

American Angus Association
2004 Annual Report

innovation • strength • progress • value

ANGUS

Changing dynamics. Constant ...

innovation

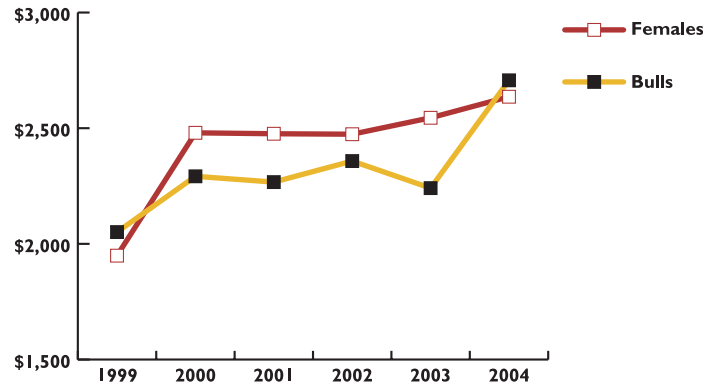
strength

progress

Executive Vice President's Report _____	2
Board of Directors _____	4
Information & Data Programs _____	5
Industry Relations _____	9
Angus Foundation _____	12

Angus Productions Inc. _____	14
Certified Angus Beef LLC _____	16
American Angus Auxiliary _____	18
Consolidated Financial Statements _____	19

Average price per head for Angus bulls and females, by year, as reported by American Angus Association staff



value

ANGUS

2004 — Perhaps no other year in recent industry history has embodied such an ironic mix of uncertainty and triumph. In the face of adversity, changing animal health policies, shifting disease concerns, identification debates and trade barriers, Angus breeders emerged from the year more resilient and in a stronger position to achieve Angus excellence in an evolving beef cattle landscape.

The American Angus Association adapted in 2004 to meet the changing needs of its members, transforming the way the business breed does business. Dynamics changed, innovative programs were introduced, and the status quo was challenged. The Association has remained strong and has helped enable members to be profitable, while maintaining the integrity of the breed and solidifying its position as the world's largest beef breed organization.

Today, despite challenge and adversity, market cycles and varying health issues, the name Angus represents the same ideals it has always symbolized — innovation, strength, progress and value.

The success of the breed is a testament to active Association members, all 35,096 of them. Uncertain times like those of the past year can be challenging, but they also provide proving grounds for the endurance and strength of a thriving breed.



Angus Resolve

The beef industry has always been in a perpetual state of change — changing technologies, changing genetics, changing standards. However, 2004 proved to be a year full of unprecedented change in all areas of the industry, from seedstock to retail. With events surrounding the first U.S. case of bovine spongiform encephalopathy (BSE) Dec. 23, 2003, came a time of uncertainty for the American cattleman. Regardless of initial fears, consumers kept their trust in the nation's beef supply, and the industry rebounded in amazing fashion. Efforts were hastened on development of a national animal identification plan, and additional regulations were implemented to ensure the safety of our beef products. Through it all, the economic value of Angus cattle in the marketplace increased.

This increase is largely due to the American Angus Association's renewed sense of commitment to adapt, to increase the use of Angus genetics and to strengthen consumer demand for high-quality beef through entities like Certified Angus Beef LLC (CAB).

Key to increasing Angus value is the Association's ability to be progressive, to create opportunities for members and to continue the quest for more consistent, more profitable seedstock, while basing change on solid values, good economics and sound science.

Innovation

This quest to create opportunities was emphasized in 2003. Members, staff and directors of the American Angus Association charged themselves with the responsibility to develop core strategies and to fine-tune the organization's mission statement. In 2004 the Association brought forth a plan of action to secure future strength by building a solid business structure and by focusing on the new plan.

One unique aspect of the current plan is the identification and adoption of five core strategies, which are:

- Achieve Angus excellence through information
- Increase beef demand with Angus equity
- Identify and implement relevant technologies
- Optimize resources
- Create opportunities

Strength

With these core strategies in mind, areas of Association responsibility were thoroughly examined, more clearly defined and grouped together based on function. This structure has enabled us to intensify our focus on the activities of each department and to coordinate goals more effectively.

The structural change includes the naming of three vice presidents, including Bill Bowman, vice president of information and data programs; Richard Wilson, vice president of finance; and Jim Shirley, vice president of industry relations.

During this transition, regional manager territories were also scrutinized. The Northern and Central Plains regions were realigned, with three territories expanded into four. This reconfiguration provides a more even distribution of breeder sales and other Angus events, creating more opportunities for regional manager and breeder interaction.

At the encouragement of the Board, the Association hired Milford Jenkins as director of development for the Angus Foundation and Kenny Miller as assistant director of the Finance Department.

Progress

Several means of implementing relevant technologies and optimizing resources have been adopted, including a program to

electronically store and transfer registration certificates. So far, 1,172 members have stored 25,103 certificates electronically. Further, more than 60,000 certificates were converted from paper to electronic storage during the grace period, which ended Sept. 30.

Electronic submission of data continues to increase as a result of refinements and additions to Angus Information Management Software (AIMS) and AAA Login. More than 50% of registrations and nearly two-thirds of artificial insemination (AI) service certificates were processed through AIMS and AAA Login.

The National Cattle Evaluation (NCE) also transitioned, going from a university setting to residing in-house with the help of talented Association staff who have put our database ahead of the class.

Another milestone was achieved with the creation of Dollar Value (\$Value) Indexes to assist commercial producers in genetic selection. These programs have been made interactive on the Internet, allowing producers to select seedstock for different scenarios.

Computer programs to allow the convergence of data from the Angus Herd Improvement Records (AHIR) program and the Beef Record Service (BRS) have been developed. These provide a more efficient method of receiving, processing, storing and analyzing the vast amounts of performance data handled by the Association on a daily basis.

Communication efforts are also an important focus of the renewed Association initiative. Outreach seminars were implemented to communicate key issues to Angus members. Web site communication was expanded through the Angus home page, and Association brochures and literature were reviewed. Redundant and outdated publications have been eliminated. New member packets have been updated, and

communication with new members has increased threefold.

The *Angus Beef Bulletin* has been expanded to six issues per year, partially financed with the diversion of Association advertising dollars, and with that comes increased editorial copy and educational articles. All of these have been accomplished to more effectively communicate with cattlemen.

Value

For years directors and staff alike have searched for ways to add value to a transferred performance registration certificate. One answer is AngusSource. This unique tagging program offers commercial producers marketing assistance by providing a vehicle for documenting source, management practices and genetics to potential buyers. A visual tag is offered, as well as a radio frequency identification (RFID) tag, both of which can be dovetailed into a future national animal identification program. Furthermore, these tags can only be worn by calves sired by registered Angus bulls.

Finally, Angus producers continue to offer what the beef cattle industry demands. A review of sale prices reported by regional managers revealed that registered Angus bulls are commanding an average price of \$466 per head more than last year. The desire for quality Angus genetics isn't tied to 2004 data alone. During recent years, Angus has become a stronghold in the marketplace.

The American Angus Association is dedicated to serving its membership, and the following pages of the Annual Report show how we have worked during the year to accomplish this goal.



Executive Vice President

Vice President Information & Data Programs

Member Services

Information Systems

Angus Information
Management Software

Performance Programs

Vice President Finance

Finance

Foundation Development

Vice President Industry Relations

Activities &
Junior Activities

Industry & Member
Communications

Commercial Programs

Regional Managers



Innovation at Work

Seventeen men and women dedicate themselves to the Association and its members by serving as Officers and Directors of the American Angus Association. Driven by their love for the Angus breed, they volunteer their time and effort to guide the Association through changing times and plan for its future. They meet regularly four times a year, and when needed.

The Board members work both as a single governing body and in committees. They also serve on the boards of Angus Productions Inc. (API), Certified Angus Beef LLC (CAB) and the Angus Foundation.

Directors are elected by state delegates at the Association's Annual Meeting each November.

