1998 Annual Report

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

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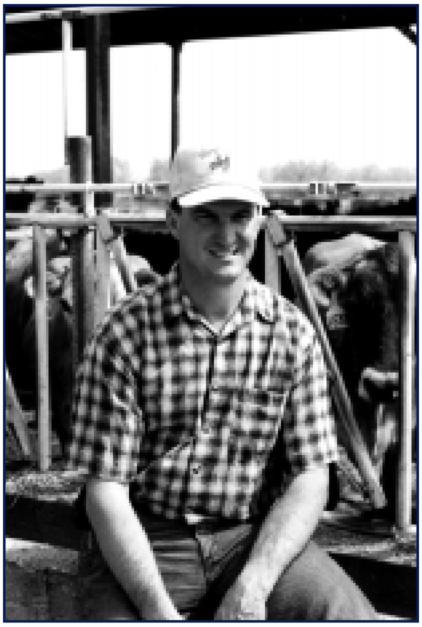
Jerseys are changing the color of dairying across the United States.



Producer Kevin Blount of Crows Landing, California, is glad of the fact.

"Milking Jerseys is the best move I ever made," this former Holstein producer says. Returning to dairying in 1996 after a hiatus of six years, he found a vastly different dairy situation. He could make greater profits by milking Jerseys and shipping his high-protein Jersey milk to Hilmar Cheese Company, one of the many processors across the United States that find greater profitability in manufacturing with Jersey milk.

Producers like Blount choose Jersey cows and produce Jersey milk for processors like Hilmar Cheese because American consumers are demanding value-added dairy foods—and the product they want the most is cheese.

And in the continuous, dynamic cycle of consumer, producer and processor, the American Jersey Cattle Association, National All-Jersey Inc., and Jersey Marketing Service seek to add value at every opportunity.

Their combined missions are to reward the producer, reward the processor and serve the consumer by adding value to the dairy industry—through the development and marketing of Jersey genetics and Jersey milk.

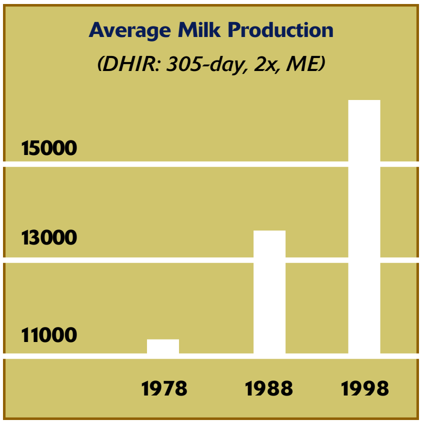
The American Jersey Cattle Association collects and assembles the information Jersey owners require to increase the profitable production of Jersey milk.

Organized in 1868, the Association has directed 130 years of intensive effort in pedigree recording, production testing, type evaluation and the application of advanced research and genetic evaluations. The result? No other breed produces as high a quality milk as U.S. Jerseys, nor does it as efficiently. At the same time, the characteristics that made Jerseys so appealing in the first place—adaptability and responsiveness, earlier maturity, calving ease, reproductive efficiency—have been preserved.

Identification services form the very core of the Association's functions. During 1998, the final steps were taken to provide a new option for recording the pedigrees and ownership of Jerseys. Internet-based registration and transfer programs were deployed early in 1999. The information that adds value to the pedigree—production records, type appraisals and genetic evaluations—also became available on demand 24 hours a day when the member services processing system came online under the name *InfoJersey.com*.

The Association now has available the information architecture and processing capacity to: provide service to customers wishing to take advantage of convenient Internet-based services, while preserving conventional methods; improve processing efficiency; provide for customized reports; and to maintain and improve the Association's interface with the USDA and dairy records processing centers.

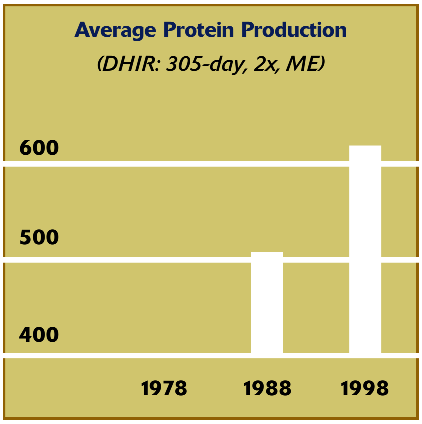
On the genetic side, the Association continues its efforts to improve evaluation procedures and to encourage the development of a sire group with unexcelled transmitting ability for milk components and productive life. The efforts beginning in 1985 to facilitate the proving of more young Jersey bulls were well rewarded during 1998. More than 30% of the 180 bulls sampled to date have been returned to A.I. service, including 16 on the active A.I. sire list for May, 1999, and three of the Top 10 for PTI. Not only have the regional sire proving groups made significant contributions to breed improvement, they have also enjoyed financial rewards. Nearly $45,000 was returned in royalties to members of these groups last year.



National All-Jersey Inc. provides the information producers need to understand milk marketing and to obtain equitable pricing for Jersey milk.

Incorporated in 1957 as the first, and still the only milk marketing organization affiliated with a purebred dairy breed association in the United States, National All-Jersey is the equal of the AJCA in adding value to Jerseys. Last year, eight out of 10 milk producers in Federal Order markets were eligible to receive multiple component pricing (MCP). The first time such figures were compiled, in 1985, only 43% of Federal Order producers were so eligible. And, should the Final Decision on Federal Milk Marketing Order Reform issued March 31, 1999 be approved, 85% of all Federal Order milk will soon be priced on MCP.

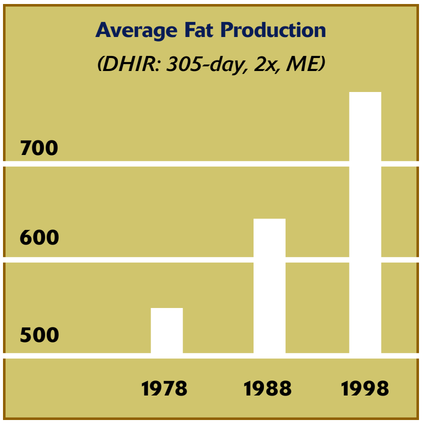
Also during 1998, National All-Jersey introduced the Weekly Market Update, published at the close of markets each Friday on the *USJersey.com* website. The Update is the latest in a package of NAJ publications that are valued by producers—and a number of milk buyers and processors as well—for their concise and insightful assessment of the dairy marketing situation.



