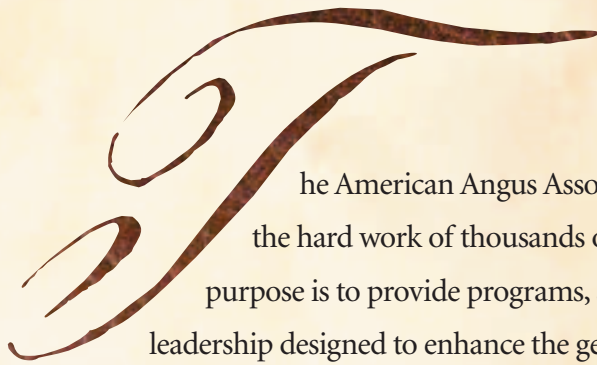


Empowering
EMPOWERING
MEMBERS
Members

AMERICAN ANGUS ASSOCIATION 2005 ANNUAL REPORT

Empowering Members

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The American Angus Association has been built on the hard work of thousands of dedicated cattlemen. Its purpose is to provide programs, services, technology and leadership designed to enhance the genetics of the Angus breed, broaden its influence within the industry and expand the market for Angus beef worldwide.

In 2005, the 122-year-old member-driven organization continued to achieve those goals, and, today, the Angus breed possesses the most sought-after beef cattle genetics in the world.

That achievement has hinged on the Association's ability to empower its members through new technologies, selection tools, and management and marketing programs.



In turn, members use these programs and tools to build their operations and to supply data to the nation's largest beef cattle database. They take pride in their product, and they've continued to grow Angus demand.

Through Association innovation, American Angus Association members have built the leading and most progressive, member-driven, consumer-focused beef organization in the world.

They've built the breed.

EXECUTIVE REPORT

To say we had a great year is an understatement. Angus presence in the beef industry, both at home and abroad, is very strong. Almost without exception, Angus has become the prevailing breed among the beef-producing nations of the world.

In fact, 2005 could perhaps be termed one of the best years in our history. This has been possible despite the year's continued trade barriers, national animal identification (ID) concerns and other industry unrest.

Key to this prevailing success is the American Angus Association's pursuit of five basic core strategies:

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

As we work to accomplish these strategies, we empower Association members through new programs and services, selection indexes, marketing programs, and countless other opportunities and resources offered throughout the year. As part of our quest to empower members, the Association has also offered our dynamic membership educational materials on genetic principles and production techniques. This initiative joins other new programs and services that have been adopted within the past decade. These programs have served our membership well. This year alone:

- ◆ Registrations, at 324,266, posted an increase of 8.5% above the previous year.
- ◆ Transfers were up 6.0%.
- ◆ Number of new regular members was up 4.2%.
- ◆ Embryo transfer registrations were up 14.2%.
- ◆ Bulls composed 43.1% of registrations, up from 42.5%.
- ◆ The number of artificial insemination certificates issued increased 8.4%.
- ◆ Weight records submitted on Angus Herd Improvement Records (AHIR) were up 11.3%.
- ◆ The number of herds enrolled in AHIR increased 8.0%.
- ◆ Ultrasound records were submitted on 17.1% more animals and from 11.1% more herds.
- ◆ Female prices averaged \$3,193, up \$557.
- ◆ Bull prices averaged \$3,035, up \$328.

Technological advances

In light of the rapidly increasing world population, applications of new technology within the beef industry are at the very core of



John Crouch, executive vice president

our ability to ensure the nutritional well-being of future generations. High interest was thus expressed in promoting a universal genetic evaluation of Angus cattle. Your elected Board of Directors accepted this challenge and directed staff to explore the feasibility of such an evaluation in 2005.

Also during the year, two additional genetic values relative to reproduction were developed — a calving ease direct (CED) expected progeny difference (EPD) and a calving ease maternal (CEM) EPD. A standard weaned calf value (\$W) dollar value index (\$Value) is now available for registered Angus animals, and customized \$Ws can also be computed online via AAA Login at www.angus.org. A cow energy value (\$EN) was also created at no extra cost to the producer. In addition, the Angus Optimal Milk Module is available to commercial producers.

Your Association is working in concert with the U.S. Department of Agriculture and several genomic research specialists on an international bovine genome-sequencing project. Also, a new version of Angus Information Management Software (AIMS), designated version 2.4, was released to members early this year.

Angus outreach

Services to the commercial industry continued to expand. The first-ever AngusSourceSM feeder calf sale was successfully hosted this year, and a Beef Improvement Records (BIR) radio frequency ID (RFID) tag was developed.