As highlights of fiscal year 2004, the Board:

- approved sire progeny average ratios for scrotal circumference to be included on the Angus Herd Improvement Records (AHIR) "Sire Average Progeny Ratios and Production EPD" report, the performance registration certificate, and the Angus performance pedigree, and to include individual \$Values on both the performance registration certificate and pedigree
- approved capabilities for interactive \$Value Indexes for use through AAA Login
- approved allowing conversion of registrations from print to electronic storage at no cost between June 1 and Sept. 30
- voted not to participate in the National Beef Cattle Evaluation Consortium (NBCEC) proposed multi-breed genetic evaluation prototype
- approved the "Power of One" advertising campaign
- synchronized the ownership and entry deadlines of the preview and regional preview shows and the National Junior Angus Show (NJAS) and created 2-year-old and mature cow divisions in the NJAS cow-calf class
- expanded temperament data collection to include measurements on yearlings
- approved a cooperative marketing plan to reward auction markets for hosting AngusSource sales
- removed the maternal grandsire component of AngusSource, hence, only calves sired by registered Angus bulls can wear the tag
- voted to recommend adoption of a revised Charter and Bylaws at the Annual Meeting in November
- directed staff to create the first of several educational tutorials regarding fundamental aspects of beef production
- discontinued use of hip height measurements for frame score calculations on sale bulls at the National Western Stock Show (NWSS)



Strength in Numbers

The foundation of the American Angus Association rests on its ability to provide members unmatched service in the form of registrations, transfers, herd analyses and genetic predictions. Members have found strength in building a herd book and database that provide unequalled genetic evaluations and predictive ability.

The four major departments contributing to that effort were joined within the Information and Data Programs Division. As vice president, Bill Bowman oversees the division to ensure a coordinated effort in pursuing the Association's five core strategies (see page 2).

The Member Services Department processes registrations and transfers, oversees Association rules and regulations, conducts DNA typing, and assists members. The Performance Programs Department is responsible for processing Angus Herd Improvement Records (AHIR) and Beef Record Service (BRS) data, genetic research, and the National Cattle Evaluation (NCE) for the Angus breed. Providing the mechanics for these functions, the Information Services (IS) Department offers programming and technical support to maintain the herd book, run genetic evaluations and support the programs and services of the Association and Angus Productions Inc. (API). The Angus Information Management Software (AIMS) Department provides a software package to enable members to manage their herds and submit data electronically to the Association.

The Information and Data Programs Division continues its

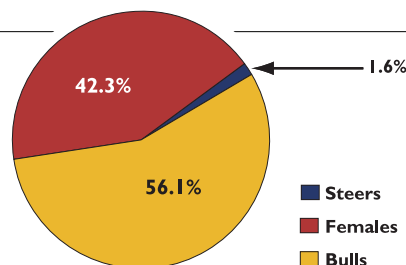
passion to provide the most accurate, reliable and economically relevant decision-making tools to the beef industry.

Record of business

The Association achieved yet another year of growth.

- In fiscal year 2004, 2,982 new regular members joined the Association, 13.6% more than in FY 2003, putting the Association's total active membership at 35,096 members. Included in that total are 10,406 active junior members. New junior memberships, at 1,384, were down 1.6%.
- At 298,770, registrations were up 6% compared to last year. Of those registrations, 28,054 were embryo transfer calves, a 10.4% increase from FY 2003.
- The Association processed 181,759 transfers, an increase of 9.5% compared to last year.
- The amount of AHIR data submitted continued to increase as members expanded their use of ultrasound to capture carcass merit information. In FY 2004, 2,779 herds collected ultrasound data on 108,640 head, marking an 11.1% increase in herds and a 13.2% increase in the number of animals scanned compared to FY 2003. Bulls accounted for 56.1% of the animals scanned; females, 42.3%; and steers, 1.6%.

Ultrasound, by animal type





Electronic storage of registrations

An option to electronically store and transfer registration certificates was made available to the membership in January. Members are taking advantage of the opportunity to minimize postage, ease transfer of ownership and reduce the paper shuffle.

- Since the program's inception, 1,172 members have requested electronic storage as the default option for registering their animals, and 25,103 new registrations have been stored electronically.
- The Association offered members the option of submitting paper registrations for conversion to electronic storage at no charge from June 1 to Sept. 30. Members took advantage of the opportunity, converting more than 60,000 registrations.
- Since January, 2,256 electronic transfers have been processed.

Performance programs

The Performance Programs Department has worked diligently to evaluate both existing and new genetic evaluation tools to determine which ones can be of economic benefit to producers, which are impractical and which ones need further research.

A milestone was reached in FY 2004 when the Association completed the transition of bringing the NCE in-house. This move secures the future of Angus genetic evaluation, while protecting the intellectual property contained in the database.

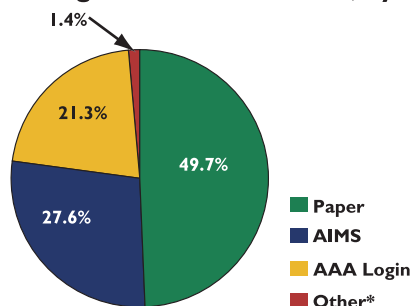
Having a director of genetic research on staff and IS support to conduct in-house evaluations allows a year-round focus on analyzing the current NCE and evaluating potential enhancements. Industry experts are called upon for peer review and validation of new formulas and methodologies used to constantly improve genetic evaluation.

In charge of its own destiny, this allows the Association to thoroughly evaluate and respond more quickly to producer needs for genetic decision-making tools, furthering producers' competitive edge.

Association introduces \$Values

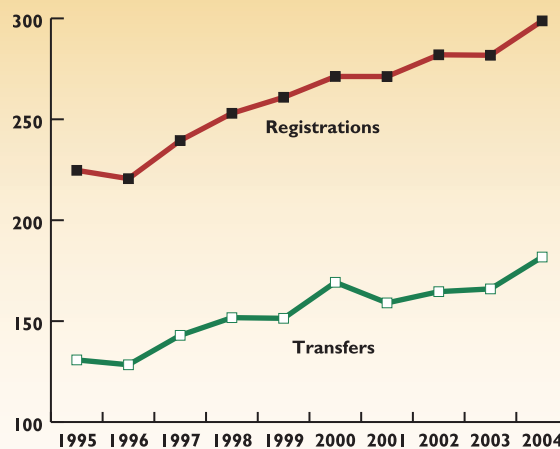
With the Spring 2004 NCE, the Association rolled out the first three Dollar Value (\$Value) Indexes in its suite of bioeconomic selection tools. Expressed in dollars per head, these indexes are intended to help simplify multi-trait comparisons, evaluating the trade-offs for producers based on real-world economics.

FY 2004 registration submissions, by type



*includes Excel spreadsheet files submitted by e-mail

Number of registrations and transfers (thousands)

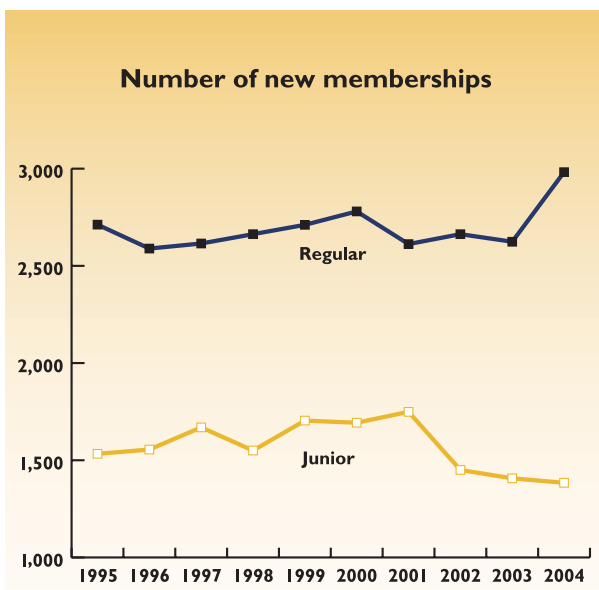


- Feedlot Value (\$F) is the expected difference in progeny performance through the feedlot stage. Key components of \$F are weaning weight and yearling weight expected progeny differences (EPDs) and the relationship between those two traits, as well as days on feed, ration cost and fed-market value.
- Grid Value (\$G) is the expected difference in carcass grid value of progeny sold on a typical industry grid. The index relies on carcass EPDs, ultrasound EPDs or both, as well as carcass and yield grade schedules of a typical industry grid.
- Beef Value (\$B) is a prediction of how future progeny are expected to differ in value in a terminal postweaning scenario, including feedlot and carcass value.
- In May, the Association introduced an interactive component to these \$Values as an educational module in AAA Login at www.angusonline.org. While the core \$Values are based on three-year rolling averages for key economic inputs, the interactive component allows producers to customize factors — such as the base price for fed cattle, carcass premiums and discounts, and feed costs — to suit a specific situation.

