other Income and Expense)	$ 84,135

National All-Jersey Inc. and Subsidiary

Revenues	$ 1,227,062
Expenditures	$ 1,261,813
Net Loss from Operations	$ (34,751)

NAJ and AJSC reported a combined net loss; however, NAJ reported a positive net income from operations.

Program participation recorded increases in most service areas in 2012. Combined revenues are as follows:

Identification Services	37%
Performance Services	17%
Equity	16%
Jersey Journal	11%
Cattle Marketing Services	10%
Other	9%

The organizations' marketable securities are reported at market value of $1,767,510. Due to the increase in market values compared to 2011, an unrealized gain was recorded at December 31, 2012 to reflect the variance in cost versus fair market value of the companies' investments.

The companies reported net assets at December 31, 2012 of:

American Jersey Cattle Association	$ 1,772,521
National All-Jersey Inc. and Subsidiary	$ 642,536
Total (combined) Net Assets	$ 2,415,057

The AJCC Research Foundation reported net assets of $1,621,103 at year-end December 31, 2012. The Research Foundation supported six projects totaling $42,682. The scholarship funds administered by the AJCA awarded 10 scholarships totaling $17,500. Total combined net assets in the scholarship funds as of December 31, 2012 were $399,523. Net assets held in the Jersey Youth Academy Fund at December 31, 2012 were $410,216.

We encourage the membership to review the financial statements and accompanying footnotes prepared by our certified public accounting firm, Clark, Schaefer, Hackett & Co. These statements clearly state the financial position of the companies at December 31, 2012.

Respectfully submitted,
Vickie J. White
Vickie J. White
Treasurer

To the Board of Directors,
American Jersey Cattle Association

We have audited the accompanying financial statements of American Jersey Cattle Association which comprise the statement of financial position, as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of American Jersey Cattle Association as of December 31, 2011, were audited by other auditors whose report dated May 2, 2012, expressed an unqualified opinion on those statements.

Clark, Schaefer, Hackett & Co.
Columbus, Ohio
April 17, 2013

AMERICAN JERSEY CATTLE ASSOCIATION

Statements of Financial Position • Statements of Activities

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	**$ 477,296**	$ 656,389
Investments	**240,010**	221,690
Accounts receivable, net	**302,314**	287,566
Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation	**665,414**	302,094
Supplies and inventories	**16,848**	19,174
Prepaid expenses and other assets	**52,237**	86,732
Total current assets	**1,754,119**	1,573,645
PROPERTY AND EQUIPMENT		
Land	**68,000**	68,000
Building	**494,448**	494,448
Operating equipment	**1,506,568**	1,482,642
Software development	**540,379**	540,379
	2,609,395	2,585,469
Less accumulated depreciation and amortization	**(2,290,658)**	(2,174,001)
Total property and equipment, net	**318,737**	411,468
OTHER ASSETS		
Investments	**1,046,110**	960,118
Advances due National All-Jersey Inc. and All-Jersey Sales Corporation	**109,346**	106,378
Total other assets	**1,155,456**	1,066,496
	$3,228,312	$3,051,609
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of capital lease obligations	**$ 19,853**	$ 19,809
Current portion of unexpired subscriptions and directory listings	**33,150**	36,444
Accounts payable	**102,806**	115,527
Accrued expenses	**137,359**	111,456
Awards, The All American Show & Sale	**78,211**	64,794
Awards, National Jersey Jug Futurity	**14,210**	12,643
Unearned fees and remittances	**412,481**	337,733
Total current liabilities	**798,070**	698,406
NONCURRENT LIABILITIES		
Capital lease obligations, net of current portion	**7,390**	17,741
Unexpired subscriptions and directory listings, net of current portion	**42,841**	29,838
Accrued pension obligation	**607,490**	591,000
	657,721	638,579
Total liabilities	**1,455,791**	1,336,985
NET ASSETS		
Unrestricted:		
Designated	**1,149,143**	1,083,503
Undesignated	**623,378**	631,121
Total net assets	**1,772,521**	1,714,624
	$ 3,228,312	$ 3,051,609

See Notes to the Financial Statements.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2012 and 2011