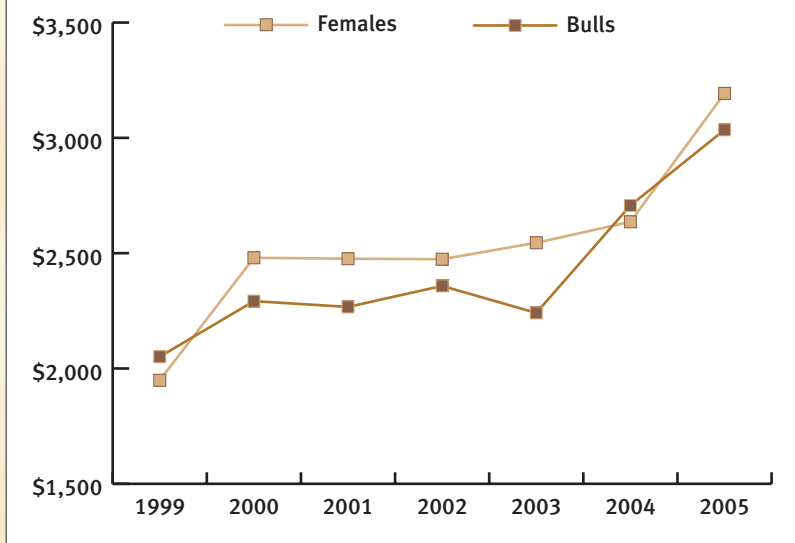
The Angus Education Center was established online at www.angus.org, and Angus outreach seminars on Association programs continue to be attended with enthusiasm. Financial support from the Angus Foundation was directed toward implementation of the inaugural edition of the educational seminar Cattleman's Boot Camp in fiscal year 2006.

Additionally, the *Angus Journal* and the *Angus Beef Bulletin* continue to be two of the most widely read publications in the beef industry. They provide timely, educational editorial material regarding the feeding, breeding, management and marketing of Angus cattle. Furthermore, in regard to marketing, one cannot say enough about our staff of 13 regional managers. They cover the Angus industry like a blanket.

An eye to business

I would be the first to agree that the business of producing beef has gotten complicated. In fact, it's very hard to make a living in agriculture, simply because there are so many variables we can't control.

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



Luckily, there remain the constant traits that characterize the Angus breed. Among those constants are the areas in which Angus cattle excel.

Angus are fertile and have reproductive soundness. Angus females are unequalled in maternal value and mothering ability. Angus steers grow efficiently to harvest, and Angus cattle possess those characteristics that improve the quality and consistency of beef.

This is evident in the success of Certified Angus Beef LLC (CAB). Even though it was difficult dealing with the loss of export markets as a result of the case of bovine spongiform encephalopathy (BSE) discovered in 2003, the *Certified Angus Beef*[®] (CAB[®]) brand has rebounded with an excellent year. Sales have exceeded 500 million pounds for six years in a row, and the product is synonymous with high-quality beef worldwide. CAB has done its part to increase the demand for Angus seedstock in a competitive industry that is quickly becoming more technical in nature.

Indeed, technology and innovation are the very things that have changed the beef business and allowed the Association to develop tools that empower producers to identify profitable cattle. We must continue to embrace change and challenge industry norms. Only then can the American Angus Association continue its tradition of expanding Angus influence, improving and promoting Angus genetics, keeping members informed, growing demand, and providing for the future of the breed.

*In fact,
2005 could
perhaps be
termed one
of the best
years in our
history.*

—John Crouch

John R. Crouch

EXPAND ANGUS INFLUENCE

American Angus Association Board members have dedicated themselves to advancing the breed and expanding the influence of Angus within the beef industry.

Driven by their commitment to the breed's success, Board members met throughout fiscal year 2005 to conduct Association business, achieve the organization's goals, and direct the future of Angus-oriented programs and services.

As highlights of FY 2005, the Board:

- ◆ proposed and obtained member approval of amendments to the American Angus Association's charter and bylaws — amendments that helped modernize and make rules and bylaws less cumbersome and more reader-friendly;
- ◆ adopted a new Association Board committee structure, providing four committees rather than six to reduce duplication of effort, to allow greater Board participation and to more closely align with the Association's new organizational structure adopted in May 2004;
- ◆ oversaw Association staff in developing decision-support tools, including creation of the Optimal Milk Module and interactive weaned calf value (\$W), as well as making yield grade value (\$YG) and quality grade value (\$QG) searchable



Serving on the 2004-2005 American Angus Association Board of Directors are (seated, from left) Leo Baker, Saint Onge, S.D.; Paul Hill, Bidwell, Ohio; Jot Hartley, Vinita, Okla., treasurer; Minnie Lou Bradley, Memphis, Texas, president; Ben Eggers, Mexico, Mo., vice president; Dave Smith, Greensburg, Ind.; Jay King, Rock Falls, Ill.; (standing, from left) John Crouch, Saint Joseph, Mo., executive vice president; Richard (Dick) Tokach, Saint Anthony, N.D.; Rob Thomas, Baker City, Ore.; Gregg Blythe, Decatur, Ala.; Jarold Callahan, Yukon, Okla.; Bill Davis, Sidney, Mont.; Norman Garton, Nevada, Mo.; Phil Trowbridge, Ghent, N.Y.; John Schurr, Farnam, Neb.; Al DeClerk, Pocahontas, Ark.; Robert (Bob) Schlutz, Columbus Junction, Iowa; and Joe Hampton, Mount Ulla, N.C.

components in the online Angus sire evaluation report;