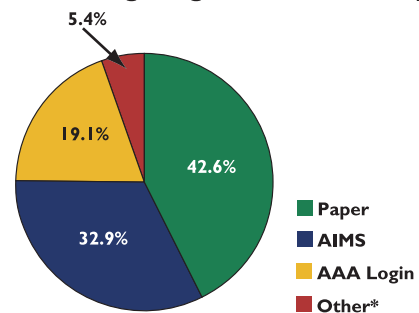
- The department also established the Weaned Calf Value (\$W), which will be introduced with the Spring 2005 NCE. \$W is designed to predict economic performance of Angus genetics by evaluating impact areas of birth weight, preweaning growth, milk production and mature size. Plans are to pursue an interactive version in summer 2005.

Other genetic evaluation enhancements

- Accuracy calculations were improved for birth weight, weaning weight, yearling weight, yearling height, milk and scrotal circumference. The more conservative accuracies will align more similarly to accuracies published for ultrasound.
- Embryo transfer calves were included for scrotal circumference and yearling height EPDs. The weaning/yearling weight model includes individual performance for embryo transfer calves out of registered Angus recipients only.
- Models to calculate mature size EPDs were enhanced, capturing repeated measures on individual females to calculate genetic predictions for mature weight and mature height.



FY 2004 weaning weight submissions, by type



*includes Excel spreadsheet files submitted by e-mail

- Sire progeny average ratios for scrotal circumference and yearling height were approved to be included on the AHIR “Sire Average Progeny Ratios and Production EPD” report, the performance registration certificate and the Angus performance pedigree.
- Other enhancements included the standardization of interim EPD calculations, development of breed-specific proprietary adjustment factors and standardization of procedures for herds/daughter/progeny counts.
- Work continues on a reproduction trait feasibility study and an interactive optimal milk module.
- Steps were taken to protect the proprietary information within the Angus database by adopting measures to prevent browsers from systematically downloading information.
- Forms and programming were adjusted to allow for means of external permanent markers for registrations other than tattoos, such as freeze brands and hot brands, and to allow for five-character tattoos.
- A system for electronic distribution of photos and press releases was established by the end of the fiscal year.

Data support

In addition to the programs discussed above, the IS and AIMS departments continue to provide system enhancements to make analyses more accessible and understandable and to increase the Association’s efficiency in providing services to members.

- Electronic submission of data continues to increase as a result of refinements and additions to AIMS and AAA Login. During the year 50.3% of registrations, 57.4% of weaning weights and 66.2% of yearling weights were submitted to the Association electronically. Nearly two-thirds (65.3%) of AI service certificates were processed electronically.
 - Computer programs to allow the convergence of AHIR and BRS data have been developed. These provide a more efficient method of receiving, processing, storing and analyzing vast amounts of performance data.
 - Many new features were added to AAA Login, including Microsoft® Excel spreadsheets for data entry, submission of breeding data, electronic transfers and DNA information.
 - Programming and implementation were completed for ordering radio frequency identification (RFID) tag sets and adding a “natural” program indicator for AngusSource.
- ### Modernizing the Charter, Bylaws and Rules
- Filed with the Illinois Secretary of State in November 1883, the Charter and Bylaws were granted to the “American Aberdeen-Angus Breeders’ Association” on Dec. 17, 1883. The current bylaws were revised in 1959 and have been amended 12 times by vote of the Convention of Delegates. These revisions and amendments were appropriate at the time. However, during the years they have been patched together in a manner in which their provisions are difficult to read and understand.
- The Member Services Committee dedicated itself to reviewing the Association’s Charter and Bylaws during FY 2004. At its September meeting, the Board of Directors of the American Angus Association approved the revision, which is subject to ratification by delegates to the Annual Meeting in Louisville, Ky., Nov. 15.
 - Concurrently, the committee has been applying the same revision process to reorganize and clarify Association rules. These rules have a parallel history to the bylaws, with multiple revisions and a drafting style that renders them difficult to locate and interpret. Final revisions will be submitted to the Board for approval in November.



Focus on Progress

Communication is the lifeline of a membership-driven organization like the American Angus Association, and it takes shape in many forms.

It's sharing with registered Angus breeders ways to use new Association tools to improve the marketability of Angus progeny.

It's providing information to Angus affiliates — commercial cattlemen using Angus genetics — allowing them to utilize AngusSource to capture the value of using transferred registered Angus bulls.

It's regional managers, out in the field, working with purebred breeders and Angus affiliates alike to share knowledge and to support increasing Angus demand.

It's about providing opportunities to some of the nation's highest-quality youth to grow into strong leaders for the beef industry as members of the National Junior Angus Association (NJAA).

The Association's efforts to communicate and to work with the membership and the industry took on new strength in fiscal year 2004. Actions were taken to better incorporate activities and junior activities, industry and member communications, commercial programs, and regional managers into a more uniform voice.

Following are highlights of Angus communications and industry relations efforts accomplished throughout the year.

Role changes

To better serve communications needs, roles were redefined with new and existing talent utilized in the office.

- Jim Shirley was brought in-house as vice president of industry relations and director of commercial programs after

serving nearly 20 years as regional manager for Minnesota, Nebraska and South Dakota.

- Shelia Stannard, who had served as assistant director of communications and public relations for nearly five years, became director of activity communications and event coordinator. She dedicates the majority of her time to coordinating and attending events and publishing results and Angus news.
- Sara Moyer joined the Angus staff in May as the director of industry and member communications. She has been charged with communicating the Angus message through programs and services the Association provides to both members and affiliates. She is also responsible for keeping Angus top of mind within the beef industry.

Direct to the consumer

Consumers of Angus genetics represent the nuts and bolts of the industry. They look toward seedstock suppliers for quality genetics and, many times, for services and marketing advantages. In 2004 the Association provided new avenues for purebred and commercial Angus producers to work together.

- In anticipation of advanced tracking and identification of livestock, the AngusSource program was updated to include a radio frequency identification (RFID) option in June. The RFID tag option is offered with the matched visual tag and can be purchased for \$3.25 per set, with a minimum 25-tag order.

- The Commercial Programs Department expanded its regular mailing of updated expected progeny differences (EPDs) to 53,000 affiliates. Separated into two annual mailings, this effort has increased service and communication to the commercial industry. Receiving the updates are commercial cattlemen who have purchased and had transferred to them a registered Angus bull within a two-year period.

Communications: a team effort

Communications efforts are often the result of face-to-face contact, national advertising campaigns or a simple need to know. The role of an Association communicator involves staying in touch with membership, listening to commercial cattlemen and staying on top of industry news. This is accomplished by a team effort.

- Matt Printz joined Team Angus as regional manager for Colorado and Nebraska in May. The territory including the Dakotas and Minnesota was staffed with Vern Frey in July. Other regional managers with territory changes included Andy Rest, who now oversees Alaska, Montana and Wyoming, and Matt Caldwell, who has been assigned to Kansas and Oklahoma.
- The Association's national advertising program was thoroughly scrutinized and dissected. A new advertising agency was hired and an exciting new "Power of One" campaign was launched across the United States to better allocate Association resources to communicate its message. The theme ties together several selling points, including the

power of one Angus bull, one transferred registration paper, one tag (AngusSource), one consumer and one brand [*Certified Angus Beef*® (CAB®)].

- An important aspect of spreading Angus information is housed in the communications department. More than 50,000 news releases (more than 77,000 including e-mailed releases) and nearly 40,000 publicity photos were distributed to local, state, regional and national media for publicity purposes.

In an effort to send information more efficiently, the department began working on a system for electronic distribution of photos and press releases. This required arming regional managers and office staff with digital cameras. It allows photos to be processed more quickly by a new printing system and provides digital files to send to press. The first electronic releases accompanied by digital photos were distributed in late September.

Social interaction

Activities are an important part of a membership-driven organization. From field days to shows, to tours and informational sessions, events allow producers to socialize at central gathering places. Emphasis on the need for social interaction of membership begins with planning the Annual Meeting, which revolves around the North American International Livestock Exposition (NAILE) Super-Point Roll of Victory (ROV) Show. Many Angus socials are centered around shows on state and national levels.