	2012	2011
REVENUES		
Fees	**$ 2,547,855**	$ 2,309,227
Jersey Journal advertising and subscriptions	**507,883**	512,729
Interest and dividend income	**28,398**	24,944
Other	**31,511**	33,828
Total revenues	**3,115,647**	2,880,728
COST OF OPERATIONS		
Salaries, service, and administrative	**2,449,690**	2,181,872
Jersey Journal publishing	**457,433**	469,335
Depreciation and amortization	**122,130**	123,027
Interest expense	**2,259**	3,760
Total cost of operations	**3,031,512**	2,777,994
INCREASE IN NET ASSETS FROM OPERATIONS	**84,135**	102,734
OTHER INCOME (EXPENSE)		
Net gain (loss) from The All American Show and Sale	**(5,787)**	5,812
Net realized and unrealized gain (loss) on investments	**95,423**	(15,917)
Net periodic pension cost	**(75,637)**	(49,398)
Total other income (expense)	**13,999**	(59,503)
CHANGE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	**98,134**	43,231
EXPENDITURES FROM DESIGNATED NET ASSETS		
Research and development	**20,352**	24,194
Total expenditures from designated net assets	**20,352**	24,194
CHANGE IN NET ASSETS BEFORE EFFECT OF POSTRETIREMENT CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COST	**77,782**	19,037
POSTRETIREMENT CHANGES OTHER THAN NET PERIODIC PENSION COST	**19,885**	215,059
CHANGE IN NET ASSETS	**57,897**	(196,022)
NET ASSETS, beginning	**1,714,624**	1,910,646
NET ASSETS, ending	**$ 1,772,521**	$ 1,714,624

See Notes to the Financial Statements.

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

Note 1. Nature of Organization and Significant Accounting Policies

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

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

Basis of accounting. The financial statements of the Association have been prepared on the accrual basis of accounting.

Basis of presentation. The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). The Association is required to report information regarding its financial position, and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated assets for a building fund and research and development which totaled $1,046,110 and $103,033 for 2012 and $960,118 and $123,385 for 2011, respectively.

Temporarily restricted net assets: Temporarily restricted net assets result from timing differences between the receipt of funds or pledges of funds and the incurrence of the related expenditures. The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If the donor restriction expires in the same fiscal year the gift is received, the Association reports the gift as a temporarily restricted contribution and as net assets released from restriction in the statement of activities. As of December 31, 2012 and 2011, there were no temporarily restricted assets.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations must be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specific purposes. As of December 31, 2012 and 2011, there were no permanently restricted net assets.

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.

Investments. Investments consist of money market and mutual funds. Money market funds are carried at cost. Mutual funds are carried at fair value on the statement of financial position, with the change in fair value included in the statements of activities.

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

Revenue recognition. 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.

Accounts receivable. AJCA extends unsecured credit to members under normal terms. Unpaid balances begin accruing interest 30 days after the invoice date at a rate of 1½% per month. Payments are applied first to the oldest unpaid invoice. Accounts receivable are presented at the amount billed plus any accrued and unpaid interest. Management estimates an allowance for doubtful accounts, which was $55,000 as of December 31, 2012 and 2011. The estimate is based upon management's review of delinquent accounts and an assessment of the Association's historical evidence of collections. Bad debt expense of $10,227 and $27,880 was recognized for the years ended December 31, 2012 and 2011, 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.

Valuation of long-lived assets. The Association reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

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 2012 and 2011, these activities include primarily magazine advertising. Income tax expense for 2012 and 2011 amounted to $15,500 and $19,000, respectively, and is included in *Jersey Journal* publishing expense on the statements of activities and changes in net assets.

The Association follows Financial Accounting Standards Board (FASB) guidance on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Association has not recorded a reserve for any tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Examples of tax positions include the tax-exempt status of the Association, and various positions related to the potential sources of unrelated business taxable income (UBIT). The Company files tax returns in all appropriate jurisdictions. For the years ended December 31, 2012 and 2011, management has determined that there are no material uncertain tax positions. The Association files Forms 990 and 990T in the U.S. federal jurisdiction. With few exceptions, the Association is no longer subject to examination by the Internal Revenue Service for years before 2009.

Concentrations of credit risk. The Association maintains its demand deposits and temporary cash investments with one financial institution. Balances may at times exceed federally insured limits. Cash equivalents and investments are maintained in trust accounts with a trust company. The Association continually monitors its balances to minimize the risk of loss.

AJCA's trade receivables result from registrations and related fees due from members who are located primarily in the United States.