- ◆ approved the free conversion of existing registration certificates to electronic storage from June 1 to Sept. 30, 2005;
- ◆ accepted revisions to the Angus Foundation's previously approved gift acceptance policies and guidelines, and approved a planned gift management fee policy;
- ◆ approved funding by the Angus Foundation for educational activities being planned in coordination with the Industry Relations Committee for Angus breeders;
- ◆ directed Association staff to continue its analysis and research on multi-breed genetic evaluations so as to strategically position the Angus breed and membership within the industry and to report its findings to the full Board as such information develops;
- ◆ approved the reinstatement of the AI Breeding Privilege rule, previous rule "Part 3, Section VII, Rule 1.d.," and current rule "Rule 501";
- ◆ approved the removal of percent retail product (%RP) expected progeny differences (EPDs) as of the spring 2006 National Cattle Evaluation (NCE);
- ◆ approved funds for U.S. Department of Agriculture-Agricultural Research Service bovine genome single nucleotide polymorphism (SNP) studies on Angus animals involved in the research that will ultimately provide a public domain map of 20,000 SNPs;
- ◆ approved development of a Certified Angus Beef LLC (CAB) brand design mark as well as producer guidelines for its use;
- ◆ created an additional calf division and an additional junior division to the owned female category of the National Junior Angus Show (NJAS);
- ◆ modified criteria for sires appearing in the biannual *Sire Evaluation Report* to not include sires with carcass data that fail to meet other main or supplement sire requirements; and
- ◆ approved research proposals from two major land-grant universities directed toward the feed efficiency of Angus cattle.



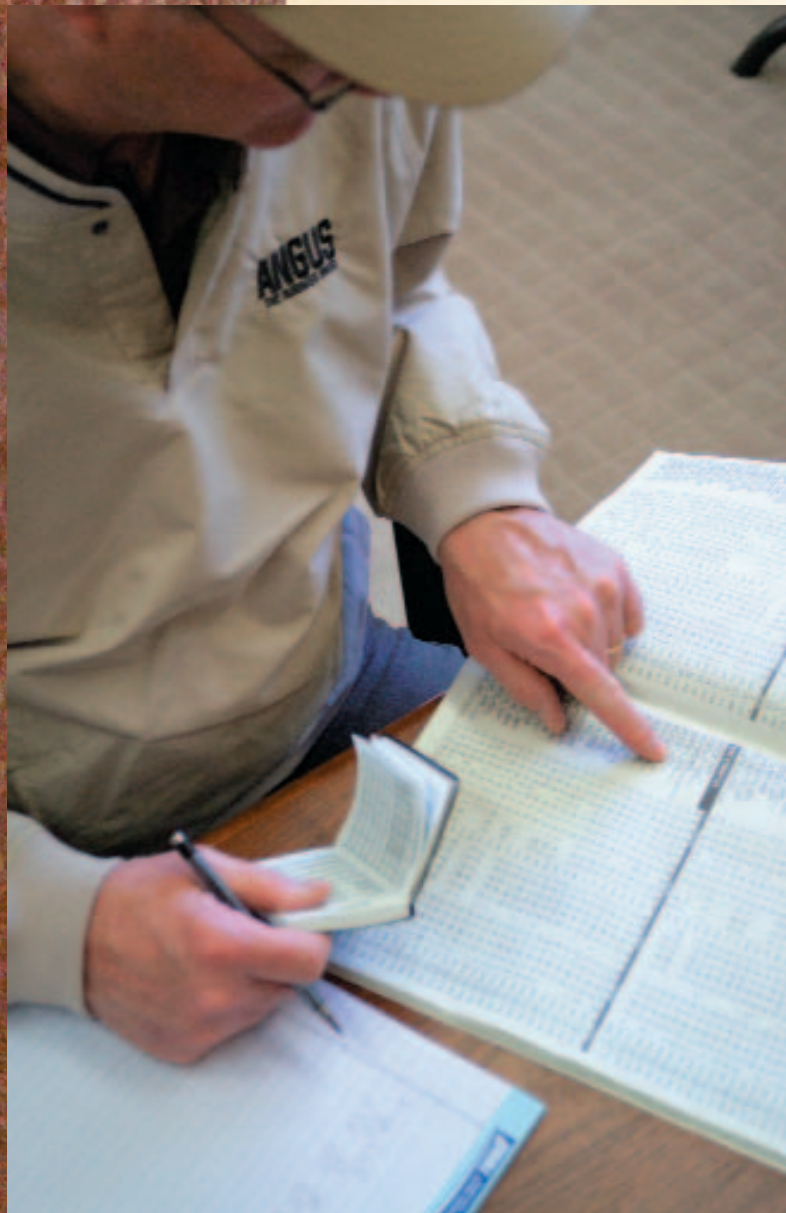
Minnie Lou Bradley, president

I'm proud of the Angus team for being able to grow and provide personal service to all of its members. Each year, new programs are added to empower new and old members alike.

— Minnie Lou Bradley

IMPROVE GENETIC MERIT

Through its Information and Data Programs Division, the American Angus Association continually strives to empower members to make accurate, informed decisions. Through ancestral recording, parentage verification, performance evaluation and decision-support tools, the division provides the foundation for genetic evaluation and the tools for genetic improvement.



Four major departments contribute to the division. Highlights of each follow.

Registrations break 300,000

The Member Services Department processes registrations and transfers, oversees Association rules and regulations, conducts DNA-typing, and assists members. Fiscal year 2005 proved to be a hallmark year in terms of business, with the Association experiencing increases in membership, registrations and data submissions.