AngusSource RFID tag





- Angus events also allow time for recognition of honors. The Angus Heritage Foundation was created to recognize the people who have made significant contributions to the improvement and advancement of Angus in the United States. Inductees in 2003 were Leroy Baldwin, Ocala, Fla.; T.J. Cawood, Cleveland, Tenn.; and Robert Long, Amelia Island, Fla. Orin James, formerly of Cameron, Mo., was inducted posthumously.
- The National Western Stock Show (NWSS) is another event in which breeders gather for much more than a show. The only Association-sponsored sale is annually hosted at this event, which, in 2004, featured consignors from across the country selling 39 lots that grossed \$201,050 for an average price of \$5,155 per lot. The Herdsman of the Year award was presented at the annual Angus Herdsman's Banquet. Voted to receive the award by their peers, Bruce and Amie Stertzbach, Louisville, Ohio, accepted the 2004 award.
- The 2004 National Angus Conference and Tour took place Sept. 14-17 in Roanoke, Va. Themed "Continuing The Angus Advance," the educational workshops, one-day conference and two-day tour provided nearly 350 attendees the opportunity to learn about Association programs and to experience Virginia's rich American history and Angus influence.

Devotion to youth

Angus youth are considered the backbone of the Association. They are the future of the breed, with more than 10,000 members from across the nation participating in NJAA events and programs.

- The main event of the year is the National Junior Angus Show (NJAS). The 2004 function, hosted in Kansas City, Mo., attracted the second-largest number of cattle shown and a record-breaking number of youth competing in educational contests. The show spans six days and is the world's largest single-breed beef show. Educational contests at the event play a major role in developing Angus youth. A carcass seminar was added to the lineup to educate youth and adults about qualifying for the CAB brand and how carcasses are graded.
- The annual Leaders Engaged in Angus Development (LEAD) Conference provides another avenue for Angus youth to develop lifelong skills. The 2004 event, "Achieving Sweet Success," took place in Hershey, Pa., and focused on U.S. heritage, industry knowledge and preparing youth for leadership roles.
- The Junior Activities Department has focused on a grassroots effort to work with state junior association leaders to help create strong associations on the state level. The department has strived to provide information to these groups to make stronger, more workable state bylaws and to provide opportunities for growth.



The Association's "Power of One" national advertising campaign



Vision of Value

Nearing a quarter century of service, the Angus Foundation demonstrated continuous growth in a landmark 2004, full of promise and new beginnings and thriving with ever-increasing enthusiasm among its supporters.

An invaluable partner with Association youth and members, the Foundation was born out of ingenuity and foresight in 1980 as a 501(c)(3) not-for-profit affiliate organized under the laws of the state of Illinois. Its purposes are to carry out educational and research activities related to agriculture.

Today, it continues to deliver on those ideals, with more than \$2 million in assets — nearly double the original goal established during its founding. These funds enable the Foundation to carry out its primary objectives of education, youth and research in the Angus breed and beef industry.

The addition of Director of Development Milford Jenkins has fueled the growing organization and placed it in a position for further expansion.

Following are highlights of Angus Foundation events and notable achievements accomplished during a record-breaking year.

- The first-ever Angus Foundation Reception took place Nov. 15, 2003, in Louisville, Ky., during Angus events surrounding the North American International Livestock Exposition (NAILE). The invitation-only reception, themed “Celebrating the Vision,” was an overwhelming success, attracting approximately 200 Angus Foundation donors and guests and raising \$55,000. A group of 58 Angus enthusiasts purchased the main fund-raiser, the No. 1 print of Frank Champion Murphy’s “In Apple Blossom Time,” for \$40,000 and presented the purchase to David McMahon, Belle Point Ranch, Lavaca, Ark., for his contributions to Angus youth and the Foundation. A true

Angus
Foundation
 EDUCATION • YOUTH • RESEARCH

Foundation scholarship winners

The Angus Foundation awarded eighteen \$1,000 scholarships and two \$3,500 scholarships to National Junior Angus Association members. Scholarship recipients include:

\$3,500-scholarship winners

Landi McFarland, Ellston, Iowa
 Wravenna Phipps, Kearney, Neb.

\$1,000-scholarship winners

Jonathan Barnes, Dolphin, Va.
 Chelsea Frost, Tallula, Ill.
 Hope Herd, Fair Grove, Mo.

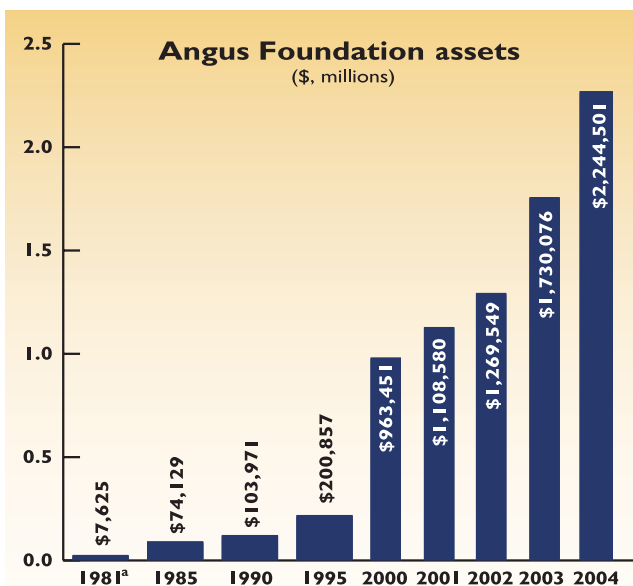
Beth Hooker, Luther, Mont.
 Abby Janssen, Bloomfield, Iowa
 Garrett Lampe, Scott City, Kan.
 Jarrett Martin, Lavaca, Ark.
 Laura May, Hurricane Mills, Tenn.
 Ryan Nelson, Wilton, Calif.
 Kristen Oaks, Calhoun, La.
 Jennifer Ourso, Donaldsonville, La.

John Pfeiffer, Mulhall, Okla.
 Emily Pohlman, Norfolk, Neb.
 Keela Retallick, Glen Haven, Wis.
 Jeana Sankey, Council Grove, Kan.
 Megin Santee, Langdon, Kan.
 Renee Thelen, Saline, Mich.
 Cody Washam, Pierce City, Mo.

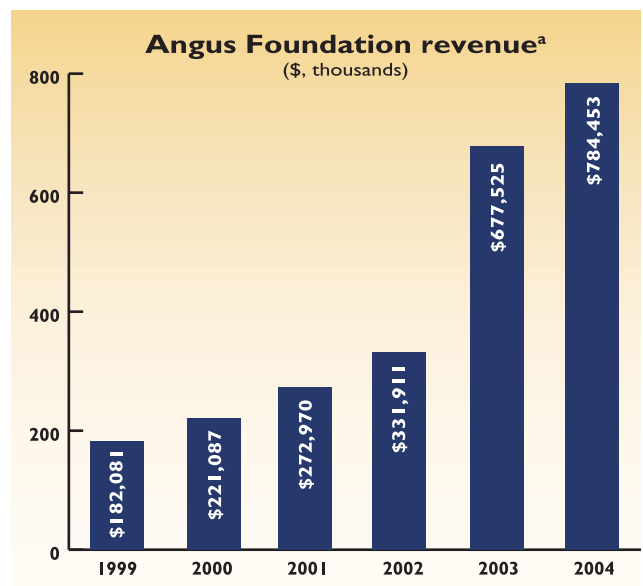
philanthropist, McMahon unselfishly donated the print to the American Angus Association.

- The annual Angus Foundation Heifer Package was auctioned Jan. 15, 2004, at the National Western Stock Show (NWSS) in Denver, Colo. Mountain Meadow Cattle Co., Walden, Colo., and Sterling Hunter, Bath, Mich., made the final bid of \$55,000 to purchase BT Everelda Entense 51N, donated by Beartooth Ranch, Columbus, Mont., and the accompanying products and services donated by American Live Stock Insurance Co., Lathrop Livestock Transportation, Trans Ova Genetics, Merial, Genex, the American Angus Association and Angus Productions Inc. (API).
- Milford Jenkins, a former senior director of development for the Oklahoma State University Foundation, was hired in May to expand upon the values of the Angus Foundation. Jenkins represents the first full-time employee dedicated solely to the Foundation.