Property and equipment. Property and equipment are stated at cost. Expenditures which materially increase values or extend useful lives are capitalized. Routine maintenance and repairs are charged to expense as incurred. The cost of assets sold or retired and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Any gains or losses resulting from property disposals are included in income.

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).

Capital leases. The Association acquired office equipment under noncancellable leases which are accounted for as a capital lease. The asset and liability under a capital lease is recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The asset is amortized over its estimated productive life. Amortization of the equipment under capital leases is included in depreciation and amortization expense.

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 Statements of Activities of AJCA are net of reimbursements of $186,686 and $171,004 for 2012 and 2011, respectively, from the above-mentioned affiliated companies for these jointly incurred costs. Also, AJCA has available, due on demand, lines of credit due on demand for $175,000 and $100,000 which is collateralized by investments held by AJCA and NAJ. No funds were drawn on these lines of credit as of December 31, 2012 and 2011.

AJCA sponsors a defined benefit pension plan which provides for affiliated companies (NAJ and subsidiary) to participate in the plan. AJCA allocates the accrued pension obligation, net periodic benefit cost, and postretirement changes other than net periodic pension costs among the participating affiliated companies. Based on the current allocation among the companies, AJCA has advances from affiliates for their pension obligation at December 31, 2012 and

2011 of $109,346 and $106,378, respectively *(see Note 3)*.

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

Supplies and inventories. Supplies and inventories consist of office supplies and promotional items available for sale which are valued at the lower of cost or market.

Advertising. The Association's advertising efforts are associated with nondirect-response programs. The costs are expensed in the period of the related advertisement. The Association expensed $14,834 and $12,160 for the years ended December 31, 2012 and 2011, respectively.

Functional allocation of expenses. The costs of providing programs and activities have been summarized on a functional basis in Note 2. Accordingly, certain costs have been allocated among the programs and activities benefited.

Subsequent events. The financial statements and related disclosures include evaluation of events up through and including April 17, 2013, which is the date the financial statements were available to be issued.

Note 2. Functional Expenses

The Association's operating expenses by functional classification for December 31 are as follows:

	2012	2011
Records	$ 856,619	$ 664,600
Data processing	266,922	320,179
Performance	637,041	638,172
Jersey Journal	456,383	468,558
Information	123,142	123,337
Field	469,277	471,595
Accounting, administration, and general	317,650	356,010
Total cost of operations	$ 3,127,034	$ 3,042,451

Note 3. Pension Plans

Effective December 31, 2002, the Board of Directors of AJCA froze the Defined Benefit Pension Plan (Plan). The Plan's administrator has not determined the amount required to fund the Plan if management decided to terminate the Plan which could be in excess of the accrued pension obligation. The Plan is non-contributory and covered substantially all employees 21 years of age or older hired prior to January 1, 2003, who had been employed for one year with at least 1,000 hours of service. AJCA's funding policy is to contribute such amounts as are required 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 as of December 31:

	2012	2011
Pension benefit obligation		
Balance, beginning of year	$ 1,807,708	$ 1,571,818
Interest cost	77,130	79,387
Actuarial loss	181,004	215,451
Benefits paid	(65,853)	(58,948)
Balance, end of year	1,999,989	1,807,708
Plan Assets		
Fair value, beginning of year	1,216,708	1,198,902
Actual returns on Plan assets	141,644	(27,671)
Employer contributions	100,000	104,425
Benefits paid	(65,853)	(58,948)
Fair value, end of year	1,392,499	1,216,708
Accrued pension obligation	$ 607,490	$ 591,000

Assumptions used in the accounting as of December 31:

	2012	2011
Discount rate	4.23%	5.15%
Long-term rate of return	6.50%	6.50%

Pension expense (benefit) comprised the following at December 31:

	2012	2011
Interest cost	$ 77,130	$ 79,387
Actual return on Plan assets	(141,644)	27,671
Actuarial loss	181,004	215,451
Total pension (benefit) expense	116,490	322,509
Less pension expense of NAJ and Subsidiary	(20,968)	(58,052)
Pension expense of AJCA	$ 95,522	$ 264,457

Items not yet recognized as a component of net periodic postretirement expense:

	2012	2011
Unrecognized net loss	$ 102,000	$ 101,000

Plan Assets: 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. The expected return on plan assets assumption is based on an estimated weighted average of long-term returns of major asset classes. In determining asset class returns, the Association takes into account long-term rates of return of major asset classes, historical performance of plan assets, and related value-added of active management, as well as the current interest rate environment.