- ◆ Registrations totaled 324,266, an 8.5% increase compared to FY 2004. Bulls composed 43.1% of the registrations; females, 56.4%; and steers, 0.5%. Embryo transfer calves accounted for 32,049 registrations, up 14.2% from last year. Some 47.3% of the calves registered were the result of artificial insemination, and 52.7% were sired by natural service.
- ◆ At 192,633, transfers were up 6.0% for FY 2005. Nearly 16% of the transactions were electronic, saving time, paper and money. As an interesting note, 58.5% of the transfers were to member buyers, 37.9% were to nonmember buyers and 3.6% were to joint ownerships of member and nonmember buyers.
- ◆ Producers were again offered a window for converting existing registration certificates to electronic storage at no cost. Between June 1 and Sept. 30, 2005, a total of 9,857 registrations were converted to electronic storage.
- ◆ Electronic submissions of registrations and data for Angus Herd Improvement

Records (AHIR) continued to increase, with 54.8% of registrations, 62.5% of weaning weights and 72.2% of yearling weights submitted via Angus Information Management Software (AIMS), the Internet or some other form of electronic submission.

◆ In FY 2005, 9,113 herds submitted AHIR data to the Association. That represented an 8.0% increase compared to last year and contributed to an 11.3% increase in weights submitted. Birth weights, weaning weights and yearling weights were up 10.1%, 11.8% and 12.9%, respectively, for the year.

◆ The total number of herds turning in ultrasound data increased 11.1% to 3,088, contributing to a 17.1% increase in the number of animals (127,234 head) for which ultrasound data was submitted.

◆ New members increased 4.2% in FY 2005, with 3,402 regular members joining Association ranks. The Association currently boasts 34,615 active members, including 9,494 junior members.

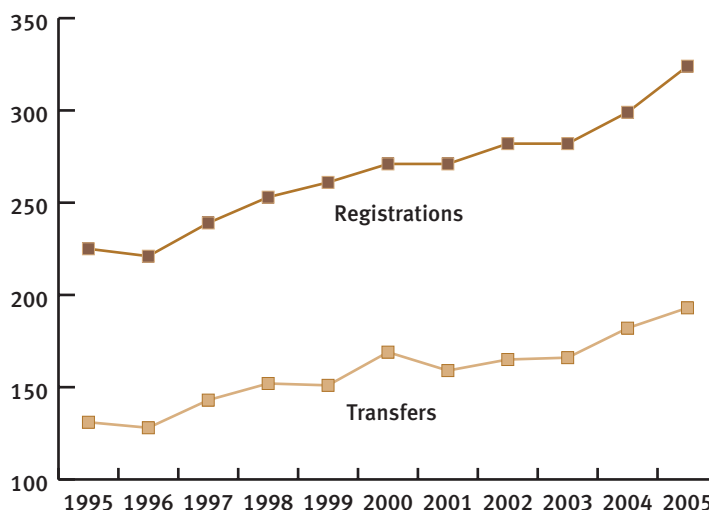
◆ Two-thirds of the 17,446 members who registered cattle each registered 10 head or fewer, while one-fourth registered 11-49 head. A total of 573 producers each registered more than 100 head, accounting for nearly 40% of the Angus cattle registered in FY 2005.

Genetic evaluation

The Performance Programs Department is responsible for processing AHIR and Beef Record Service (BRS) data, genetic research, and the National Cattle Evaluation (NCE) for the Angus breed.

At the heart of the department is the largest, most well-respected database in the beef cattle industry. By the fall 2005 NCE, Angus members had contributed 3.9 million birth weights, 4.5 million weaning weights and 2.3 million yearling weights, allowing the calculation of birth weight expected progeny differences (BW EPDs) on 4.8 million animals, and weaning weight (WW), yearling weight (YW) and maternal milk (Milk) EPDs on 5.5 million animals. In terms of carcass evaluation, 80,075 progeny carcasses have helped establish carcass EPDs for 6,094 sires. Ultrasound scans on approximately 500,000 head have allowed ultrasound-derived carcass EPDs on 889,964 head.

No. of registrations and transfers recorded annually, 1995-2005
(thousands)



Top 10 states in registrations, transfers, new regular members and new junior members for FY 2005

Registrations		New regular members	
State	No. of head	State	Members
Montana	29,594	Texas	420
Texas	24,376	Oklahoma	223
Missouri	23,231	Missouri	213
Nebraska	19,678	Tennessee	175
Oklahoma	19,217	Kentucky	157
Kansas	17,978	Arkansas	111
South Dakota	17,076	Georgia	110
Iowa	12,629	Iowa	108
Kentucky	12,217	Kansas	99
Georgia	10,008	Virginia	96

