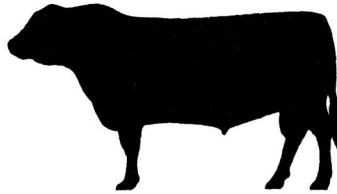


American Angus Association

September 30, 1985 and 1984



Financial Statements and Auditors' Report

BALANCE SHEETS September 30,

	1985	1984
ASSETS		
CURRENT ASSETS		
Cash and cash investments (including certificates of deposit of \$425,000 in 1984)	\$ 204,234	\$ 578,746
Accounts receivable	101,290	56,455
Accrued interest receivable	54,116	66,920
Prepaid expenses and other current assets	70,134	65,444
Total current assets	429,774	767,565
INVESTMENTS		
United States Government and Agency securities— at cost (quoted market value \$1,923,860 in 1985 and \$1,987,348 in 1984)	1,899,066	1,999,799
Investment in and advances to unconsolidated subsidiary (notes A1 and B)	353,659	335,692
	2,252,725	2,335,491
PROPERTY AND EQUIPMENT—at cost		
Buildings and land improvements	739,436	739,436
Furniture, fixtures and equipment	388,103	376,525
Electronic data processing equipment	701,716	599,156
	1,829,255	1,715,117
Less accumulated depreciation (note A2)	937,524	1,222,740
	891,731	492,377
OTHER ASSETS		
Record and herd books—at nominal value	2	2
	\$3,574,232	\$3,595,435
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 146,846	\$ 131,865
Accrued expenses	59,475	52,685
Current maturities of deferred compensation (note D)	-	3,903
Deferred annual dues	44,430	37,230
Total current liabilities	250,751	225,683
CONTINGENCY		
(note E)	-	-
TECHNICAL BREED IMPROVEMENT FUND		
(note A3)	41,843	57,002
NET EQUITY	3,281,638	3,312,750
	\$3,574,232	\$3,595,435

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND NET EQUITY Year ended September 30,

	1985	1984
REVENUES		
Registrations	\$1,522,915	\$1,596,875
Transfers	458,948	475,789
Artificial insemination certificates	428,870	477,970
Investment income	244,177	280,631
Memberships	95,570	76,985
Breed improvement	112,380	114,879
Certified Angus Beef	471,184	266,924
Other	150,696	123,281
	3,484,740	3,413,334
EXPENSES		
Office services	397,447	506,244
Breed improvement	112,554	122,726
Field services	321,086	327,506
Public relations	766,744	783,737
Certified Angus Beef	421,914	226,756
Activities	259,514	293,166
General	544,135	539,899
Administrative	699,172	671,518
	3,522,566	3,471,552
Deficiency of revenues over expenses before equity in net earnings of unconsolidated subsidiary	(37,826)	(58,218)
Equity in net earnings of unconsolidated subsidiary	6,714	32,286
DEFICIENCY OF REVENUES OVER EXPENSES	(31,112)	(25,932)
Net equity at beginning of year	3,312,750	3,338,682
Net equity at end of year	\$3,281,638	\$3,312,750

The accompanying notes are an integral part of these statements.

STATEMENTS OF TECHNICAL BREED IMPROVEMENT FUND Year ended September 30,

	1985	1984
Fund balance at beginning of year	\$57,002	\$75,000
Provision for the year	-	-
Costs of technical breed improvement programs	(15,159)	(17,998)
Fund balance at end of year	\$41,843	\$57,002

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Year ended September 30,

	1985	1984
SOURCES OF WORKING CAPITAL		
From operations		
Deficiency of revenues over expenses	\$ (31,112)	\$ (25,932)
Charges (credits) to operations not using (providing) working capital		
Depreciation	127,508	191,029
Equity in earnings of unconsolidated subsidiary	(6,714)	(32,286)
Gain on sale of equipment	(408)	(7,694)
Working capital provided from operations	89,274	125,117
Proceeds from sale of securities	2,599,613	2,199,309
Proceeds on sale of equipment	20,273	8,011
Decrease in investment in and advances to unconsolidated subsidiary	-	70,400
Other	881	-
	<u>2,710,041</u>	<u>2,402,837</u>
APPLICATIONS OF WORKING CAPITAL		
Purchases of securities	2,499,761	1,997,837
Additions to property and equipment	546,727	72,844
Decrease in Technical Breed Improvement Fund	15,159	17,998
Increase in investment in and advances to unconsolidated subsidiary	11,253	-
Other	-	4,433
	<u>3,072,900</u>	<u>2,093,112</u>
INCREASE (DECREASE) IN WORKING CAPITAL		
Working capital at beginning of year	541,882	232,157
Working capital at end of year	<u>\$ 179,023</u>	<u>\$ 541,882</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets		
Cash and cash investments	\$ (374,512)	\$ 365,948
Accounts receivable	44,835	18,481
Accrued interest receivable	(12,804)	14,917
Prepaid expenses and other current assets	4,690	(65,810)
	<u>(337,791)</u>	<u>333,536</u>
(Increase) decrease in current liabilities		
Accounts payable	(14,981)	6,491
Accrued expenses	(6,790)	(31,255)
Current maturities of deferred compensation	3,903	8,203
Deferred annual dues	(7,200)	(7,250)
	<u>(25,068)</u>	<u>(23,811)</u>
INCREASE (DECREASE) IN WORKING CAPITAL		
Working capital at beginning of year	541,882	232,157
Working capital at end of year	<u>\$ 179,023</u>	<u>\$ 541,882</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 1985 and 1984