Because the milk is worth more, there is growing demand for Jerseys. Jersey Marketing Service provides unexcelled advice and service to buyers and sellers of Jersey genetics.

Since its founding in 1970, Jersey Marketing Service (JMS) has set the professional standard for marketing Jersey genetics, whether in private treaty transactions or at public auction sales. The fundamental principle that undergirds its activities is full disclosure: Accurate and complete information is the basis for treating buyers and sellers fairly.

Of the 10 highest averaging public auctions in 1998, seven were managed by Jersey Marketing Service. More herd dispersals were handled by JMS than by any other single management agency. And, JMS coordinated a record volume of private treaty transactions from 241 sellers located in 31 states.



Jersey Marketing Service helped start Kevin Blount in the Jersey business.

His cattle were developed by breeders using the programs and services of the American Jersey Cattle Association to add value to their own herds.

His milk market was developed using services of National All-Jersey Inc.

Two truckloads of Jerseys were selected by Jersey Marketing Service and shipped to Kevin, sight unseen. “For what these cows have done for me,” he says, “I owe those guys a lot.”

His Dream View Jerseys averaged 18,179 lbs. milk, 939 lbs. fat, and 699 lbs. protein during the 1998 testing year, ranking sixth among herds with 80 to 149 lactation records. His herd is enrolled on REAP, the program package providing identification services, performance programs, and Equity participation, at the lowest possible cost. And, at his component levels, he shares in the Hilmar Cheese Company premiums for high milk components.

“The things that have happened in our herd and in the dairy business in the last two and a half years are exciting.” Kevin concludes, “Milking Jerseys is the best move I ever made.”

It is an exciting time to be involved with Jerseys.

The purposes or missions of the American Jersey Cattle Association (AJCA) and National All-Jersey Inc. (NAJ) as outlined in their respective constitutions are to:

- Improve and promote Jersey cattle;
- Maintain records and activities that are in the best interests of Jersey cattle breeders;
- Promote the increased sale of Jersey milk and milk products; and
- Promote the increased sale of Jersey cattle.

In this year's annual report, we will share with you how your organizations performed last year in carrying out these missions, then consider the challenges and strategies to continue to do so in the future.

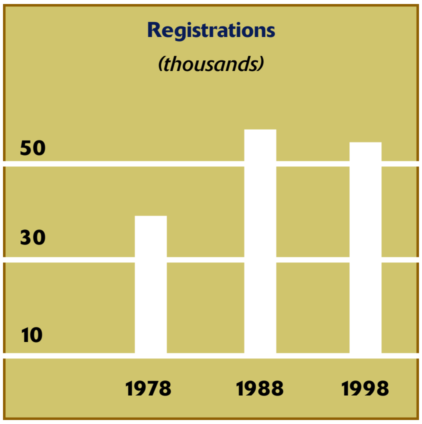
The demand for the Jersey cow is at the highest level the breed has experienced in 50 years.

The headline for an article discussing the Jersey breed's strong demand that appeared recently in a major dairy publication stated, "Wanted: Jersey Cows." The article went on to discuss how more and more dairy producers are looking to fill corrals and barns with Jersey cows. Members call on a regular basis and tell us they can easily sell every Jersey on their farm if they so desire. Today, the demand for the Jersey cow exceeds the supply.

Two of the better indicators that show that the organizations are meeting their mission of promoting the Jersey are DHI enrollment and domestic semen sales. Since 1985, the percent of all cows enrolled in DHI that are Jersey has increased by over 15%. The percentage of domestic semen sales that are Jersey has increased 26% during the same period.

Production for the Jersey breed set another record in 1998.

Increases for milk, fat, protein, and cheese production show the continuing improvement of the breed. Actual production was 15,047 lbs. milk, 697 lbs. fat, 558 lbs. protein, and 1,815 lbs. cheese. On a 305-day, 2x mature equivalent basis, 1998 production averaged 16,841 lbs. milk, 771 lbs. fat, 619 lbs. protein, and 2,013 lbs. cheese. *On the m.e. basis, the average Jersey cow produces over a ton of cheese.*



During the past 10 years, average Jersey production on a 305-day, 2x m.e. basis has increased 24% for milk, 21% for fat, 23% for protein, and 23% for cheese yield. It should also be pointed out that with this significant increase in production, the average age of the Jersey cow and the percentage of cows leaving the herd has remained almost the same over the same time period. Average cheese yield per cwt. also remained about the same, decreasing only slightly during the past 10 years.

What is the future production potential? One only needs to look at the top herd on DHIR with *actual production* of 21,374 lbs. milk, 1,027 lbs. fat, 800 lbs. protein and 2,602 lbs. Cheddar cheese.

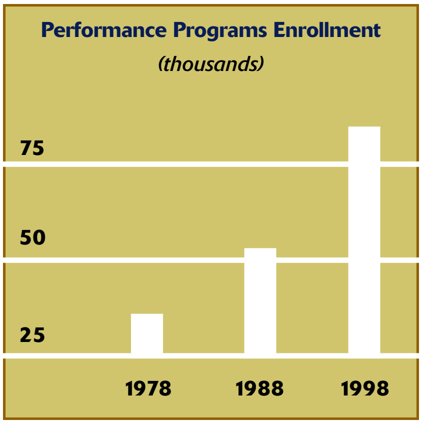
Growth continues in core program areas: identification and performance evaluation.

One of the best ways to measure how the organizations are doing in maintaining records and activities is to examine registration and performance program numbers. A strong and growing level of participation in these two programs is evidence that the organizations are meeting this mission.

A total of 54,415 animals were identified on the records of the AJCA in 1998. To put this in perspective, in 1978 the AJCA recorded 37,549 animals. In 20 years, registration numbers have increased almost 45% while, at the same time, total cow numbers in the United States have declined.

1998 ended with 81,949 cows participating in AJCA performance programs (production testing and appraisal). This is the highest number in history. Participation in these programs continues to grow each year.