- The Angus Foundation surpassed the \$2-million point in June, reaching \$2,058,266.58 in assets.
- The fourth annual Angus Foundation Golf Tournament took place July 13 at Shiloh Springs Golf Club in Platte City, Mo., in conjunction with the National Junior Angus Show (NJAS). A record 56 golfers participated in the tournament, resulting in a record-breaking \$20,000 in proceeds toward the Foundation.
- The Angus Foundation 2004 Silent Auction set a new record of almost \$13,000 at the NJAS, July 12-17 in Kansas City, Mo. Angus supporters from across the country and 28 state junior Angus associations donated items for the auction. The high-selling item, a framed, autographed print of Murphy's "First Angus in U.S." sold for \$4,000 to Dick and Diane Beck, Red Lodge, Mont. Dean and Gloria Hurlbut, Saint Joseph, Mo., donated the item.



³Although the Angus Foundation was established in 1980, fiscal financial data is only available beginning in 1981.



^aA portion of these funds are endowed annually.



Strength of the Angus Message

In the face of changes in and around the beef industry, Angus Productions Inc. (API) has worked hard to adapt to the evolving needs of Angus producers. To continue providing breeders with necessary information and innovative marketing tools, API's *Angus Journal* and *Angus Beef Bulletin*, as well as its Web Marketing and Special Services departments have strived to offer improved services to breeders.

Formed in 1979 after the American Angus Association purchased the *Angus Journal*, API is a wholly owned, for-profit subsidiary of the American Angus Association. API has remained dedicated to providing Angus information, promoting the Angus breed, keeping up-to-date with new technologies, optimizing resources and creating Angus opportunities.

Fiscal year 2004 has shown great movements toward strengthening the Angus message, as illustrated by growth in the *Angus Beef Bulletin* and the Web Marketing Department. As the need and desire for Angus grows, API will grow along with it to ensure accuracy and ease of distribution of information.

Following are API highlights for FY 2004.

Angus Beef Bulletin visibility increases

API continuously worked to establish and increase awareness of the *Angus Beef Bulletin* as an information source for commercial cattlemen and to build its circulation.

- A postal rate change from Periodical to Standard A allowed API to send more copies to subscribers and to people who have had bulls transferred into their names in the last three years.
- The newspaper-style publication moved from 60,000 circulation to 82,000 on its way toward a goal of 100,000.
- The July issue of the *Angus Beef Bulletin* was mailed to *Angus Journal* subscribers to increase awareness of the publication as a potential advertising medium.
- The frequency was increased to six times a year. The new July issue provides ideal timing for Certified Angus Beef LLC (CAB) to communicate information about its programs and services and to interact with potential CAB suppliers. The new March issue allows API to provide more timely advertising for spring bull sales.
- In January and March, the *Angus Beef Bulletin* was mailed to 22,000 additional commercial producers in eight target states who hadn't previously used Angus genetics.
- API staff manned a booth promoting the publication at the 2004 Cattle Industry Convention and Trade Show.
- The Seedstock Directory section was created to provide a lower-cost advertising option to producers.

25th-anniversary celebration

The Association's primary means of communication with its membership, the *Angus Journal*, celebrated its 25th anniversary of service under Association ownership by maximizing efficiency of space and enhancing online information.

- Prices were rolled back to 1979 advertising rates for the July issue.
- The back-issue archive spanning the *Angus Journal's* 25-year history under Association ownership was posted online.
- Keith Evans, former director of communications for the Association, wrote a history of the *Angus Journal*, which was published in the magazine as a two-part series.
- The Showring and Salering columns were reformatted into inserts, each published four times a year. A complement to

online reports, the inserts become removable resources and allow API to broaden its coverage.

Online options increase

The Web Marketing Department expanded the range of online options available to producers in order to promote the Angus breed and increase dissemination of important news.

- Real-time coverage of industry events was broadened to include the 2003 Range Beef Cow Symposium. The online coverage was supplemented by a special section in the *Angus Journal*, as well as in the January and March special mailings of the *Angus Beef Bulletin*.
- The emphasis on news was expanded for the Angus e-List.
- An option for an “as printed” version of online sale books was added, allowing producers to print a page from a sale book on one page of paper and to zoom in on the copy.
- The department created www.angusjournal.com/shows.html for reporting showing results. The Web site is intended to

complement the *Angus Journal* Showring insert format. API’s goal is to have show results online within 24 hours of receipt from the Association’s communications staff.

- The number of ranch and other industry Web sites created by the department grew by 29 new sites during FY 2004, bringing the total figure to 140. State association sites more than doubled.

API: changing with demand

- API adapted to new desktop publishing technology that allows the company to handle more and more camera-ready ads, as well as copy submitted electronically. New technology also permits the elimination of extra charges for four-color photo usage in ads. With less hands-on handling required, ad representatives have more time for customer service.
- The Association Information Services (IS) Department fine-tuned existing systems and created new ones to ensure accuracy and efficiency of information.





Brand Value

In a tough year for both product marketing and cattle production, the *Certified Angus Beef*® (CAB®) brand has steadfastly maintained its five-year record of sales, exceeding half a billion pounds. Growth came in areas other than overall tonnage as the brand's influence spread to a record 12,580 licensees.

The brand's success in a difficult market was made possible by following key principles of brand building — product, people and integrity. Despite the case of bovine spongiform encephalopathy (BSE), the closing of international borders, high beef prices and a shortage of cattle qualifying for the brand, the keys to successful branding have held true and contributed to the success of CAB-brand partners.

The number of identified cattle slipped for the first time, down 6% to 11.9 million head. However, that was not as big a decline as the 10% in overall fed-cattle supplies, so the Angus influence in the U.S. cattle herd held steady at 50%. The lower identified number for CAB carcass evaluation was compounded by a record-low 15.6% annual CAB-acceptance rate, which led to a 15.6% lower supply of 1.86 million head available for the brand.

Overall, beef demand was reported growing at a rate of 10% in 2004, explaining why CAB carcass utilization reached a near-term high of 272 pounds per head, led by a 13.5% increase in the

sale of grinds. The 60.6 million pounds of ground beef accounted for 11.8% of total brand sales. This greater efficiency helped generate higher premiums for producers.

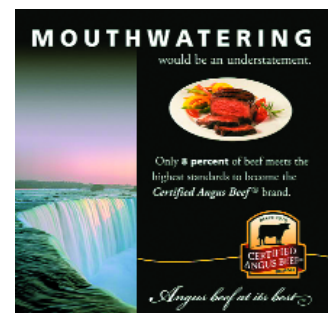
Although 2004 presented many challenges for Certified Angus Beef LLC (CAB), the not-for-profit subsidiary of the American Angus Association continued to build the value of Angus. Following are 2004 highlights:

- The National Angus Carcass Challenge (NACC) awarded prizes at the National Western Stock Show (NWSS) in Denver, Colo., in January. CAB and five other sponsors bolstered the 2004 NACC with more than \$30,000 and a new John Deere Gator™ for winners to be named in January 2005. Enrollments of 40 calves sired by registered Angus bulls and fed in CAB-licensed feedlots passed the 5,000-head goal by midyear.
- Within the Feedlot Licensing Program (FLP), 82 partner yards in 18 states enrolled more than 220,000 cattle, a record number, and neared the 700,000 cumulative mark for the five-year span of the FLP. A record 175,000 harvested head this year added to a valuable database resource now exceeding 509,000 records.