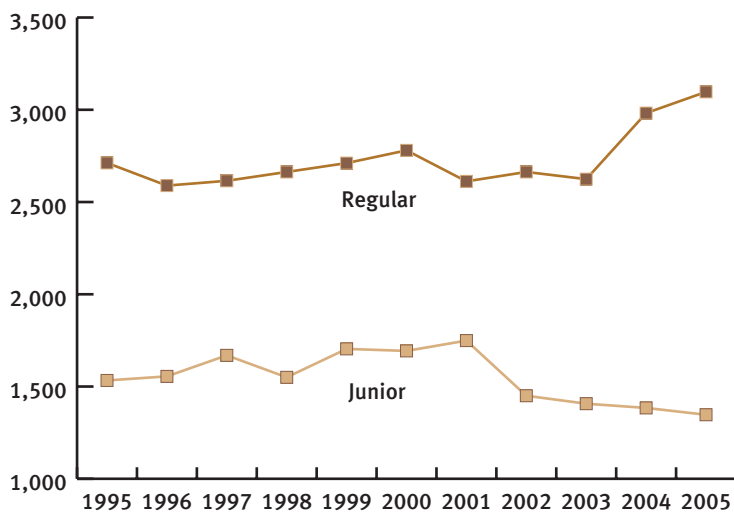
Transfers		New junior members	
State	No. of head	State	Members
Texas	16,479	Texas	125
Missouri	14,232	Oklahoma	96
Montana	14,128	Illinois	93
Oklahoma	13,536	Indiana	71
Kansas	11,374	California	67
Kentucky	9,283	Iowa	62
Nebraska	8,923	Missouri	60
Tennessee	7,423	Ohio	60
Georgia	7,334	Nebraska	41
Virginia	6,197	Kentucky	38

- ◆ The spring 2005 NCE featured two new tools, calving ease direct (CED) and calving ease maternal (CEM) EPDs, to predict heifer calving ease. Both are reported in percentage of unassisted births, with a higher value indicating a greater percentage of unassisted births in first-calf heifers.

CED predicts the average difference in ease with which a sire's calves will be born when bred to first-calf heifers, compared to calves from another sire. The decision-support tool allows producers to select bulls for heifer matings that will increase the probability of unassisted births.

CEM provides a prediction of the percentage of unassisted births for calves out of first-calf daughters of one sire compared to daughters of another sire.

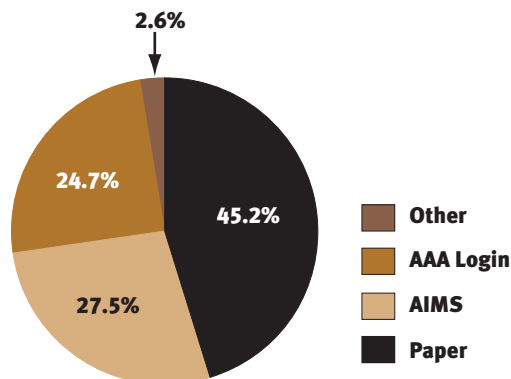
No. of memberships recorded annually, 1995-2005



- ◆ Weaned calf value (\$W) was added to the dollar value indexes (\$Values) already reported. \$W is designed to predict economic performance of Angus genetics by evaluating impact areas of birth weight, preweaning growth, milk production and mature size. The Association began publishing \$W in the Spring 2005 *Sire Evaluation Report*.

- ◆ An offshoot to calculating \$W was the creation of a new selection tool to predict differences in cow feed energy requirements. Cow energy value (\$EN) assesses differences in cow energy requirements as an expected dollar savings difference in daughters of sires. Expressed in savings per cow per year, a higher \$EN is more favorable in environments where feed and production resources are highly variable.

FY 2005 registrations, by type



- ◆ The Optimal Milk Module, designed primarily for commercial cow-calf producers, allows users to select cow size, current milking ability, and estimated pasture and feed costs to arrive at an Angus milk EPD range matched to their specific needs. The online tool is available at www.angus.org/tools/optmilk.

- ◆ Yield grade value (\$YG) and quality grade value (\$QG) are now searchable components in the online Angus sire evaluation report. \$QG and \$YG can also be retrieved on the EPD Pedigree Lookup screen.

- ◆ Research continues to be a priority, with emphasis on calving interval, stayability/longevity, heifer pregnancy, and feed efficiency. The Association is participating in the bovine genome single-nucleotide polymorphism (SNP) project

Angus @ Members

coordinated by the U.S. Department of Agriculture-Agricultural Research Service. This research will ultimately provide a public domain map of 20,000 SNPs.

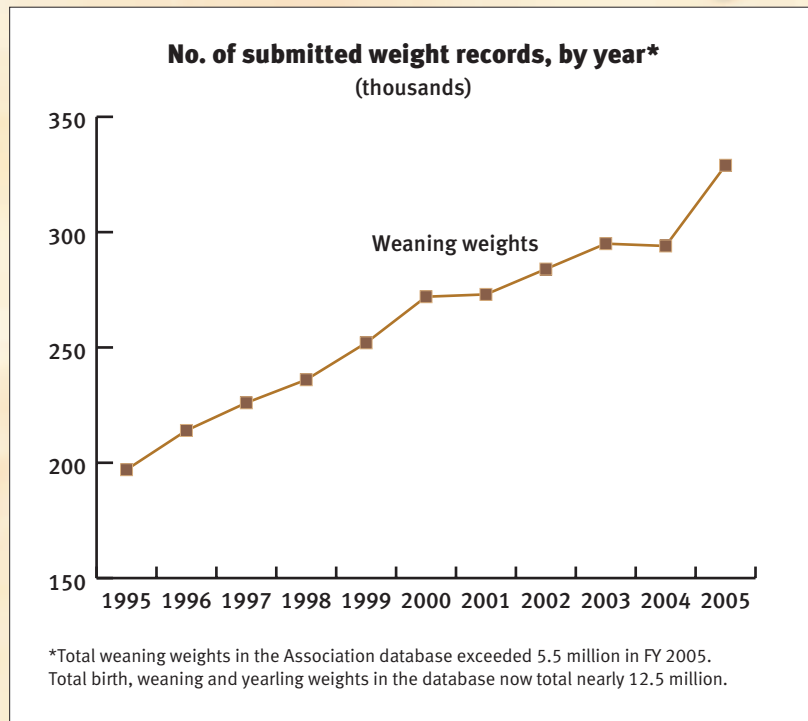
Computer assets

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). In close association, the AIMS department provides a software package to enable members to manage their herds and submit data electronically to the Association.