REAP, the program that combines participation in Registration, Equity, Appraisal and Performance, continues to increase in numbers as well. REAP enrollment increased almost 13% in 1998. The growth in this program is a good indicator of people desiring to use all of the organizations' basic programs.



A key to maintaining records is an efficient and reliable data processing system.

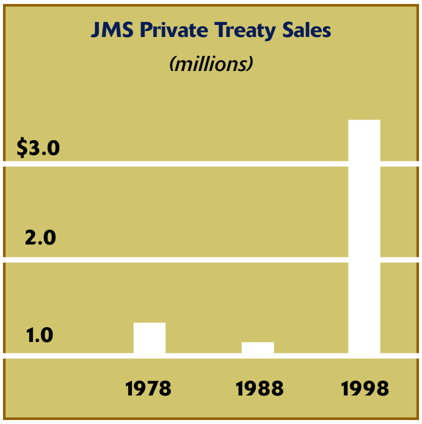
1998 saw the implementation of a new software system. This Y2K compliant system is giving us modern processing capabilities that will help meet our needs well into the 21st century. It also allows us to provide Internet access to many of our programs including registration. Already many of our customers are submitting registrations via the Internet.

Member support of NAJ's efforts to increase the value of and demand for Jersey milk set another record in 1998.

Equity fees totaled $290,220 in 1998. Since the program's inception in 1976, hundreds of dairy farmers have invested $3.5 million in the Equity Program *to* help increase the value of and demand for Jersey milk and promote an equitable milk pricing system.

The result of NAJ's efforts in carrying out its mission of increasing the value of Jersey milk can easily be seen in milk prices. For 1998, in markets with equitable milk pricing plans, the average Jersey milk price was about $3.64 to $3.93 per cwt. higher than market average milk. The amount would have been $1 to $1.50 less per cwt. without equitable pricing. We estimate that approximately 75% of Jersey producers market their milk under equitable milk pricing plans.

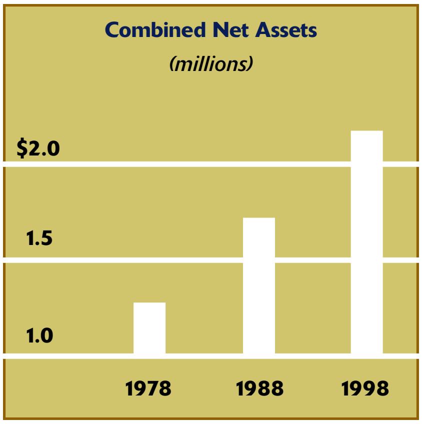
A highlight of NAJ's efforts in promoting equitable milk pricing was USDA's recommended decision on Federal Milk Order reform that was released in 1998 with the final rule issued March 31, 1999. The Federal Order final rule calls for the use of multiple component pricing for 85% of Federal Order producer milk. In addition, it calls for protein payment based on true protein instead of total protein as is currently used. The true protein basis is more accurate and equitable.



Producers looking for Jerseys turned to Jersey Marketing Service in record numbers.

Jersey Marketing Service (JMS), a wholly owned subsidiary of NAJ, marketed 6,440 animals in 1998 with a market value of $6.8 million. This is both the greatest number of animals and highest dollar value marketed by JMS in a single year. Twenty years ago, JMS marketed 2,275 animals with a market value of $2.1 million. Privately, JMS marketed animals for 241 sellers in 31 states. As in previous years, most private treaty sales were to buyers new to the Jersey breed.

The significance of JMS's marketing activities can be seen in market share. Last year JMS marketed 29% of all Jerseys transferred in AJCA's Herd Register. Twenty years ago JMS only marketed 10.5% of Jerseys that were transferred in a single year.



A report to the membership is not complete without reviewing the organizations' financial position.

Both the AJCA and NAJ ended 1998 with a combined net income of $48,120 before use of designated net assets. The balance sheet of the organizations is strong with combined net assets or surplus of $2,175,726. To show the financial soundness of the organizations, net assets equal 9½ months of total operating expenses.

The Jersey organizations also oversee the Research Foundation which had assets of $1,050,340 at year end. 1998 saw us meet the goal set in the late '80s of having assets of $1 million in the Research Foundation. Dividends and interest generated by the Foundation are used to fund several Jersey-related research projects each year.

The demand for the Jersey cow is exceptionally strong, participation in programs is growing, and the organizations continue to be financially sound.

We are pleased to report another successful year for the Jersey organizations. However, we cannot dwell on the past, but we must look forward to the future.

The next millennium holds many exciting, but challenging opportunities for the Jersey organizations. These opportunities will include:

- showing more than ever the financial benefits of using AJCA-NAJ programs;
- expanding online programs and making them more user friendly;
- providing customized performance reports;
- continuing our efforts to increase the value of and demand for Jersey milk and cattle;
- finding and developing more advantages for Jersey milk components;
- aligning ourselves strategically with other organizations for our mutual benefit;
- increasing the amount of reliable economic data on Jersey herds; and
- getting the many new Jersey producers involved in the AJCA and NAJ.

To meet these challenges and opportunities emerging in the new millennium, our strategies remain the same.

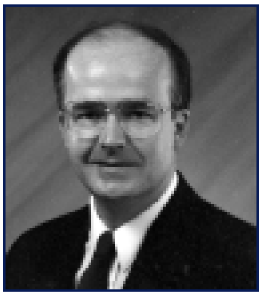
First, we must provide programs and services that help increase profit potential; that is, programs that increase the profitable production of milk and increase the value of and demand for your milk and cattle. Second, we must keep the organizations financially sound. This is essential if we are to provide proper service. Third, we must work to constantly improve communication with our members and customers. Successful organizations listen to what their members and customers say. Fourth, we must keep a highly competent staff. We win with people.

Thank you for your role in making this an exceptional time for the Jersey breed.

A special thanks to all those who support the Jersey organizations' activities. As many people tell me, it is a great time to be involved with Jerseys. We are confident that, with your continued involvement and by focusing on increasing Jersey profitability, it will continue to be a great time to be involved with Jerseys.

Calvin Covington

Executive Secretary and Chief Executive Officer



Calvin Covington
Executive Secretary and
Chief Executive Officer

Management Team

Accounting
Vickie J. White

Communication
Cherie L. Bayer, Ph.D.