CAB Natural brand

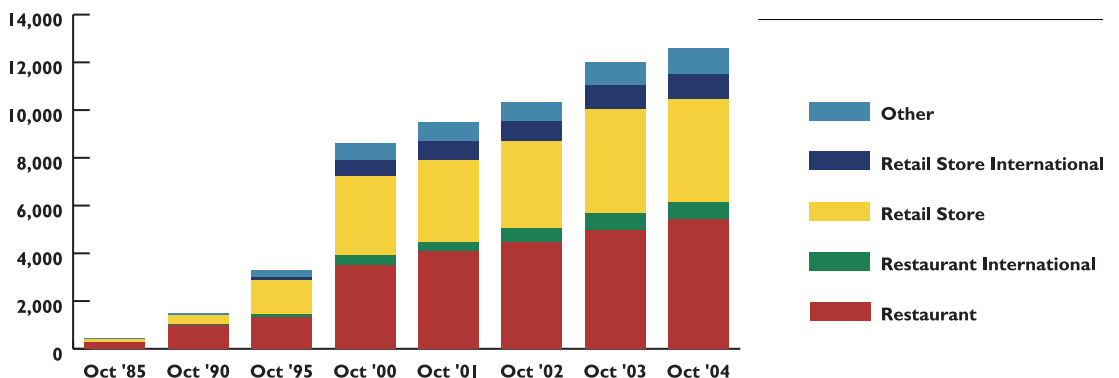


CAB "Mouthwatering" advertisement



- CAB brand Natural debuted last spring through an agreement with two leading brands owned by BC Natural Foods. Production began in April at the B3R Country Meats plant in Childress, Texas, and in June at the Coleman Natural Meats plant in Limon, Colo.
- Discovery of a single case of BSE in Washington state last December curtailed international activity, but business was up nearly 20% in Pacific and Caribbean island resort markets.
- Growing U.S. demand for convenience in chef and consumer kitchens supported value-added products. Nearly 250 item-codes accounted for the 13 million pounds sold this year. Tying in with demand for low-carb foods, CAB Steak Strips™ introduced in time for summer outdoor activities, set the gold standard in snacks.
- Trade-level advertising positioned the CAB brand at the top of its category, and in August the brand was named the exclusive beef supplier of the American Express® Celebrity Chef Tour. World-renowned chefs are featuring the brand in their culinary creations at elite events in 17 cities nationwide.
- In January, Dianna Stoffer became corporate chef for the brand and lead spokesperson on television programs and at cooking demonstrations. She and CAB Home Economist Sarah Donohoe toured throughout the year, generating millions of positive consumer impressions.
- The brand's "Mouthwatering" campaign debuted in Pittsburgh, Pa., and Detroit, Mich. Focused advertising, special events and public relations opportunities invited shoppers to Meijer Inc. in Detroit, Giant Eagle Inc. in Pittsburgh and numerous licensed restaurants in each market. Targeted brand promotions concluded in Dallas, Texas, and Saint Louis, Mo.
- A record number of brand partners gathered in San Antonio, Texas, Sept. 9-11 to develop powerful branding strategies and motivational messages at the CAB annual conference. Motivational efforts will continue through the year.

Growth in number of retail and foodservice licensees, 1985-2004





Innovative Involvement

The American Angus Auxiliary has supported the American Angus Association since 1952, encouraging the promotion and consumption of beef, facilitating education, developing Angus youth, promoting the Angus breed, and organizing social programs and activities. Consisting completely of volunteers from across the United States, the Auxiliary offers individuals interested in the future of the Angus breed the chance to work together.

Along with the changing needs of the Association and its membership, the Auxiliary has adapted in order to offer programs, services and assistance both on state and national levels.

Below are the highlights of Auxiliary service in fiscal year 2004.

- The Auxiliary awarded \$9,700 in scholarships to five girls and five boys, including: Kristen Oaks, Calhoun, La.; Chelsey Warfield, Andersonville, Tenn.; Dana May, Mineral Point, Wis.; Brittany Gillig, Aurora, Mo.; Kindra Wood, Holly Pond, Ala.; Garrett Lampe, Scott City, Kan.; John Pfeiffer, Mulhall, Okla.; Drew Schroeder, Clarence, Iowa; Evan Boehmer, Olivet, Mich.; and Justin Brosey, Hamilton, Ohio.
- Angus merchandise was sold at the Auxiliary's booth at the National Junior Angus Show (NJAS); during Angus activities in Louisville, Ky., in November; and at various state events throughout the year, providing financial support for the Auxiliary's many programs. The Auxiliary's Web site, www.angusauxiliary.com, also provides another means to support Auxiliary programs, allowing for credit card purchases via a secure Angus Sale Barn site.
- The first-ever Pat Grote Memorial Award Buckle was awarded to the top intermediate division winner in the extemporaneous speaking contest at the NJAS. The buckle serves to remember Grote, a strong supporter of Angus youth, who passed away while serving her term as Auxiliary president.
- Achievement Award applications were put online, allowing state and regional associations to more easily recognize outstanding and active junior members.
- Two new contests — creative writing and quiz bowl — were added to the Janet Castle Crystal Award, which is presented to a boy and a girl for their achievements in educational contests at the NJAS.
- At the 21st Annual All-American *Certified Angus Beef*[®] (CAB[®]) Cook-Off, Anne Patton Schubert reported there were 49 teams entered, with 44 competing. This is the largest group of entries to date.
- Sandra McCurry, Mount Hope, Kan., was named Distinguished Woman for her dedication to the Auxiliary. She became one of only 19 women to ever receive the honor.

Consolidated Financial Statements

Independent Auditor's Report

Board of Directors
American Angus Association
Saint Joseph, Mo.

We have audited the accompanying consolidated statements of financial position of American Angus Association and its subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 financial position of American Angus Association and its subsidiaries as of September 30, 2004 and 2003, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Clifton Gunderson LLP

Saint Joseph, Mo.
October 13, 2004

American Angus Association and Its Subsidiaries Consolidated Statements of Financial Position

September 30, 2004 and 2003

	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 846,132	\$ 2,035,212
Accounts receivable	2,221,444	2,170,529
Interest receivable	37,138	35,896
Inventories	801,936	779,516
Prepaid expenses	265,287	371,594
Total current assets	4,171,937	5,392,747
Investments	14,899,231	12,168,703
Property & Equipment		
Buildings and land improvements	3,399,826	3,337,926
Furniture, fixtures and equipment	2,137,987	2,195,892
Electronic data processing equipment	3,563,971	4,461,584
Total, at cost	9,101,784	9,995,402
Less accumulated depreciation	5,001,300	5,596,276
Total property and equipment	4,100,484	4,399,126
Total Assets	\$ 23,171,652	\$ 21,960,576
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 337,191	\$ 937,347
Accrued liabilities	496,236	463,314
Olympic sponsorship	277,416	—
Deferred income	683,119	654,804
Total current liabilities	1,793,962	2,055,465
Long-term Liabilities		
Deferred compensation	307,303	256,149
Accrued postretirement benefits	788,860	626,711
Olympic sponsorship	—	125,405
Total long-term liabilities	1,096,163	1,008,265
Total liabilities	2,890,125	3,063,730
Net Assets		
Unrestricted	20,271,527	18,886,846
Permanently restricted	10,000	10,000
Total net assets	20,281,527	18,896,846
Total Liabilities and Net Assets	\$ 23,171,652	\$ 21,960,576

These consolidated financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to consolidated financial statements.

American Angus Association and Its Subsidiaries Consolidated Statements of Activities and Changes in Net Assets

Years Ended September 30, 2004 and 2003

	2004	2003
Changes in Unrestricted Net Assets		
Revenues, gains and other support:		
Royalties	\$ 11,379,316	\$ 12,641,215
Advertising income	4,645,113	4,199,640
Registrations	3,733,164	3,499,969
Transfers	1,064,592	971,777
Artificial insemination certificates	1,311,735	1,191,990
Memberships	635,296	592,583
Performance programs	943,085	950,940
Web site revenue	263,116	210,846
Subscriptions	858,126	842,342
Contributions	302,854	283,927
Account and merchandise sales	391,554	464,843
Software sales	88,971	86,369
Support fees	418,207	477,783
Other income	195,014	140,902
Investment income	543,028	45,986
Total revenues, gains and other support	<u>26,773,171</u>	<u>26,601,112</u>
Expenses		
Program services:		
Certified Angus Beef LLC	12,038,220	12,710,819
Angus Productions Inc.	5,678,260	5,133,736
Member services	2,062,722	1,804,004
Angus Information Management		
Software	476,077	428,123
Performance programs	1,398,034	1,565,463
Commercial programs	333,486	264,182
Industry and member communications	1,488,211	1,484,296
Field services	728,143	779,956
Activities	1,367,313	1,063,131
Angus Foundation	269,578	217,961
Total expenses	<u>25,840,044</u>	<u>25,451,671</u>
Changes in net assets before postretirement benefit expense, net unrealized gain (loss) on investments and income taxes	933,127	1,149,441
Postretirement Benefit Expense	(179,573)	(115,509)
Net Unrealized Gain on Investments	<u>671,422</u>	<u>318,613</u>
Changes in net assets before income taxes	1,424,976	1,352,545
Provision for Income Taxes	40,295	32,940
Changes in Unrestricted Net Assets	1,384,681	1,319,605
Changes in Permanently Restricted Net Assets	—	—
Changes in Net Assets	1,384,681	1,319,605
Net Assets, beginning of year	18,896,846	17,577,241
Net Assets, end of year	<u>\$20,281,527</u>	<u>\$18,896,846</u>