◆ In May 2005, the customized \$W was added to the interactive custom \$Values already available through AAA Login. Economic assumptions that can be modified by users for Custom \$W include weaned calf price, cow-heifer ratio and feed energy costs.

◆ A module was implemented on AAA Login to calculate inbreeding and relationship coefficients.

◆ The Association's computer system upgrade, referred to as ProRodeo, was launched in April 2005. This multi-year project is being designed to enhance services and ease of use for members by utilizing the most current technology.



◆ The fifth major upgrade of AIMS was released. Version 2.4 features fields necessary to make AIMS compatible with the BRS system and a more comprehensive transfer process, including an additional field to store customer names. A recent enhancement includes the electronic identification (EID)/electronic scale interface.



PROMOTE ANGUS

Dedicated to providing educational tools and other services to both American Angus Association members and affiliate members in the commercial industry, the Industry Relations Division empowers Association members and affiliate members to put knowledge into action. Programs, services and an enthusiastic staff help promote Angus among seedstock producers, commercial cattlemen using Angus genetics and other segments of the beef industry. The following new projects and programs were unveiled in fiscal year 2005 by Industry Relations.

Angus staff leads the way

- ◆ Jared Murnin was hired to join the team of regional managers serving Association members across the United States. Murnin took over the territory covering Texas and New Mexico.
- ◆ Ty Groshans joined the Association staff as assistant director of commercial programs and spent much of the year traveling from state to state, talking to producers and spreading the word about AngusSourceSM and other Association programs.

The power of programs

- ◆ The AngusSource program, which enhances the ability of commercial producers using registered Angus bulls to market their cattle at a premium, continued to grow throughout the year. The first-ever AngusSource feeder-calf sale was successfully hosted in Joplin, Mo., bringing premiums to AngusSource users. A Beef Improvement Records (BIR) tag was added as an option for members or affiliates whose cattle do not meet AngusSource requirements but who still wish

to use radio frequency identification (RFID) tags. Steps were continued toward making AngusSource an official U.S. Department of Agriculture process-verified program (PVP).

- ◆ The Angus Education Center, providing educational modules and downloads for producers on a variety of topics, was developed and introduced at www.angus.org/anguseducation.html. Anyone can visit and learn more about online registration, freeze-branding, Angus Information Management Software (AIMS) and AngusSource.
- ◆ To extend education efforts even further, Association staff, with financial support from the Angus Foundation, planned and organized educational seminars and workshops, such as Cattlemen's Boot Camp, to be offered in FY 2006.

Spreading the Angus word

- ◆ As part of an ongoing effort to spread the news about the benefits of the Angus breed in all sectors of the industry, the communications department electronically distributed more than 63,000 news releases and more than 44,000 publicity photos across the United States. All press releases are now e-mailed as a part of the Association's ongoing goal to use technology to inform as many people as possible.
- ◆ The wide range of literature and publications available to Angus enthusiasts was reviewed and revamped. Several publications were updated to include advances in Association programs and services, technology, and the



Angus breed. A publication dedicated to getting juniors started on the right track was updated, as well as a brochure introducing Angus and everything the breed has to offer.

- ◆ The Association was given the opportunity to create a television show detailing the benefits of Angus. Filmed in three different environments that each focused on a separate benefit of the Angus breed, the Angus episode of “The Cattle Show” aired in July on RFD-TV. Copies of the episode are available for distribution from the Association.
- ◆ Association staff continued outreach meetings to introduce people to new programs and services, organizing and participating in 15 different settings in strategic regions of the country. A producer outreach meeting was also offered at the 2005 Cattle Industry Annual Convention & Trade Show in February. Staff members were present at a joint booth with Certified Angus Beef LLC (CAB) to answer questions.

Empowering events

- ◆ Several events throughout the year bring together Angus members and friends to socialize and discuss the current state of the breed and of the industry. The first main gathering of Angus enthusiasts during the fiscal year is the American Angus Association Annual Meeting, hosted in conjunction with the North American International Livestock Exposition (NAILE) in Louisville, Ky. There, Angus members meet to discuss the previous year and elect new Board members. This year’s inductees to the Angus Heritage Foundation included Tom Burke, Smithville, Mo., and Richard Janssen, Ellsworth, Kan. Ralph Sydenstricker, formerly of Mexico, Mo., was honored posthumously.

- ◆ The National Western Stock Show (NWSS) in Denver, Colo., is always a popular favorite, with cattlemen flocking West to see great cattle. The Association manned booths both on the hill and in the yards, greeting and educating Angus pros and newcomers alike.

- ◆ The National Junior Angus Association (NJAA) brings together junior members from across the United States for education, support and fun. The main event of the year, the National Junior Angus Show (NJAS), was hosted in Denver, Colo., which became home to more than 600 juniors from 37 states competing in contests and showing 1,053 cattle entries. There were more than 1,000 entries in the educational contests and competitions.