Field Service
Owen Bewley

Jersey Marketing Service
Neal Smith

National All-Jersey Inc.
Michael Brown

Records and Performance
Erick Metzger

Research and Genetic Development
Cari W. Wolfe

Type Appraisal
Michael Hurst

Leading Indicators of Jersey Breed Growth and Improvement

	1998	1988	1978	Change ('98 v. '78)
Identification				
Animals recorded	54,145	57,236	37,549	+ 44.2%
Animals transfered	22,635	24,630	21,808	+ 3.8%
Performance Programs				
Herds enrolled	780	782	489	+ 59.5%
Cows enrolled	81,949	53,258	33,525	+ 144.4%
Production (DHIR: 305-day, 2x, ME)				
Protein	619	505	–	
Milk	16,841	13,575	11,294	+ 49.1%
Fat	771	637	545	+ 41.5%
Equity Investment	$290,220	$162,327	$37,010	+684.2%
Jersey Marketing Service				
Gross for private treaty sales	$3,369,883	$1,072,096	$1,239,654	+ 171.8%
Gross for public sales	3,468,095	1,750,432	420,850	+ 724.1%
Combined Net Assets	$2,175,726	$1,679,608	$1,263,149	+ 72.2%

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President

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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 $48,210 for the year ended December 31, 1998 before designated net assets.

Revenues and cost of operations for each company for the year ended December 31, 1998 are summarized as follows:

American Jersey Cattle Association

Revenues	$1,987,905
Cost of Operations	1,987,565
Increase in Net Assets Before Designated Net Assets	$ 340

National All-Jersey Inc.

Revenues	$ 733,355
Cost of Operations	685,485
Increase in Net Assets Before Designated Net Assets	$ 47,870

Designated net assets are funds set aside from prior year's net income for disbursement in future years. The funds are primarily for research and development projects as approved by the respective Boards. During 1998 both the AJCA and NAJ appropriated funds from designated assets. (Please refer to AJCA Note 6 and NAJ Note 5). Accounting standards require expenditures from designated net assets be reported in the annual report as current year's operating expenses.

The organizations' investments are reported at market value of $1,796,901 at December 31, 1998. Investments represent 82.5% of total net assets.

The companies continue to maintain strong net assets. Net assets, reported at market value, as of December 31, 1998 were:

American Jersey Cattle Association	$1,554,205
National All-Jersey Inc. & Subsidiary	621,521
Total Net Assets	$2,175,726

We encourage our members to read and study the financial statements and accompanying footnotes prepared by our certified public accountants, Hausser + Taylor LLP. These statements clearly state the financial position of the companies at December 31, 1998.

Respectfully submitted,

Vickie J. White

Vickie J. White
Treasurer

To the Board of Directors
American Jersey Cattle Association

Independent Auditors' Report

We have audited the accompanying statements of financial position of American Jersey Cattle Association as of December 31, 1998 and 1997, 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Jersey Cattle Association as of December 31, 1998 and 1997, and the changes in its net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Hausser + Taylor LLP
Columbus, Ohio
March 10, 1999

STATEMENTS OF FINANCIAL POSITION

December 31, 1998 and 1997

ASSETS	1998	1997
CURRENT ASSETS		
Cash and cash equivalents	$ —	$ 57,392
Investments (Note 10)	239,118	376,943
Accounts receivable, net of allowance for doubtful accounts of $38,000 and $42,500, respectively	127,184	193,241
Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation	163,339	75,072
Supplies and inventories, at cost	15,750	20,255
Prepaid expenses and other assets	37,810	53,825
Total current assets	583,201	776,728
PROPERTY AND EQUIPMENT, AT COST (Notes 7 and 8)		
Land	68,000	68,000
Building	429,060	429,060
Operating equipment	1,079,177	1,030,895
Software development	474,383	307,384
	2,050,620	1,835,339
Less accumulated depreciation	1,120,869	994,277
	929,751	841,062
OTHER ASSETS		
Investments:		
Building fund (Notes 6, 7 and 10)	1,027,756	983,845
Deferred compensation plans (Note 3)	18,741	27,793
Organization costs, net of accumulated amortization of $43,017 and $33,457, respectively	4,779	14,339
Prepaid expenses and other assets	4,993	1,737
Deferred costs, net of accumulated amortization of $61,556 and $30,901, respectively	91,717	82,154
Total other assets	1,147,986	1,109,868
	$2,660,938	$2,727,658

LIABILITIES AND NET ASSETS	1998	1997
CURRENT LIABILITIES		
Current portion of long-term debt (Note 7)‘	$40,544	$55,357
Current portion of capital lease obligation (Note 8)	18,970	17,020
Current portion of unexpired subscriptions and directory listings	36,161	35,125
Current portion of deferred compensation plans (Note 3)	5,897	6,909
Accounts payable	110,183	186,082
Advances due to National All-Jersey Inc. and All-Jersey Sales Corporation	-	128,571
Accrued expenses	48,204	67,649
Awards, All American Show and Sale	28,365	26,863
Awards, Jersey Jug	9,940	11,717
Unearned fees and remittances	196,531	93,618
Total current liabilities	494,795	628,911
NONCURRENT LIABILITIES		
Accrued pension obligation (Note 4)	109,715	83,845
Long-term debt (Note 7)	475,258	396,483
Capital lease obligation (Note 8)	22,730	39,750
Unexpired subscriptions and directory listings	75,882	73,290
Deferred compensation plans (Note 3)	29,925	33,558
	713,510	626,926
Less current portion	101,572	114,411
	611,938	512,515
Total liabilities	1,106,733	1,141,426
NET ASSETS		
Unrestricted:		
Designated (Note 6)	1,116,663	1,105,119
Undesignated	437,542	481,113
Total net assets	1,554,205	1,586,232
	$2,660,938	$2,727,658

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 1998 and 1997

	1998	1997
REVENUES		
Fees	$1,406,464	$1,409,319
Jersey Journal advertising and subscriptions	344,294	335,007
All American Show and Sale commissions	90,683	67,462
Investment income (Note 10)	107,046	206,154
Other	39,418	19,754
Total revenues	1,987,905	2,037,696
COST OF OPERATIONS (Note 2)		
Salaries, service, and administrative	1,424,370	1,470,666
Jersey Journal publishing	335,798	340,731
All American Show and Sale	91,310	75,680
Depreciation	125,592	105,563
Interest expense	10,495	12,802
Total cost of operations	1,987,565	2,005,442
INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	340	32,254
EXPENDITURES FROM DESIGNATED NET ASSETS (Note 6)		
Gene McCain Fund	—	1,300
Computer Capital Fund	32,367	12,654
Total expenditures from designated net assets	32,367	13,954
INCREASE (DECREASE) IN NET ASSETS	(32,027)	18,300
NET ASSETS—Beginning of year	1,586,232	1,567,932
NET ASSETS—End of year	$1,554,205	$1,586,232

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. 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	Estimated Useful Lives
Building	31 1/2 years
Operating equipment	3 - 10 years
Software development	15 years

At December 31, 1997, software development represents costs incurred as part of the Member Services Processing System (MSPS). MSPS was placed into use in 1998.