American Angus Association and Its Subsidiaries Consolidated Statements of Cash Flows

Years Ended September 30, 2004 and 2003

	2004	2003
Cash Flows From Operating Activities		
Changes in net assets	\$ 1,384,681	\$ 1,319,605
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation	847,070	817,208
Loss on sale of equipment	3,341	8,647
Net realized (gain) loss on sale of investments	(374,728)	198,705
Net unrealized (gain) loss on investments	(671,422)	(318,613)
Net effect of changes in operating assets and liabilities:		
Accounts and interest receivable	(52,157)	90,014
Accounts payable	(600,156)	403,271
Inventories	(22,420)	(366,036)
Prepaid expenses	106,307	(170,743)
Accrued liabilities, deferred income, deferred compensation, and postretirement benefits	426,551	383,485
Net cash provided by operating activities	<u>1,047,067</u>	<u>2,365,543</u>
Cash Flows From Investing Activities		
Proceeds from sale of equipment	9,067	24,126
Proceeds from sale of investments	6,390,609	6,803,574
Purchases of property and equipment	(560,836)	(584,278)
Purchases of investments	(8,074,987)	(8,671,828)
Net cash used in investing activities	<u>(2,236,147)</u>	<u>(2,428,406)</u>
Cash Flows From Financing Activities		
Payments on long-term debt	—	(419,510)
Net Decrease in Cash and Cash Equivalents	(1,189,080)	(482,373)
Cash and Cash Equivalents, beginning of year	2,035,212	2,517,585
Cash and Cash Equivalents, end of year	<u>\$ 846,132</u>	<u>\$ 2,035,212</u>

These consolidated financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to consolidated financial statements.

American Angus Association and Its Subsidiaries Summary of Significant Accounting Policies

September 30, 2004 and 2003

American Angus Association (the Association) is a not-for-profit organization incorporated in the State of Illinois in 1883. The Association's principal activities include maintaining pedigree and performance information, and the promotion of the Angus breed for its members, a majority of whom are located throughout the United States. These consolidated financial statements include the Association's wholly owned subsidiary, Angus Productions Inc., a for-profit corporation, incorporated on May 11, 1979, in the State of Illinois. The subsidiary's principal activities are publishing the *Angus Journal*, a magazine for the Angus industry, and other related business activities. The consolidated financial statements also include Angus Foundation and Certified Angus Beef LLC. The Association has controlling financial interest in the Foundation and Certified Angus Beef LLC, including a majority voting interest in their Boards of Directors. The Foundation is a not-for-profit organization incorporated in the State of Illinois in 1980. The Foundation's principal activities are to develop, assist and sponsor educational programs and scientific research on topics related to agriculture. Certified Angus Beef LLC was incorporated in the State of Delaware in 2000. The Company's principal business activity is to operate the Certified Angus Beef Program, and thereby promote the breed of Angus cattle by increasing the demand for registered Angus seedstock in the commercial beef industry. All material intercompany accounts and transactions are eliminated in the consolidation process. Significant accounting policies followed by the Association and its subsidiaries are presented below.

■ Use of Estimates in Preparing Financial Statements

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 the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

■ Net Assets

Financial statement presentation follows the recommendations of Financial Accounting Standards No. 117, *Financial Statements of Not-for-profit Organizations*. Under SFAS-117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets.

Unrestricted. Unrestricted net assets include all net assets that are neither temporarily nor permanently restricted.

Temporarily Restricted. Temporarily restricted net assets include contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. The Association has no temporarily restricted net assets.

Permanently Restricted. Permanently restricted net assets include contributed net assets, which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

■ Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, mutual funds, short-term discount notes, and money market accounts with an initial maturity date of three months or less.

■ Accounts Receivable

A significant portion of the receivables are for royalty income paid by meat packers for the sale of Certified Angus Beef LLC product. The receivable is based on royalty estimates derived from unreported sales based on historical sales information. All other accounts receivables are uncollateralized customer obligations which generally require payment within thirty days from the invoice date. Accounts receivable are stated at the invoice amount. Interest may be charged on past-due balances. Account balances with invoices over thirty days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices. The carrying amount of accounts receivable has been reduced for delinquent accounts and estimated uncollectible invoices. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the organization could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to bad debt expense.

■ Inventories

Inventories consist primarily of promotional, educational and support items. Inventories are stated at the "lower of cost or market value" with cost being determined on the "first-in, first-out" (FIFO) basis of accounting.

■ Investments

Investments include U.S. Government and other governmental agency securities, mutual funds, corporate stocks, certificates of deposit and money market accounts. Investments in U.S.

American Angus Association and Its Subsidiaries Summary of Significant Accounting Policies

September 30, 2004 and 2003

Government and other governmental agency securities, mutual funds and corporate stocks are carried at fair value with unrealized and realized gains and losses on investments reported as an increase or decrease in unrestricted net assets. Certificates of deposits and money market accounts are carried at cost.

■ Property and Equipment

Property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets as follows:

- Land improvements, 7-20 years
- Buildings and building improvements, 10-50 years
- Office furniture, fixtures and equipment, 5-10 years
- Electronic data processing equipment, 5-10 years

Included in office furniture, fixtures and equipment are vehicles used by regional managers. These vehicles are depreciated using estimated cost per mile driven for each vehicle.

■ Advertising and Subscription Revenue

Advertising revenue is recognized as income when the magazine issue is published to which the revenue is related. Revenue from magazine subscriptions is recognized proportionately over the life of the subscription.

■ Advertising Costs

The Association expenses advertising costs as incurred.

■ Postretirement Benefits

The Company provides certain health care benefits for retired employees who meet eligibility requirements. The Company's share of the estimated costs of benefits that will be paid after retirement is generally being accrued by charges to expense based upon the actuarial life expectancy of each eligible employee.

■ Income Taxes

The Association and Certified Angus Beef LLC are not-for-profit organizations exempt from income taxes under section 501(c)(5) of the U.S. Internal Revenue Code. The Angus Foundation is exempt from income taxes under section 501(c)(3). Angus Productions Inc. is not a tax-exempt organization.

■ Description of Programs

The Association operates the following programs:

Certified Angus Beef LLC. Certified Angus Beef LLC administers the national branded beef program with the goal of improving demand for registered Angus bulls.

Angus Productions Inc. Angus Productions Inc. publishes the *Angus Journal*, the official publication of the American Angus Association; publishes other materials; and provides services in support of the Angus industry.

Member Services. The member services department maintains membership records and pedigree records of registered Angus cattle.

Angus Information Management Software. The Angus Information Management Software department develops, maintains and distributes the Angus Information Management Software used by members to maintain records on their Angus herds.

Performance Programs. The performance programs department provides genetic information to members by processing animal birth, weaning and yearling weights and other information useful in genetic evaluation of beef cattle.

Commercial Programs. The commercial programs department coordinates the Association's current work with commercial operations, as well as the development of new programs to assist commercial beef cattle producers using Angus genetics.

Industry and Member Communications. The industry and member communications department provides national advertising and national public relations programs, and member information and education programs.

Field Services. The field services department provides field service to members by attending Angus events and working with members and commercial cattle producers.

Activities. The activities department supports the national junior activities program, provides show premiums, and attends Angus shows and events.

Angus Foundation. The Angus Foundation develops, assists, and sponsors educational programs and scientific research on topics related to agriculture.

■ Functional Allocation of Expenses

The indirect functional costs of providing the various programs and activities of the Association have been allocated amongst those programs according to allocation principles believed to be most representative by management of the actual efforts required by those programs. Program expenses include both these allocated costs and the direct costs of providing each program.