The Industry Relations Division serves as the link between members — both young and old — commercial cattlemen, and the Association.



- ◆ The annual Leaders Engaged in Angus Development (LEAD) Conference took place in Boise, Idaho, and offered workshops, tours and industry presentations for Angus juniors, advisors and friends from 34 states, Australia and Canada. With a theme of “Strikin’ it Rich,” the conference boasted the largest group of Angus youth to date.
- ◆ Missouri played host to the National Angus Conference & Tour, which offered participants the chance to listen to top-notch speakers discuss the beef industry and its future, as well as tour Missouri Angus operations and the Association and Angus Productions Inc. (API) offices in Saint Joseph, Mo. More than 300 producers attended the conference.

GIVE TO THE FUTURE

The Angus Foundation enables Angus enthusiasts to provide for the future of the breed by funding education, youth and research initiatives geared toward Angus advancement. It's a tradition the not-for-profit 501(c)(3) organization has pursued for 25 years.

Founded in 1980, the American Angus Association affiliate grew substantially in 2005.

Following are highlights of Angus Foundation activities and notable achievements accomplished during the year.

- ◆ **“That Old Black Magic” Gala and Auction.** Grossing more than \$74,000, with almost 400 people in attendance, this first-ever breeder-hosted type of fundraising event was hosted by Fred and Betty Johnson of Summitcrest Farms,

Summitville, Ohio, on behalf of the Angus Foundation. The event empowered Angus breeders with another opportunity to financially support the Angus Foundation's education, youth and research programs through a new and fun social activity.

- ◆ **Angus Foundation Supporter Recognition Event and Fundraiser.** The second annual event took place in Louisville, Ky., in November and was attended by more than 150 people. Major donors were recognized, and \$25,000 was raised for the Angus Foundation's education, youth and research activities from the sale of the prestigious 15 millionth animal registration number of the American Angus Association. This piece of Angus history was purchased by Belle Point Ranch, Lavaca, Ark.; Circle A Angus Ranch, Iberia, Mo.; and Express Ranches, Yukon, Okla.

- ◆ **“The Power of One Gift.”** The first-ever fundraising mail solicitation, themed “The Power of One Gift,” generated almost \$9,500 in new revenue for the Angus Foundation. This new annual solicitation program provided every member of the American Angus Association with the opportunity to financially support the Angus Foundation and to be recognized as generous donors, regardless of the level of their outright financial gifts.

- ◆ **Angus Foundation Heifer Package.** Duane, Laura and Lance Pankratz of LaGrand Angus & Hereford Ranch in Freeman, S.D., purchased the 2005 Angus Foundation Heifer Package at the National Western Stock Show (NWSS) for \$97,500. Stan Thomas of Three Trees Ranch Inc., Sharpsburg, Ga., generously donated this



offering, the pick of a flush of six heifers. The long-standing program for the Angus Foundation gives Angus breeders the opportunity to purchase outstanding Angus genetics while simultaneously supporting the Angus Foundation.

◆ **Young Cattlemen's Conference (YCC).**

The Angus Foundation sponsored Greg Rathbun, Moses Lake, Wash., to represent the American Angus Association at the National Cattlemen's Beef Association's YCC June 2-9.

◆ **2005 Angus Foundation Silent Auction.**

The Angus Foundation raised almost \$10,000 at the 2005 National Junior Angus Show (NJAS) in Denver, Colo., as a result of its silent auction. The success of this activity can be credited to the numerous state and junior Angus associations and individuals who generously donated items, as well as everyone who bid on the items during the auction.

◆ **2005 Angus Foundation Golf**

Tournament. Always an enjoyable event for Angus juniors and adults alike, the 2005 tournament set new records with more than 60 players and almost \$25,000 in donations. Angus breeders can participate by either sponsoring the event and/or playing in the tournament itself.

◆ **Funding and planning for educational seminar.** The Angus Foundation funded and helped plan the American Angus Association's Cattlemen's Boot Camp, scheduled for fiscal year 2006 at the Colorado State University Agricultural Research, Development and Education Center in Fort Collins, Colo.

◆ **Funding for bovine genome mapping.**

The Angus Foundation Board of Directors approved funding for research support to the U.S. Department of Agriculture Agricultural Research Service for bovine genome mapping and single nucleotide polymorphism (SNP) DNA-marker identification.

Each and every education, youth and research activity funded by the Angus Foundation empowers Angus breeders, regardless of age, with the opportunity to increase their equity and investment in the Angus breed and the agricultural industry.



Greg Rathbun, 2005 YCC representative

The mission of the Angus Foundation is to secure, manage and steward charitable gifts for the purpose of cultivating and fostering the advancement of education, youth and research activities.

STAY INFORMED

Knowledge is power. In fiscal year 2005, Angus Productions Inc. (API) strived to empower Angus producers with timely, pertinent information about the industry through the *Angus Journal*, *Angus Beef Bulletin*, Web Services Department and Special Services Department.

The *Angus Journal* provided American Angus Association members with product and industry information, which gave them the competitive edge to prosper.

The *Angus Beef Bulletin* reached out to commercial producers. The publication provided these cattlemen with information on how to best use the Association's programs and services, and highlighted production-type information that could help them make the most of their Angus purchases.