E. 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 $56,085 and $43,762 for 1998 and 1997, 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. No funds were drawn on the line as of December 31, 1998 or 1997.

F. Income Taxes. AJCA is exempt from Federal taxes on ncome under Section 501(c)(5) of the Internal Revenue Code, except for income derived from unrelated business activities, as defined in the Code. For 1998 and 1997 these activities include primarily magazine advertising. Costs associated with this activity are in excess of revenues.

G. 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.

H Organization Costs. The Association has capitalized certain costs associated with the reincorporation of the Association. These costs are being amortized over a five year period utilizing the straight-line method. Amortization expense was $9,559 in 1998 and 1997.

I. Deferred Costs. The Association has capitalized certain costs, amounting to $40,218 and $75,150 in 1998 and 1997, respectively, associated with the development of a long term strategic information system plan and a business re-engineering project. These costs are being amortized over a five year period utilizing the straight-line method. Amortization expense amounted to $30,655 in 1998 and $22,611 in 1997.

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

K. Investments. The Association utilizes Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets. See Note 10 for further discussion with respect to investments.

Note 2. Functional Expenses

The Association's operating expenses by functional classification for 1998 and 1997 are as follows:

	1998	1997
Records	$ 308,246	$ 301,518
Data Processing	190,561	171,015
Performance	319,941	338,176
Jersey Journal	335,798	340,731
Information	67,671	113,193
Field	378,187	343,463
All American Show and Sale	91,310	75,680
Accounting, Administration and General	295,851	321,666
Total cost of operations	$1,987,565	$2,005,442

Note 3. Investments Restricted for Deferred Compensation

AJCA has entered into deferred compensation plans with two former executives. The cost is being provided by annual charges to operations, net of investment income earned by an investment trust established to fund the plans. At December 31, 1998 and 1997, the balances in the trust, at fair market value, are $18,741 and $27,793, respectively. The cost of the plans is shared by National All-Jersey Inc. and American Jersey Cattle Association.

AJCA's net share of the cost is included in the caption "Salaries, service, and administrative" on the accompanying Statements of Activities and Changes in Net Assets.

Note 4. Pension Plans

AJCA and National All-Jersey Inc. and Subsidiary have a non-contributory defined benefit pension plan covering substantially all employees 21 years of age or older, who have been employed for one year with at least 1,000 hours of service.

AJCA's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits payable to plan participants. The plan assets are stated at fair value and primarily consist of bond and stock funds. The 1998 pension report is not complete. Therefore, for purposes of reporting and recording pension information, AJCA and National All-Jersey Inc. and Subsidiary are utilizing the projected 1998 information contained in the pension report as of December 31, 1997. At December 31, 1998, the pension administrator reported a requirement for an accrued pension liability of $133,029 and as a result, AJCA and NAJ and Subsidiary have adjusted their financial statements at December 31, 1998 to reflect this liability resulting in pension expense of $31,534 for 1998. In 1997, the entities recorded pension expense of $31,738. AJCA's portion of pension expense amounted to $25,870 and $26,395, respectively for 1998 and 1997, which includes amortization of past service costs over 30 years.

The projected status of accumulated plan benefits for the combined entities as of December 31, 1998 is as follows:

Net periodic pension cost for 1998 includes the following components:

Service cost - benefits earned during the period	$61,832
Interest cost on projected benefit obligation	67,261
Expected return on assets	(90,599)
Net amortization and deferral	(6,960)
Net periodic pension cost for the plan	31,534
Less net periodic pension cost of NAJ and Subsidiary	(5,664)
Net periodic pension cost	$25,870

Assumptions used in the accounting as of December 31, 1998 were:

Discount rate	7.5%
Rate of increase in compensation levels	5.5%
Long-term rate of return	9.0%

The following table sets forth the plan's funded status and amounts recognized in AJCA's Statement of Financial Position at December 31, 1998 for its pension plan.

Actuarial present value of benefit obligation:

Vested benefit obligation	$ 735,214
Accumulated benefit obligation	$ 778,949
Projected benefit obligation	$1,025,905
Plan assets at fair value	(1,097,249)
Plan assets in excess of projected benefit obligation	(71,344)
Unrecognized net asset at transition	22,988
Unrecognized net gain	181,385
Accrued pension obligation for the plan	133,029
Less accrued pension obligation of NAJ and Subsidiary	(23,314)
Accrued pension obligation	$ 109,715

During 1997, the Association established a 401(k) profit sharing plan covering substantially all employees. The plan allows for discretionary contributions to be made by the Association as determined annually by the Board of Directors. Contributions for 1998 and 1997 amounted to $10,021 and $9,890, espectively.

Note 5. Operating Lease

AJCA is obligated under certain lease agreements, for office equipment, which are classified as operating leases. Minimum future payments under the leases are as follows:

Year Ending December 31	Amount
1999	$18,672
2000	14,540
2001	4,184
	$37,396

Lease expense for 1998 and 1997 amounted to $14,488 and $14,730, respectively.