NOTE A—SUMMARY OF ACCOUNTING POLICIES

A summary of the Association's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Investment

The investment in the unconsolidated subsidiary is accounted for using the equity method (note B).

2. Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on the straight-line method.

3. Technical Breed Improvement Fund

A fund was established September 30, 1961, to defray the costs of continuing technical breed improvement programs. A provision of 25% of the excess of revenues over expenses of the Association is credited annually to the fund. The fund balance cannot exceed \$75,000.

4. Pension Plan

The Association has a noncontributory pension plan covering substantially all employees. The Association's policy is to fund pension costs accrued. Prior service costs are being amortized over a forty-year period (note C).

5. Income Taxes

The Association is an "exempt organization" and is required to pay income taxes only on any unrelated business income. There is no tax liability for the years ended September 30, 1985 and 1984.

The Internal Revenue Service has examined the federal income tax returns for the year ended September 30, 1980, and reported that the federal tax-exempt status continues.

NOTE B—INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARY

The Association formed a wholly-owned subsidiary, Angus Productions, Inc. (API) for the purpose of publishing a monthly journal for the Angus industry and engaging in other business activities. API acquired certain assets of Aberdeen Angus Journal and began publication with the July 1979 issue.

The Association's investment consists of the following:

	1985	1984
Capital stock	\$100,000	\$100,000
8% note receivable, due May 18, 1988	-	35,150
Advances	<u>146,003</u>	<u>99,600</u>
	246,003	234,750
Add API accumulated earnings	<u>107,656</u>	<u>100,942</u>
	<u>\$353,659</u>	<u>\$335,692</u>

The Association furnishes operating facilities and management services to API. During the years ended September 30, 1985 and 1984, the Association earned the following income from services rendered to API:

	1985	1984
Managerial fees	\$ 39,600	\$39,600
Office rent	24,000	24,000
Data processing service	9,425	9,344
Interest	13,462	11,392
Automobile rent	29,354	-
	<u>\$115,841</u>	<u>\$84,336</u>

The Association pays API for the monthly journal for its members. These payments were \$158,770 and \$180,856 for 1985 and 1984, respectively.

NOTE C—PENSION PLAN

The Association and its wholly-owned subsidiary have a pension plan covering substantially all of their employees. The Association's pension plan expense was \$68,050 and \$59,329 in 1985 and 1984, which includes amortization of past service costs of \$13,342 and \$13,415, respectively. The Association makes annual contributions to the plan equal to the amount accrued for its portion of the total pension expense. A comparison of accumulated benefits and net assets of the total plan is presented below at the actuarial valuation report date of the plan:

	1984	December 1, 1983
Actuarial present value of accumulated plan benefits:		
Vested	\$1,250,000	\$1,163,558
Non vested	26,000	22,260
	<u>\$1,276,000</u>	<u>\$1,185,818</u>
Net assets available for benefits	<u>\$1,799,381</u>	<u>\$1,649,876</u>

The 1984 actuarial present value of accumulated plan benefits has been estimated by the pension plan administrator.

Present values of plan benefits are determined by assuming an 8% annual rate of return.

NOTE D—DEFERRED COMPENSATION

The Association entered into deferred compensation arrangements with several terminated employees. The liability of \$3,903 at September 30, 1984, represented the remaining amount to be paid.

NOTE E—CONTINGENCY

The Association is the defendant in lawsuits which seek damages of approximately \$40 million. The plaintiffs allege that certain rules and policies of the Association are unreasonable and that these rules have caused damage to the plaintiffs. The lawsuits are in their initial stages and legal counsel is not in a position to make an evaluation of the claims. Management believes that the rules and policies of the Association are reasonable and that the cases will be settled in favor of the Association. Consequently, management believes that these cases will not have a significant adverse effect on the financial position of the Association.