This information is an integral part of the accompanying consolidated financial statements.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2004 and 2003

Note 1—Investments

The following is a summary of investments held at September 30, 2004 and 2003:

	2004	2003
U.S. Government and other governmental agency securities	\$ 2,932,230	\$ 2,528,052
Mutual funds	2,990,941	1,650,077
Equity securities	4,534,004	3,952,636
Certificates of deposits	4,010,170	3,300,794
Money market accounts	431,886	737,144
Total investments	<u>\$ 14,899,231</u>	<u>\$ 12,168,703</u>

Investment returns for the years ended September 30, 2004 and 2003 consist of the following:

	2004	2003
Investment income	\$ 221,637	\$ 276,247
Net realized gain (loss)	374,728	(198,705)
Net unrealized gain	671,422	318,613
Management fees	(53,337)	(31,556)
Total investment gain	<u>\$ 1,214,450</u>	<u>\$ 364,599</u>

Note 2—Pension and Postretirement Benefit Plans

The Association sponsors a qualified noncontributory defined contribution plan, which covers substantially all full-time eligible employees. Contributions are established by the Board of Directors and are purely discretionary. Contributions to the Plan are based upon eligible employee salaries and years of service. During fiscal years ended 2004 and 2003, the Association contributed \$553,647 and \$545,645, respectively.

During the fiscal year ended September 30, 1997, the Plan was amended to include a supplemental savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code. Eligible employees may contribute a percentage of their eligible salary subject to federal statutory limits.

The Association has deferred compensation plans for several key employees. Under these plans, the participants may elect to defer receipts per sections 457(e)(15) and 415(d) of the Internal Revenue Code of 1986. The deferred compensation of the participants is held in trust and administered by an outside entity. The participants are always fully vested in their contributions. Upon early retirement or other termination of employment, the participant has the option to be paid their account no later than January 31 after the end of the plan year or to take payment in equal annual installments, the last of which shall be no later than five years. The Association may vary payments at its discretion.

The amounts held in trust for each participant are subject to the claims of the general creditors of American Angus Association and its subsidiaries. The net annual amount recorded as deferred compensation was \$36,000 in 2004 and \$38,000 in 2003. Amounts are invested with a trustee, and are recorded on the Association's records as an investment and a matching long-term liability in the amounts of \$307,303 in 2004 and \$256,149 in 2003.

During the fiscal year ended September 30, 2001, the Board of directors approved a plan obligating the Association to provide supplemental health care benefits to employees who meet certain years of service requirements. This benefit is to be funded from the general assets of the Association as they are incurred. The following is information about the benefit obligation and assumptions related to this benefit plan as of September 30:

	2004	2003
Benefit obligation—net	<u>\$ 805,000</u>	<u>\$ 637,466</u>
Accrued benefit cost:		
Current liability	\$ 16,140	\$ 10,755
Long-term liability	788,860	626,711
Total	<u>\$ 805,000</u>	<u>\$ 637,466</u>
Benefits expense (includes benefits of \$12,226 and \$5,043 for the years ending September 30, 2004 and 2003, respectively)	<u>\$ 179,573</u>	<u>\$ 115,509</u>
Weighted average assumptions:		
Discount rate	6%	6%
Expected return on plan assets	8%	8%

Note 3—Notes Payable to Bank

Total interest expense was \$-0- and \$4,758 in 2004 and 2003, respectively.

Note 4—Provision for Income Taxes

The provision for income taxes related to the wholly owned subsidiary, Angus Productions Inc., consists of the following elements at September 30:

	2004	2003
Federal income tax	\$ 33,756	\$ 27,322
State income tax	6,539	5,618
Total provision for income taxes	<u>\$ 40,295</u>	<u>\$ 32,940</u>

Total payable for income taxes is \$12,806 and \$-0- for the years ending September 30, 2004 and 2003, respectively.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2004 and 2003

■ Note 5—Board Designated and Permanent Restrictions

Included in unrestricted net assets are the following board designations:

	2004	2003
Research for breed improvements	\$ 384,081	\$ 390,557
Information systems	2,032,199	1,062,362
Supplemental health benefits	714,296	601,849
Youth and education programs	553,105	429,687
Donor relations	416,254	197,679
Total board designations	<u>\$4,099,935</u>	<u>\$2,682,134</u>

Permanently restricted net assets represent an endowment totaling \$10,000 for both 2004 and 2003, the income from which is expendable to support the Angus Foundation.

■ Note 6—Royalties

Royalties, net of rebates, consist of revenues from Certified Angus Beef LLC. Royalties from one customer represented 20% of the Association's total revenues, gains, and other support for the year ending September 30, 2004. Royalties from two customers represented 31% of the Association's total revenues, gains, and other support for the year ending September 30, 2003.

■ Note 7—General and Administrative/ Fund-Raising Expenditures

In 2003 and 2004, the Association conducted activities that included requests for contributions, as well as program and management and general components. General and administrative expenses were allocated to program services based on allocation formulas believed by management to be representative of the actual efforts required by each program.

	2004	2003
General and administrative	\$ 2,851,435	\$ 2,755,646
Fund-raising	19,327	5,375

■ Note 8—Advertising

Advertising expense for the years ended September 30, 2004 and 2003 totaled \$2,654,760 and \$2,997,550, respectively.

■ Note 9—Supplemental Cash Flow Disclosures

Cash paid for interest was \$-0- and \$4,758 in 2004 and 2003, respectively. Cash paid for income taxes was \$24,912 and \$26,300 in 2004 and 2003, respectively.

■ Note 10—Olympic Supplier Liability

Certified Angus Beef LLC was the Official Branded Beef Supplier of the 2002 Winter Olympic Games and a team supplier through 2004. The balance of this commitment is \$4,000 to provide in-kind product through December 31, 2004. An additional liability of \$277,416 represents the commitment that is not expected to be exhausted through in-kind payments.

■ Note 11—Contingencies

The Association's operations and activities occur, depending upon the specific year, in a variety of states. The Association is contingently subject to audit by the sales and income tax authorities of any state that its activities may touch in any specific year. The Association is not, as of the date of these consolidated financial statements, under examination by any taxing authority. Association management believes that any potential assessment, should such an examination occur, would ultimately be immaterial to the Association's consolidated financial statements.

This information is an integral part of the accompanying consolidated financial statements.

2003-2004 American Angus Association Board of Directors



Serving on the 2003-2004 American Angus Association Board of Directors are (seated, from left) Leo Baker, Saint Onge, S.D.; Gregg Blythe, Decatur, Ala.; Minnie Lou Bradley, Memphis, Texas, vice president; Joe Elliot, Adams, Tenn., president; Ben Eggers, Mexico, Mo., treasurer; Mark Gardiner, Ashland, Kan.; Paul Hill, Bidwell, Ohio; (standing, from left) John Crouch, Saint Joseph, Mo., executive vice president; Jay King, Rock Falls, Ill.; Joe Hampton, Mount Ulla, N.C.; Bill Davis, Sidney, Mont.; Richard (Dick) Tokach, Saint Anthony, N.D.; Al DeClerk, Pocahontas, Ark.; Dave Smith, Greensburg, Ind.; John Schurr, Farnam, Neb.; Jot Hartley, Vinita, Okla.; Rob Thomas, Baker City, Ore.; and Robert (Bob) Schlutz, Columbus Junction, Iowa.

American Angus Association Staff

Administrative Staff:

Executive Vice President

John Crouch

Vice President of Finance

Richard Wilson

Vice President of Information & Data Programs

Bill Bowman

Vice President of Industry Relations

Jim Shirley

Departmental Staff:

Activities & Junior Activities

James Fisher, director

Shelia Stannard, director of activity

communications & event coordinator

Administrative Secretary

Diane Strahm

Angus Information

Management Software

Scott Johnson, director

Commercial Programs

Jim Shirley, director

Finance

Richard Wilson, director

Kenny Miller, assistant director

Foundation Development

Milford Jenkins, director

Industry & Member Communications

Sara Moyer, director

Information Systems

Lou Ann Adams, director

Member Services &

Office Management

Bryce Schumann, director

Carol Waller, assistant director

Performance Programs

Bill Bowman, director

Sally Northcutt, genetic research
director

ANGUS

THE BUSINESS BREED

American Angus Association
3201 Frederick Avenue • Saint Joseph, MO 64506-2997
Phone: (816) 383-5100 • Fax: (816) 233-9703 • www.angus.org