Note 6. Designation of Net Assets

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

	1998	1997
Building - established with original proceeds from sale of former operating facility; invested in securities and used as collateral for building loan (see Notes 7 and 10)	$1,027,756	$ 983,845
Gene McCain - injured employee family relief fund established by Board of Directors in 1987; all disbursements require Board approval	—	—
Computer capital - established in 1987 to reduce impact of possible future computer system obsolescence	9,524	41,891
Research and development - 50% of American Jersey Cattle Association's excess of revenues over cost of operations after preceding appropriations - established in 1987	79,383	79,383
	$1,116,663	$1,105,119

In 1997, expenditures of $1,300 were paid from the Gene McCain net assets. In 1997, Gene McCain passed away and the designated net assets remaining were transferred to the undesignated net assets. In 1998 and 1997, $32,367 and $12,654, respectively, was paid from the computer capital net assets for interest expense on a capital lease for computer equipment and on long-term debt for the financing of software. These expenditures are from amounts designated in previous years.

Note 7. Long-Term Debt

Liability for long-term debt on the 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.

AJCA's share consists of a fifteen year variable rate note, amounting to $108,793 and $135,149 at December 31, 1998 and 1997, respectively, with fixed principal payments which total $26,357 annually. Interest is equal to prime (7.75% and 8.5% at December 31, 1998 and 1997, respectively). Final payment is due November 2003. The note is collateralized by the building and AJCA's investment securities obtained from the proceeds of the sale of a former operating facility (see Notes 6 and 10).

Long-term debt was obtained in the amount of $441,000, for financing of the development of computer software. At December 31, 1998, the note has an outstanding balance of $431,136. At December 31, 1997, $300,000 was drawn on the note. 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 $366,466 and $255,000 at December 31, 1998 and 1997, respectively, with monthly payments of $3,685 due including interest at 8.35%. Interest is fixed at 8.35% through June 2008 at which time interest will be at a variable rate equal to the Treasury Securities Rate plus 3.25% until maturity.

Final payment is due July 2013. The mortgage is collateralized by the building and the building fund investments (see Note 10).

During 1995, AJCA incurred a note payable for a telephone system, with an original amount of $28,500 and amounts to $-0- and $6,334 at December 31, 1998 and 1997, respectively. Principal and interest at 8.75% were due monthly. Final payment was made July 1998. The note was collateralized by accounts receivable, equipment and investments.

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

Year Ending December 31	Amount
1999	$ 40,544
2000	41,775
2001	43,113
2002	44,567
2003	23,155
Thereafter	282,104
	$475,258

Note 8. Capital Lease Obligation

During 1994, AJCA incurred a note payable for computer equipment that management converted to a capital lease in 1995. The capital lease obligation requires monthly payments of $1,737, including interest at 10.895% through April 2000. The equipment is included in property and equipment at a cost of $80,583 less accumulated depreciation of $69,168 at December 31, 1998.

Payments required are summarized as follows:

Year Ending December 31	Amount
1999	$20,848
2000	3,915
	24,763
Less amount representing interest	2,033
	22,730
Current portion	18,970
	$3,760

Notes continued on following page.

Note 9. Line of Credit

At December 31, 1998, the Association has available a $100,000, due on demand, line of credit with interest payable monthly at prime. The line is collateralized by the investment securities obtained from proceeds of the sale of a former operating facility (Notes 6 and 10). No funds were drawn on the line as of December 31, 1998 or 1997.

Note 10. Investments

Investment securities are carried at fair market value, based on market quotes, at December 31, 1998 and 1997 and are composed of the following:

	1998		1997	
	Cost	Fair Value	Cost	Fair Value
Investments included in:				
Current assets:				
Cash	$ 13,504	$ 13,504	$ 12,761	$ 12,761
Monitor funds	62,880	64,288	104,441	105,619
Government securities	24,896	26,296	41,352	43,923
Corporate stocks	89,206	135,030	156,685	214,640
	190,486	239,118	315,239	376,943
Building fund:				
Cash	67,722	67,722	40,668	40,668
Monitor funds	308,000	315,918	308,000	312,498
Government securities	84,854	89,803	84,854	89,295
Corporate stocks	348,273	528,696	372,069	515,345
Corporate bonds	24,375	25,617	24,375	26,039
	833,224	1,027,756	829,966	983,845
	$1,023,710	$1,266,874	$1,145,205	$1,360,788

Investment income for 1998 and 1997 consists of the following:

	1998	1997
Interest and dividend income	$ 73,580	$ 54,278
Net realized gain on sale of investments	5,885	191,473
Net unrealized gain (loss) on investments	27,581	(39,597)
	$107,046	$206,154

National All-Jersey Inc. and Subsidiary
Independent Auditors' Report

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

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of National All-Jersey Inc. and Subsidiary as of December 31, 1998 and 1997, 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National All-Jersey Inc. and Subsidiary as of December 31, 1998 and 1997, and the changes in their consolidated net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Hausser + Taylor LLP
Columbus, Ohio
March 10, 1999

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 1998 and 1997

ASSETS	1998	1997
CURRENT ASSETS		
Cash and cash equivalents	$ 311,099	$ 208,670
Custodial cash	71,209	196,000
Investments (Note 10)	530,027	407,070
Accounts receivable, net of allowance for doubtful accounts of $66,500 and $16,500 in 1998 and 1997, respectively	146,368	253,575
Advances due from American Jersey Cattle Association	—	128,571
Recoverable income taxes (Note 8)	—	12,603
Interest receivable	2,146	1,379
Inventories, at cost	3,700	32,311
Deferred income taxes (Note 8)	12,400	2,500
Prepaid expenses	—	499
Total current assets	1,076,949	1,243,178
PROPERTY AND EQUIPMENT, AT COST (Note 7)		
Land	12,000	12,000
Building	75,717	75,717
Software development	74,470	45,000
	162,187	132,717
Less accumulated depreciation	26,478	21,591
	135,709	111,126
OTHER ASSETS		
Investments restricted for deferred compensation plans (Note 3)	8,429	10,775
	8,429	10,775
	$1,221,087	$1,365,079

LIABILITIES AND NET ASSETS	1998	1997
CURRENT LIABILITIES		
Current portion of long-term debt (Note 7)	$ 7,155	$ 8,651
Current portion of deferred compensation plans (Note 3)	1,987	2,428
Accounts payable	2,563	3,337
Advances due to American Jersey Cattle Association	163,339	75,072
Fees due consignors	249,842	551,927
Accrued expenses	16,620	13,108
Accrued income taxes (Note 8)	7,800	—
Advances and reserves for advertising (Note 4)	31,650	30,395
Deferred income	8,457	5,064
Total current liabilities	489,413	689,982
NONCURRENT LIABILITIES		
Accrued pension obligation (Note 6)	23,314	17,650
Long-term debt (Note 7)	83,869	68,850
Deferred compensation plans (Note 3)	12,112	12,655
	119,295	99,155
Less current portion	9,142	11,079
	110,153	88,076
Total liabilities	599,566	778,058
NET ASSETS		
Unrestricted:		
Designated (Note 5)	63,355	60,554
Undesignated	558,166	526,467
Total net assets	621,521	587,021
	$1,221,087	$ 1,365,079