The fair values of the Association's pension plan assets, by asset category are as follows:

December 31, 2012

Asset Category	Total	Level 1	Level 2	Level 3
Equity securities:				
U.S. large-cap	$ 165,038	$ –	$ 165,038	$ –
U.S. large-cap growth	107,514	–	107,514	–
U.S. large-cap value	117,776	–	117,776	–
U.S. small-cap	167,419	–	167,419	–
International large-cap value	72,721	–	72,721	–
International large-cap growth	64,917	–	64,917	–
Fixed income mutual funds:				
REIT	70,312		70,312	
Natural resources	61,784	–	61,784	–
Intermediate	282,178	–	282,178	–
Inflation indexed	68,524	–	68,524	–
High-yield	100,487	–	100,487	–
Multi sector	113,829	–	113,829	–
Total Assets	$ 1,392,499	$ –	$ 1,392,499	$ –

December 31, 2011

Asset Category	Total	Level 1	Level 2	Level 3
Equity securities:				
U.S. large-cap	$ 65,967	$ –	$ 65,967	$ –
U.S. large-cap growth	120,338	–	120,338	–
U.S. large-cap value	118,656	–	118,656	–
U.S. small-cap	116,897	–	116,897	–
International large-cap value	78,161	–	78,161	–
International large-cap growth	33,203	–	33,203	–
Fixed income mutual funds:				
Government	80,978	–	80,978	–
Natural resources	78,481	–	78,481	–
Intermediate	232,469	–	232,469	–
Inflation indexed	154,654	–	154,654	–
Multi sector	136,904	–	136,904	–
Total Assets	$ 1,216,708	$ –	$ 1,216,708	$ –

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:

2013	$ 74,239
2014	$ 75,386
2015	$ 83,894
2016	$ 81,786
2017	$ 79,520
Years 2018-2022	$ 488,123

The Association maintains a 401(k) plan covering substantially all employees who have been employed for one year with at least 1,000 hours of service. The plan allows for a matching contribution of 25% of employees' contributions up to a maximum contribution of 15% of salary. Matching contributions for 2012 and 2011 amounted to $24,369 and $26,756, respectively.

Note 4. Designation of Net Assets

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

	2012	2011
Building - established with original proceeds from sale of former operating facility; invested in securities *(see Note 8)*	$ 1,046,110	$ 960,118
Research and development - increased annually on a discretionary basis	103,033	123,385
	$ 1,149,143	$ 1,083,503

In 2012 and 2011, there were expenditures of $20,352 and $24,194, respectively, from the research and development designated net assets.

Note 5. Lines of Credit

At December 31, 2012 and 2011, the Association has available a $100,000 line of credit, due on demand, with interest payable monthly at prime (3.25% at December 31, 2012 and 2011) which was extended in August 2012. The line is collateralized by investments held by AJCA and NAJ *(Note 7)*. No funds were drawn on the line as of December 31, 2012 or 2011.

At December 31, 2012, the Association has available a $175,000 line of credit, due on demand, with interest payable monthly at prime effective August 2012. The line is collateralized by investments held by AJCA and NAJ *(Note 7)*. No funds were drawn on the line as of December 31, 2012 or 2011.

Note 6. Capital Lease Obligations

The Company is a lessee of equipment under capital leases, one which expired in 2011, one which expires in 2013, and one which expires in 2017.

At December 31, the underlying equipment was reflected in the accompanying statements of financial position as follows:

	2012	2011
Operating equipment	$ 101,469	$ 90,911
Less accumulated amortization	(76,639)	(57,577)
	$ 24,830	$ 33,334

The Company pays monthly capital lease payments of $1,963 for the lease expiring during 2013, and $882 for the lease expiring in 2017. Minimum future annual lease payments under the capital lease as of December 31, 2012 are as follows:

Years Ending:	2013	$ 20,501
	2014	2,111
	2015	2,112
	2016	2,112
	2017	1,056
		27,892
Less amount representing interest		(649)
Present value of minimum lease payments		27,243
Less current portion		(19,853)
Noncurrent portion		$ 7,390

Note 7. Investments

Investments consist of the following at December 31:

	2012	2011
Money market	$ 27,144	$ 47,835
Mutual funds	1,258,976	1,133,973
	$ 1,286,120	$ 1,181,808

Total investment income consists of the following at December 31:

	2012	2011
Interest and dividend income	$ 28,398	$ 24,944
Net realized and unrealized gain (loss) on investments	95,423	(15,917)
	$ 123,821	$ 9,027

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

	2012	2011
Interest	$ 1,795	$ 1,596
Net realized and unrealized gain (loss) on investments	5,749	(902)
	$ 7,544	$ 694

Note 8. Fair Value Measurements

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities. The FASB established a framework for measuring fair value, established a three-level valuation hierarchy for disclosure of fair value measurement and enhanced disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Association uses various valuation approaches, including market, income and/or cost approaches. The framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Association. Unobservable inputs are inputs that reflect the Association's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments. The fair values of investments are based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, due to the limited market activity of the instrument, fair value is based upon externally developed models that use unobservable inputs.

The following tables set forth by level within the fair value hierarchy the Association's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of December 31, 2012 and 2011. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The tables do not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

December 31, 2012

Asset Category	Total	Level 1	Level 2	Level 3
Equity mutual funds:				
U.S. large-cap core	$ 115,244	$ 115,244	$ –	$ –
U.S. large-cap value	76,726	76,726	–	–
U.S. large-cap growth	124,128	124,128	–	–
U.S. mid-cap	76,134	76,134	–	–
U.S. small-cap	38,153	38,153	–	–
International	66,132	66,132	–	–
Emerging Markets	26,840	26,840	–	–
Fixed income mutual funds:				
Short-term	167,915	167,915	–	–
Inflation Indexed	64,779	64,779	–	–
Multi-sector	91,335	91,335	–	–
High-yield	61,540	61,540	–	–
Intermediate	350,050	350,050	–	–
Total Assets	$ 1,258,976	$ 1,258,976	$ –	$ –

December 31, 2011

Asset Category	Total	Level 1	Level 2	Level 3
Equity mutual funds:				
U.S. large-cap growth	$ 377,813	$ 377,813	$ –	$ –
U.S. mid-cap	163,000	163,000	–	–
International	44,931	44,931	–	–
Balanced mutual funds	224,383	224,383	–	–
Fixed income mutual funds:				
Government	93,838	93,838	–	–
High-yield	83,092	83,092	–	–
Intermediate	146,916	146,916	–	–
Total Assets	$ 1,133,973	$ 1,133,973	$ –	$ –

To the Board of Directors
National All-Jersey Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of National All-Jersey Inc. and Subsidiary which comprise the statement of financial position, as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National All-Jersey Inc. and Subsidiary as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The consolidated financial statements of National All-Jersey Inc. and Subsidiary as of December 31, 2011, were audited by other auditors whose report dated May 2, 2012, expressed an unqualified opinion on those statements.

Clark, Schaefer, Hackett & Co.
Columbus, Ohio
April 17, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	**$ 652,710**	$ 868,752
Custodial cash	**308,278**	17,800
Investments	**481,390**	444,646
Accounts receivable, net	**159,345**	126,362
Interest receivable	**2,649**	1,939
Prepaid expenses	**972**	7,918
Total current assets	**1,605,344**	1,467,417
PROPERTY AND EQUIPMENT		
Land	**12,000**	12,000
Building	**87,256**	87,256
Furniture and equipment	**5,190**	5,190
Software development	**79,652**	79,652
Vehicles	**99,207**	89,149
	283,305	273,247
Less accumulated depreciation and amortization	**(219,613)**	(204,291)
Total property and equipment, net	**63,692**	68,956
	$ 1,669,036	$ 1,536,373
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	**$ 4,402**	$ 39,496
Advances due to American Jersey Cattle Association	**665,413**	302,094
Fees due consignors	**110,133**	319,483
Accrued expenses	**37,466**	34,842
Accrued payroll and related benefits	**25,611**	–
Advances and reserves for advertising	**31,828**	31,828
Deferred income	**42,301**	29,709
Total current liabilities	**917,154**	757,452
NONCURRENT LIABILITIES		
Accrued pension due to American Jersey Cattle Association	**109,346**	106,378
	109,346	106,378
Total liabilities	**1,026,500**	863,830
NET ASSETS		
Unrestricted:		
Designated	**132,966**	143,142
Undesignated	**509,570**	529,401
Total net assets	**642,536**	672,543
	$ 1,669,036	$ 1,536,373