Board of Directors
American Angus Association

We have examined the balance sheets of American Angus Association (a non-profit Illinois corporation) as of September 30, 1985 and 1984, and the related statements of operations and net equity, technical breed improvement fund, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of American Angus Association at September 30, 1985 and 1984, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ALEXANDER GRANT & COMPANY

Kansas City, Missouri
October 11, 1985

Angus Productions, Inc.

(a wholly-owned subsidiary of American Angus Association)

September 30, 1985 and 1984

Financial Statements and Auditors' Report

BALANCE SHEETS September 30,

ASSETS	1985	1984
CURRENT ASSETS		
Cash (including certificates of deposit of \$14,704 and \$24,995 in 1985 and 1984, respectively)	\$ 13,625	\$ 42,453
Investment in U. S. Government Securities—at cost which approximates market	74,936	-
Accounts receivable (note A1)	300,222	266,424
Inventories (note A2)	72,374	89,495
Prepaid expenses	23,882	19,914
Refundable income taxes (notes A4 and F)	6,717	-
Deferred taxes (notes A4)	3,200	6,400
Total current assets	494,956	424,686
EQUIPMENT—at cost		
Furniture and office equipment	110,136	104,490
Equipment held under capital lease (note E)	59,750	59,750
	169,886	163,240
Less accumulated depreciation and amortization (note A3)	114,804	84,780
	55,082	79,060
OTHER ASSETS (note A3)		
Excess of cost over net assets acquired (net of accumulated amortization of \$29,598 and \$24,925 in 1985 and 1984, respectively)	63,868	68,541
	<u>\$613,906</u>	<u>\$572,287</u>

LIABILITIES

CURRENT LIABILITIES		
Current maturities of capital lease obligation (note E)	\$ 17,542	\$ 14,003
Advances from parent company (note C)	146,003	99,600
Accounts payable—trade	113,550	58,869
Accrued liabilities	55,254	66,171
Deferred advertising income	26,236	19,935
Deferred subscription income	30,315	26,173
Income taxes (notes A4)	-	1,550
Deferred compensation (note D)	15,314	30,036
Total current liabilities	404,214	316,337
LONG-TERM OBLIGATIONS, less current maturities		
Note payable to parent company (note C)	-	35,450
Capital lease obligation (note E)	2,036	19,858
	2,036	55,008
COMMITMENT (note E)		
STOCKHOLDER'S EQUITY		
Common stock—authorized, issued, and outstanding, 500 shares of \$100 par value	50,000	50,000
Additional contributed capital	50,000	50,000
	100,000	100,000
Retained earnings	107,656	100,942
	207,656	200,942
	<u>\$613,906</u>	<u>\$572,287</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF EARNINGS AND RETAINED EARNINGS Year ended September 30,

	1985	1984
REVENUE		
Advertising	\$1,637,221	\$1,713,980
Subscriptions	195,609	215,604
Miscellaneous	39,757	27,490
Total revenue	1,872,587	1,957,074
EXPENSES		
Advertising	522,147	597,575
Editorial	43,636	55,404
Production	874,082	855,580
Circulation	107,511	118,241
Special services	3,981	-
General and administrative	312,017	289,317
Total expenses	1,863,374	1,916,117
Earnings before income taxes	9,213	40,957
Income taxes (notes A4)	(701)	12,071
Currently payable (refundable)	3,200	(3,400)
Deferred expense (benefit)	2,499	8,671
NET EARNINGS	6,714	32,286
Retained earnings at beginning of year	100,942	68,656
Retained earnings at end of year	<u>\$ 107,656</u>	<u>\$ 100,942</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION Year ended September 30,

	1985	1984
SOURCES OF WORKING CAPITAL		
From operations		
Net earnings for the year	\$ 6,714	\$ 32,286
Charges (credits) to operations not using (providing) working capital		
Depreciation and amortization (note A3)	34,742	37,655
Deferred compensation	-	(16,123)
Deferred income taxes	-	3,000
Other	(157)	219
Working capital provided from operations	41,299	57,037
APPLICATIONS OF WORKING CAPITAL		
Additions to equipment	6,214	14,580
Current maturities of long-term obligations	17,542	14,003
Other reductions of long-term obligations	35,150	40,000
	58,906	68,583
DECREASE IN WORKING CAPITAL	(17,607)	(11,546)
Working capital at beginning of year	108,349	119,895
Working capital at end of year	<u>\$ 90,742</u>	<u>\$108,349</u>