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 1998 and 1997

	1998	1997
REVENUES		
All-Jersey fees	$ 4,242	$ 5,441
Equity project fees	290,220	274,818
Commissions	362,363	191,319
Investment income (Note 10)	62,720	91,756
Other	13,810	17,443
Total revenues	733,355	580,777
COST OF OPERATIONS (Note 2)		
Salaries	255,397	232,360
Supplies, service, and administration	332,839	300,046
Field services	34,087	24,719
Bad debt expense	49,825	15,397
Depreciation	4,887	2,406
Interest	6,888	3,508
Total costs of operations	683,923	578,436
INCREASE IN NET ASSETS BEFORE INCOME TAXES AND EXPENDITURES FROM DESIGNATED NET ASSETS	49,432	2,341
INCOME TAX EXPENSE (BENEFIT) (Note 8)	1,562	(11,550)
INCREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	47,870	13,891
EXPENDITURES FROM DESIGNATED NET ASSETS (Note 5)		
Research and Development Fund	13,370	—
Total expenditures from designated net assets	13,370	—
INCREASE IN NET ASSETS	34,500	13,891
NET ASSETS - Beginning of year	587,021	573,130
NET ASSETS - End of year	$621,521	$587,021

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 1998 and 1997 include reimbursements of $56,085 and $43,762, respectively, paid to the Association for these jointly incurred costs.

G. Property and Equipment. The Company provides for depreciation in amounts adequate to amortize cost over the estimated useful lives of the assets, utilizing the straight-line method, generally as follows:

Class of Assets	Estimated Useful Lives
Building	31 1/2 years
Software development	15 years

At December 31, 1997, software development represents costs incurred as part of the Member Services Processing System (MSPS). MSPS was placed into use in 1998.

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 although sales to foreign buyers have increased each year. The Company minimizes credit risk with these 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 generally accepted accounting principles 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. During 1997, the Company arranged a sale of cattle to Brazil. The sale was made in Brazil's currency (Real). At December 31, 1997, accounts receivable from the sale amounts to approximately $104,000 based on an exchange rate of Brazil Real's of 1.15 to United States $1.00. At December 31, 1998 and 1997, an allowance for doubtful accounts of $60,000 and $10,000, respectively, has been recorded for the receivable. Management continues to pursue collections of the receivable.

M. Investments. The Company utilizes Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Consolidated Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets. See Note 10 for further discussion with respect to investments.

Note 2. Functional Expenses

The Company's operating expenses by functional classifications for 1998 and 1997 are as follows:

	1998	1997
National All-Jersey Equity program	$ 248,918	$ 234,573
Accounting, administration, general and field service	106,188	89,192
All-Jersey Sales (JMS)	328,817	254,671
Total cost of operations	$ 683,923	$ 578,436

Note 3. Investments Restricted for Deferred Compensation

National All-Jersey Inc. has entered into a deferred compensation plan with a former executive. The cost is being provided by annual charges to operations, net of investment income earned by an investment trust established to fund the plan. At December 31, 1998 and 1997, the balances in the trust at fair market value are $8,429 and $10,775, respectively. The cost of the plan is shared by National All-Jersey Inc. and American Jersey Cattle Association.

NAJ's net share of the cost is included in the caption "Supplies, service, and administration" on the accompanying Consolidated Statements of Activities and Changes in Net Assets.

Note 4. Advances and Reserves for Advertising

	December 31, 1998	December 31, 1997
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	$31,650	$30,395

Note 5. Designation of Net Assets

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

	December 31, 1998	December 31, 1997
Research and development: Approximately 2.5% of annual gross revenues and 50% of National All-Jersey excess revenues over cost of operations after 2.5% appropriation	$63,355	$ 60,554

In 1998, $13,370 was paid from the research and development net assets.

Note 6. Pension Plans

The Company and Subsidiary and American Jersey Cattle Association have a defined benefit pension plan covering substantially all employees 21 years of age or older, who have been employed for one year with at least 1,000 hours of service. The Company's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits payable to plan participants. The plan assets are stated at fair value and primarily consist of bond and stock funds. The 1998 pension report is not complete. Therefore, for purposes of reporting and recording pension information, the Company and Subsidiary and American Jersey Cattle Association are utilizing the projected 1998 information contained in the pension report as of December 31, 1997. At December 31, 1998, the pension administrator reported a requirement for an accrued pension liability of $133,029 and, as a result, the Company and Subsidiary and American Jersey Cattle Association have adjusted their financial statements at December 31, 1997 to reflect this liability resulting in pension expense of $31,534 for 1998. In 1997, the entities recorded pension expense of $31,738. The Company's portion of pension expense amounts to $5,664 and $5,343, respectively for 1998 and 1997, which includes amortization of past service costs over 30 years.

The projected status of accumulated plan benefits for the combined entities as of December 31, 1998 is as follows:

Net periodic pension cost for 1998 includes the following components:

Service cost - benefits earned during the period	$ 61,832
Interest cost on projected benefit obligation	67,261
Expected return on assets	(90,599)
Net amortization and deferral	(6,960)
Net periodic pension cost for the plan	31,534
Less net periodic pension cost of AJCA	(25,870)
Net period pension cost	$ 5,664

Assumptions used in the accounting as of December 31, 1998 were:

Discount rate	7.5%
Rate of increase in compensation levels	5.5%
Long-term rate of return	9.0%

The following table sets forth the plan's funded status and amounts recognized in the Company's Statement of Financial Position at December 31, 1998 for its pension plan.