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31, 2012 and 2011

	2012	2011
REVENUES		
Equity project fees	$ **755,936**	$ 705,966
Commissions	**435,542**	384,944
Interest and dividend income	**11,335**	10,088
Other	**24,249**	9,930
Total revenues	**1,227,062**	1,110,928
COST OF OPERATIONS		
Salaries, service, and administrative	**1,098,515**	878,529
Field services	**101,804**	92,598
Bad debt expense	**46,172**	55,840
Depreciation and amortization	**15,322**	8,895
Total costs of operations	**1,261,813**	1,035,862
CHANGE IN NET ASSETS FROM OPERATIONS	**(34,751)**	75,066
OTHER INCOME (EXPENSE)		
Net realized and unrealized gain (loss) on investments	**35,888**	(3,631)
Pension expense	**(20,968)**	(58,052)
Total other income (expense)	**14,920**	(61,683)
CHANGE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	**(19,831)**	13,383
EXPENDITURES FROM DESIGNATED NET ASSETS		
Research and development	**10,176**	21,597
Total expenditures from designated net assets	**10,176**	21,597
CHANGE IN NET ASSETS	**(30,007)**	(8,214)
NET ASSETS, beginning	**672,543**	680,757
NET ASSETS, ending	$ **642,536**	$ 672,543

See Notes to the Consolidated Financial Statements.

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

Note 1. Nature of Organization and Significant Accounting Policies

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

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

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

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

Basis of accounting. The consolidated financial statements of the Company have been prepared on the accrual basis of accounting.

Basis of presentation. The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). The Company is required to report information regarding its financial position, and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated assets for research and development which totaled $132,966 and $143,142 for 2012 and 2011, respectively.

Temporarily restricted net assets: Temporarily restricted net assets result from timing differences between the receipt of funds or pledges of funds and the incurrence of the related expenditures. The Company reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the donor restriction expires in the same fiscal year the gift is received, the Company reports the gift as a temporarily restricted contribution and as net assets released from restriction in the statement of activities. As of December 31, 2012 and 2011, there were no temporarily restricted net assets.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations must be maintained permanently by the Company. Generally, the donors of these assets permit the Company to use all or part of the income earned on related investments for general or specific purposes. As of December 31, 2012 and 2011, there were no permanently restricted net assets

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.

Investments. Investments consist of money market and mutual funds. Money market funds are carried at cost. Mutual funds are carried at fair value on the statement of financial position, with the change in fair value included in the statement of activities and changes in net assets.

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

Custodial cash. The Company maintains cash due consignors in a separate custodial cash account.

Revenue recognition. Equity project fees are contributions from individual producers or producer organizations. The money is used to develop markets and to promote multiple component pricing. Equity project revenue is recognized in the period received, however, equity fees received as annual Registration, Equity, Appraisal, Performance (REAP) payments are recognized over a 12 month period using straight-line amortization.

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

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 $10,000 and $58,090 as of December 31, 2012 and 2011, respectively. Bad debt expense of $46,172 and $55,840 was recognized for 2012 and 2011, respectively, as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence that the account is uncollectible.

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 for 2012 and 2011 include reimbursements of $186,686 and $171,004, respectively, paid to the Association for these jointly incurred costs.

Valuation of long-lived assets. The Company reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

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

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

The Company follows FASB guidance on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company has not recorded a reserve for any tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Examples of tax positions include the tax-exempt status of NAJ, and various positions related to the potential sources of unrelated business taxable income (UBIT). The Company files tax returns in all appropriate jurisdictions. For the years ended December 31, 2012 and 2011, management has determined that there are no material uncertain tax positions.

The Company files forms 990, 990-T and 1120 in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to examination by the Internal Revenue Service for years before 2009.

Concentration of credit risk. The Company maintains its demand deposits and temporary cash investments with one financial institution. Balances may at times exceed federally insured limits. Cash equivalents and investments are maintained in trust accounts with a trust company. The Company continually monitors its balances to minimize the risk of loss.

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.

Property and equipment. Property and equipment are stated at cost. Expenditures which materially increase values or extend useful lives are capitalized. Routine maintenance and repairs are charged to expense as incurred. The cost of assets sold or retired and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Any gains or losses resulting from property disposals are included in income.

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	Useful Lives
Building	31-1/2 years
Furniture and equipment	10 years
Software development	15 years
Vehicles	3–5 years

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

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

Advertising. The Company's advertising efforts are associated with nondirect-response programs. The costs are expensed in the period of the related advertisement. The Company expensed $13,629 and $20,448 for the years ended December 31, 2012 and 2011, respectively.