CHANGES IN COMPONENTS OF WORKING CAPITAL

Increase (decrease) in current assets		
Cash	\$(28,828)	\$(57,617)
Investments	74,936	-
Accounts receivable—net	33,798	37,848
Inventories	(17,121)	19,425
Prepaid expenses	3,968	(3,256)
Refundable income taxes	6,717	-
Deferred taxes	(3,200)	6,400
	<u>70,270</u>	<u>2,800</u>
(Increase) decrease in current liabilities		
Current maturities of capital lease obligation	(3,539)	(2,875)
Advances from parent company	(46,403)	30,400
Accounts payable—trade	(54,681)	5,792
Accrued liabilities	10,917	(21,462)
Deferred advertising income	(6,301)	(6,138)
Deferred subscription income	(4,142)	1,261
Income taxes	1,550	8,712
Deferred compensation	14,722	(30,036)
	<u>(87,877)</u>	<u>(14,346)</u>
DECREASE IN WORKING CAPITAL	<u>\$(17,607)</u>	<u>\$(11,546)</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 1985 and 1984

NOTE A—SUMMARY OF ACCOUNTING POLICIES

A summary of the company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Accounts Receivable

The company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

2. Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

3. Depreciation and Amortization

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets, including the capitalized lease obligation, to operations over their estimated service lives on a straight-line basis.

The excess of cost over net assets acquired is being amortized over 20 years.

4. Income Taxes and Investment Tax Credits

Investment tax credits are accounted for by the flow-through method which recognizes the credits as reductions of income tax expense in the year utilized.

Deferred tax benefits are recognized, when significant, on the accrual of deferred compensation obligations, for financial reporting purposes.

5. Pension Plan

The company has a noncontributory pension plan covering substantially all employees. The company's policy is to fund pension costs accrued. Prior service costs are being amortized over a forty-year period (note F).

NOTE B—TRANSACTIONS WITH PARENT COMPANY

The parent company furnishes operating facilities and management services to the company. During the years ended September 30, 1985 and 1984, the company incurred the following expenses from services rendered by its parent:

	1985	1984
Managerial fees	\$ 39,600	\$39,600
Office rent	24,000	24,000
Data processing service	9,425	9,344
Automobile rent	29,354	-
Interest expense	13,462	11,392
	<u>\$115,841</u>	<u>\$84,336</u>

The lease for office space is for a period of one year. All other agreements are on a month-to-month basis.

The parent company pays the company for the monthly journal for its members. This amounted to \$158,770 and \$180,856 in 1985 and 1984, respectively.

NOTE C—LOANS FROM PARENT COMPANY

The advances from the parent company represent amounts borrowed on a \$350,000 line of credit. The demand loan accrues interest at a rate equal to the prime rate charged by the First National Bank of St. Joseph, Missouri (11% at September 30, 1985). Interest is payable semiannually.

The note payable to parent company was for funds advanced in connection with the purchase of assets at the inception of the company. The note accrued interest at 8% and was paid in full on May 18, 1985.

Total interest expense was \$20,028 and \$20,837 in 1985 and 1984, respectively.

NOTE D—DEFERRED COMPENSATION

The company entered into a deferred compensation arrangement with an employee whereby commissions and salary increases were held by the company for investment at its discretion. The liability is funded on a current basis by the company utilizing the deferred earnings and any investment income earned. Approximately one-half of the liability was paid in January 1985, with the balance to be paid in January 1986.

NOTE E—CAPITAL LEASE OBLIGATION

The company leases equipment under a noncancellable lease classified as a capital lease. Accumulated depreciation as of September 30, 1985 and 1984, is \$42,741 and \$30,486, respectively.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 1985.

Year ending September 30,	Amount
1986	\$20,573
1987	2,036
Total minimum lease payments	22,609
Less amount representing interest	3,031
Present value of net minimum lease payments	19,578
Less current maturities	17,542
	<u>\$ 2,036</u>

NOTE F—PENSION PLAN

The company and its parent company have a pension plan covering substantially all of their employees. The company's pension plan expense was \$20,129 and \$17,122 in 1985 and 1984, which includes amortization of past service costs of \$3,946 and \$3,873, respectively.

The company makes annual contributions to the plan equal to the amount accrued for its portion of the total pension expense. A comparison of accumulated benefits and net assets of the total plan is presented below at the actuarial valuation report date of the plan.

	December 1, 1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	\$1,250,000	\$1,163,558
Non vested	26,000	22,260
	<u>\$1,276,000</u>	<u>\$1,185,818</u>
Net assets available for benefits	<u>\$1,799,381</u>	<u>\$1,649,876</u>

The 1984 actuarial present value of accumulated plan benefits has been estimated by the pension plan administrator.

Present values of plan benefits are determined by assuming an 8% annual rate of return.

Board of Directors

Angus Productions, Inc.

(a wholly-owned subsidiary of American Angus Association)

We have examined the balance sheets of Angus Productions, Inc. (an Illinois corporation and a wholly-owned subsidiary of American Angus Association) as of September 30, 1985 and 1984, and the related statements of earnings and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Angus Productions, Inc. at September 30, 1985 and 1984, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ALEXANDER GRANT & COMPANY

Kansas City, Missouri
October 11, 1985