Actuarial present value of benefit obligation:	
Vested benefit obligation	$ 735,214
Accumulated benefit obligation	$ 778,949
Projected benefit obligation	$ 1,025,905
Plan assets at fair value	(1,097,249)
Plan assets in excess of projected benefit obligation	(71,344)
Unrecognized net asset at transition	22,988
Unrecognized net gain	181,385
Accrued pension obligation for the plan	133,029
Less accrued pension obligation of AJCA	(109,715)
Accrued pension obligation	$ 23,314

During 1997, the Company established a 401(k) profit sharing plan covering substantially all employees. The plan allows for discretionary contributions to be made by the Company, as determined annually by the Board of Directors. Contributions for 1998 and 1997 amounted to $3,449 and $3,063, respectively.

Note 7. Long-Term Debt

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

The Company's share consists of a fifteen year variable rate note, amounting to $19,199 and $23,850 at December 31, 1998 and 1997, respectively, with fixed principal payments which total $4,651 annually. Interest is equal to prime (7.75% and 8.5% at December 31, 1998 and 1997, respectively). Final payment is due November, 2003. The note is collateralized by the building and American Jersey Cattle Association's investment securities obtained from the proceeds of the sale of a former operatingfacility.

Long-term debt was obtained in the amount of $441,000 for the financing of the development of computer software. At December 31, 1998, the note has an outstanding balance of $431,136. At December 31, 1997, $300,000 was drawn on the note. 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 $64,670 and $45,000 at December 31, 1998 and 1999, respectively, with monthly payments of $651 due including interest at 8.35%. Interest is fixed at 8.35% through June 2008 at which time interest will be at a variable rate equal to the Treasury Securities Rate plus 3.25% until maturity. Final payment is due July 2013. The long-term debt is collateralized by the building and AJCA's investment securities obtained from the proceeds of the sale of a former operating facility.

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

Year Ending December 31,	Amount
1999	$ 7,155
2000	7,371
2001	7,607
2002	7,865
2003	4,086
Thereafter	49,785
	$ 83,869

Note 8. Income Taxes

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. At December 31, 1998 and 1997, the deferred tax asset results from the allowance for doubtful accounts.

Recoverable income taxes at December 31, 1997 primarily represents a recovery of the federal income taxes paid in prior years as a result of the carryback of the current year taxable loss. Accrued income taxes at December 31, 1998 represent federal income taxes due for 1998.

The provision (benefit) for income taxes for the years ended December 31, 1998 and 1997 consists of the following:

	1998		
	Federal	State and Local	Total
Current	$ 10,200	$ 1,262	$ 11,462
Deferred	(8,800)	(1,100)	(9,900)
	$ 1,400	$ 162	$ 1,562

	1997		
	Federal	State and Local	Total
Current	$ (9,800)	$ —	$ (9,800)
Deferred	(1,750)	—	(1,750)
	$ (11,550)	$ —	$ (11,550)

Note 9. Line of Credit

The Company has available a $175,000, due on demand, line of credit with interest payable monthly at prime at December 31, 1998. The line is collateralized by investment securities held by American Jersey Cattle Association. No funds were drawn on the line at December 31, 1998 or 1997.

Note 10. Investments

Investment securities are carried at fair value, based on market quotes at December 31, 1998 and 1997 and are composed of the following:

	1998		1997	
	Cost	Fair Value	Cost	Fair Value
Cash	$ 48,824	$ 48,824	$ 14,730	$ 14,730
Monitor funds	144,785	148,002	147,512	148,886
Government securities	49,935	52,743	33,479	35,561
Corporate stocks	188,353	280,458	152,189	207,893
	$431,897	$ 530,027	$ 347,910	$ 407,070

Investment income for 1998 and 1997 consists of the following:

	1998	1997
Interest and dividend income	$ 13,292	$ 32,747
Net realized gain on sale of investments	10,458	69,760
Net unrealized gain (loss) on investments	38,970	(10,751)
	$ 62,720	$ 91,756

Add value to your Jerseys through the programs and services of the Jersey organizations.

Jersey herd owners can now go to the Internet for their information from the American Jersey Cattle Association. Services introduced in early 1999 at *InfoJersey.com* include online recording of registrations and transfers, plus real-time, up-to-date compilation of Official Performance Pedigrees. An online directory of breeders is located at *JerseyDirectory.com,* with news and general information on the Jersey organizations available from *USJersey.com*. Internet services are available 24 hours every day and worldwide.

For registrations, performance programs, and support of specialized milk marketing work by National All-Jersey Inc., turn to REAP. It provides these services—and more—in one package for less than you would pay by enrolling in each separately.

While there are many reasons to use REAP, the main benefit mentioned by most herd owners is that REAP increases their profits and allows them to build profit potential. A conservative analysis shows that for each dollar invested in REAP, over $5 can be returned in economic benefit through the combination of:

Increased production. Herds participating in AJCA performance programs have almost a $100 income advantage per cow than non-performance based herds. Herd owners can make better breeding, culling, and merchandising decisions with the genetic, production and functional type appraisal information provided on a regular schedule.

Increased value of cattle sold for dairy purposes. Cattle sales are a significant source of income for most Jersey herd owners, and buyers pay more for animals with documented parentage. One study based upon Jersey Marketing Service sales found that fully registered animals commanded $220 more per head compared to grades or OAs and PRs in Genetic Recovery. That price differential appears to be widening based upon sales occurring in the first half of 1999. Having production and type information only adds to the increase in sale value.

Planning for future dispersal. Every herd will be sold some day, whether by private treaty or public auction. A 100-cow herd will probably have 100 heifers to sell also, and at an estimated additional value of $220 per head, the total herd value is increased by $44,000.

Reduced inbreeding. The Jersey Mating Program is one of those added benefits of REAP. Several owners using the program over several years have achieved average inbreeding levels of 3%, substantially lower than the national average of 6%. It has been estimated that each 1% inbreeding results in a 50-lb. reduction in milk production. Higher levels of inbreeding are also associated with increased calf mortality and reduced fertility.

Accidental death insurance. The AJCA is regularly asked to value, for insurance purposes, animals that have died accidentally. If the animal and its maternal family have been registered, type appraised and have production records on file, the staff can appraise the animal for a higher value simply because the necessary information is available.

Equitable markets for Jersey milk. For more than 20 years, Jersey milk has been more correctly valued because of National All-Jersey's Equity program. REAP herd owners also provide funding for this fundamental form of market insurance.

Investigate the opportunities for adding value to your herd through REAP.

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