Functional allocation of expenses. Functional allocation of expenses: The costs of providing programs and activities have been summarized on a functional basis in Note 2. Accordingly, certain costs have been allocated among the programs and activities benefited.

Subsequent events. The financial statements and related disclosures include evaluation of events up through and including April 17, 2013, the date the financials were available to be issued.

Note 2. Functional Expenses

The Company's operating expenses by functional classifications for December 31 are as follows:

	2012	2011
National All-Jersey Equity program	$ 451,920	$ 439,714
Accounting, administration, general and field service	205,124	203,425
All-Jersey Sales (JMS)	625,737	450,775
Total cost of operations and pension expense	$1,282,781	$1,093,914

Note 3. Advances and Reserves for Advertising

	December 31, 2012	2011
5% National - represents funds accumulated as a percentage of member advances to be applied to cost of national or regional advertising for benefit of all members	$ 31,828	$ 31,828

Note 4. Pension Plans

All eligible staff of National All-Jersey Inc. and Subsidiary who meet the eligibility requirements are included in the American Jersey Cattle Association Pension Plan (Plan). Effective December 31, 2002, the Board of Directors of AJCA froze the 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 obligations. The Plan covers substantially all employees 21 years of age or older hired prior to January 1, 2003, who had been employed for one year with at least 1,000 hours of service.

The Plan is administered by AJCA, the Plan sponsor. Required contributions, expense and pension liability for the Plan are allocated among AJCA and NAJ by the Board of Directors of AJCA. For the years ended December 31, 2012 and 2011, NAJ has included on its statement of activities pension plan expense of $20,968 and $58,052, respectively.

The amount of accrued pension obligation was $109,346 and $106,378 at December 31, 2012 and 2011, respectively. The accrued pension obligation is payable to AJCA.

The Company maintains a 401(k) plan covering substantially all employees, who have been employed for one year with at least 1,000 hours of service. The plan allows for a matching contribution of 25% of employees' contributions up to a maximum contribution of 15% of salary. Matching contributions for 2012 and 2011 amounted to $7,393 and $6,117, respectively.

Note 5. Designation of Net Assets

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

	2012	2011
Research and development: Increased annually on a discretionary basis. In 2012 and 2011, there were expenditures of $10,176 and $21,597, respectively, from the research and development of designated net assets.	$ 132,966	$ 143,142

Note 6. Income Taxes

Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax reporting purposes in different periods. Deferred taxes are classified as current or long-term, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or long-term depending on the periods in which the temporary differences are expected to reverse.

Net deferred tax assets in the accompanying balance sheet include the following components at December 31:

Deferred Tax Assets	2012	2011
Provision for doubtful accounts	$ 1,700	$ 9,900
Net operating loss	101,700	70,600
Depreciation and amortization	1,900	400
Gross deferred tax assets	105,300	80,900
Less valuation allowance	(105,300)	(80,900)
Net deferred tax assets	$ –	$ –

For the years ended December 31, 2012 and 2011, AJSC incurred net operating losses and, accordingly, no provision for federal income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At December 31, 2012, the Company had approximately $600,000 of federal net operating losses. The net operating loss carryforwards, if not utilized, will begin to expire in 2029.

Note 7. Lines of Credit

At December 31, 2012 and 2011, the Company has available a $175,000, due on demand, line of credit with interest payable monthly at prime (3.25% at December 31, 2012 and 2011) which was extended in August 2012. The line is collateralized by investment securities held by NAJ and AJCA. No funds were drawn on the line at December 31, 2012 or 2011.

At December 31, 2012, the Company has available a $100,000 line of credit, due on demand, with interest payable monthly at prime (3.25% at December 31, 2012 and 2011) beginning in August 2012. The line is collateralized by investments held by NAJ and AJCA. No funds were drawn on the line as of December 31, 2012.

Note 8. Investments

Investments consisted of the following at December 31:

	2012	2011
Money market	$ 10,211	$ 35,325
Mutual funds	471,179	409,321
	$ 481,390	$ 444,646

Total investment income consists of the following at December 31:

	2012	2011
Interest and dividend income	$ 11,335	$ 10,088
Net realized and unrealized gain (loss) on investments	35,888	(3,631)
	$ 47,223	$ 6,457

Note 9. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. The FASB established a framework for measuring fair value, established a three-level valuation hierarchy for disclosure of fair value measurement and enhanced disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Company uses various valuation approaches, including market, income and/or cost approaches. The framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments: The fair values of investments are based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, due to the limited market activity of the instrument, fair value is based upon externally developed models that use unobservable inputs.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of December 31, 2012 and 2011. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The table does not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

December 31, 2012

Asset Category	Total	Level 1	Level 2	Level 3
Equity mutual funds:				
U.S. large-cap core	$ 43,130	$ 43,130	$ –	$ –
U.S. large-cap value	28,715	28,715	–	–
U.S. large-cap growth	46,451	46,451	–	–
U.S. mid-cap	28,494	28,494	–	–
U.S. small-cap	14,279	14,279	–	–
International	24,750	24,750	–	–
Emerging Markets	10,045	10,045	–	–
Fixed income mutual funds:				
Short-term	62,843	62,843	–	–
Inflation Indexed	24,244	24,244	–	–
High-yield	34,182	34,182	–	–
Multi-sector	23,038	23,038	–	–
Intermediate	131,008	131,008	–	–
Total Assets	$ 471,179	$ 471,179	$ –	$ –

December 31, 2011

Asset Category	Total	Level 1	Level 2	Level 3
Equity mutual funds:				
U.S. large-cap growth	$ 129,790	$ 129,790	$ –	$ –
U.S. mid-cap	55,530	55,530	–	–
International	15,456	15,456	–	
Balanced mutual funds	98,444	98,444	–	–
Fixed income mutual funds:				
Government	32,471	32,471	–	–
High-yield	28,752	28,752	–	–
Intermediate	48,878	48,878	–	–
Total Assets	$ 409,321	$ 409,321	$ –	$ –

AMERICAN JERSEY CATTLE ASSOCIATION
NATIONAL ALL-JERSEY INC.
ALL-JERSEY SALES CORPORATION

LEADING INDICATORS OF JERSEY BREED GROWTH AND IMPROVEMENT

	2012	2002	1992	Change ('12 v. '02)
Identification				
Animals recorded	103,345	72,507	61,025	69.3%
Animals transferred	22,484	17,912	23,097	–2.6%
Performance Programs				
Herds enrolled	1,104	916	782	41.2%
Cows enrolled	149,371	109,608	53,701	178.2%
Production *(AJCA lactations, 305-day, 2x, ME)*				
Protein, true *(*measured as total protein)*	691	641	552*	25.2%
Milk	18,995	18,019	14,879	27.7%
Fat	903	823	695	29.9%
Equity Investment	$ 755,936	$ 372,485	$ 190,458	269.9%
Jersey Marketing Service				
Gross for private treaty sales	$2,172,178	$1,813,649	$1,578,467	37.6%
Gross for public sales	$6,448,997	$4,445,025	$2,304,745	171.7%
Combined Net Assets	$2,415,057	$1,833,578	$1,852,248	30.4%

American Jersey Cattle Association Board of Directors

Chris Sorenson
President

Chris Sorenson
President
Pine River, Wisconsin

William P. Grammer
Vice President
Sebring, Ohio

Jamie Bansen
Dayton, Oregon

Robin Denniston-Keller
Byron, New York

Ralph E. Frerichs
La Grange, Texas

W. Phil Gordon
Syracuse, Indiana

Corey Lutz
Lincolnton, North Carolina

David R. Norman
Liberty, Pennsylvania

Walter G. Owens
Frederic, Wisconsin

James Quist
Fresno, California

Wesley P. Snow
Brookfield, Vermont

Jerry Spielman
Seneca, Kansas

Charles J. Steer
Cottage Grove, Tennessee

National All-Jersey Inc. Board of Directors

David Endres
President

David C. Endres
President
Lodi, Wisconsin

James S. Huffard III
Vice President
Crockett, Virginia

Marion G. Barlass
Janesville, Wisconsin

Calvin Graber
Parker, South Dakota

William P. Grammer, *ex-oficio*

John H. Kokoski
Hadley, Massachusetts

Norman H. Martin
Tillamook, Oregon

Kelvin D. Moss
Litchfield Park, Arizona

Chris Sorenson

Jerry Spielman, *ex-oficio*

Michael Wickstrom
Hilmar, California

6486 E. Main Street, Reynoldsburg, Ohio 43068-2362 U.S.A.
614.861.3636 Phone 614.861.8040 Fax www.USJersey.com