Real-time coverage and topic Web sites delivered immediate contact with producers. They broadened industry coverage beyond the publications' pages to provide more in-depth information.

Formed in 1979 after the Association purchased *The Aberdeen-Angus Journal*, later renamed the *Angus Journal*, API is a wholly

owned, for-profit subsidiary. Following are API highlights for FY 2005.

Focus on customer service

The Web Services Department improved its production structure to better serve customers' needs for Web site designs and updates, banner ads, sale reports, sale book postings, and real-time coverage.

- ◆ Web services coordinators were repositioned to provide customers with more personal and immediate attention.
- ◆ Producers now have greater flexibility in displaying their cattle's expected progeny differences (EPDs) on Web sites custom-created by the department. The five new EPD templates allow producers to select a format based on their preferences and needs.
- ◆ EPDs and dollar value indexes (\$Values) continue to be automatically updated on producers' Web sites, which ensures that customers see the most current and accurate information.
- ◆ More than 35 ranch and other industry Web sites were created by the department during FY 2005, bringing the total to 169 Web sites.

Angus publications, media earn honors

API editorial, advertising and Web services departments earned many honors at the annual Livestock Publications Council (LPC) Critique Contest, hosted in conjunction with the Agricultural Media Summit.

- ◆ In the general excellence division, the *Angus Beef Bulletin* earned second place in the Newspaper category.



- ◆ The editorial team of the *Angus Journal* and the *Angus Beef Bulletin* received four firsts, one second and six honorable mentions for efforts in writing, design and photography.

- ◆ The API advertising team received one second-place award.

- ◆ The body condition score (BCS) topic site, a cooperative effort of the Web Services Department and the editorial team, earned first place for a special site. The Web team also earned two second-place awards and one honorable mention.

Editor Shauna Rose Hermel was recognized for achieving “Master Writer” status (Level 5) by the American Agricultural Editors’ Association (AAEA). Assistant Editor Brooke Byrd achieved Level 2 in the Master Writer program and placed second with an article in the issues category.

Publication visibility increases

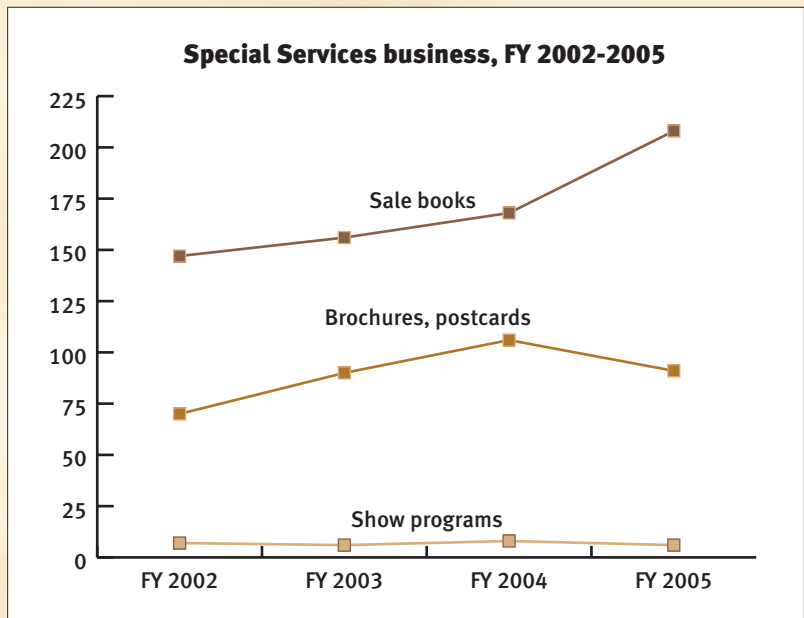
- ◆ The *Angus Beef Bulletin* is quickly approaching its circulation goal of 100,000 readers. The September issue reached a record 90,077 readers.

- ◆ The September issue of the *Angus Journal* set page and circulation records, too. The magazine totaled 1,088 pages, with 258 pages of editorial, and was distributed to 17,336 regular subscribers and 3,887 junior members.

- ◆ Advertisers and other media gained greater access to information about API’s departments and services through the updated API media kit. The kit is available by request.

Paper, postage costs hit publishing industry

The publishing industry has witnessed unprecedented increases in paper costs and postal rates. API originally avoided space rate increases by offsetting costs with production efficiencies. Paper costs increased more than 21% in the last two years and are expected to increase an additional 7%-10%. Although ad rates increased effective October 2005, API still offers the lowest page rates when compared to other purebred publications on a cost-per-reader basis. An *Angus Journal* ad can reach potential customers for less than 5¢ per reader, while an *Angus Beef Bulletin* ad costs less than 1.6¢ per reader.



Committed to innovation

- ◆ After submitting the publications to a thorough evaluation by Auras Design, a Maryland-based professional communications company, the editorial and advertising sections were reorganized to promote easy navigation.

- ◆ Editorial and advertising artists began transitioning to Adobe InDesign® CS2, the latest software in layout and design.

- ◆ Staff members participated in training sessions on the following topics: Adobe InDesign CS2, Adobe PhotoShop®, photography techniques, PDFs, U.S. Postal Service standard mail requirements, editing techniques, and design principles.

- ◆ Topic Web sites underwent updates in an effort to provide readers with the most current information. Topic sites, a collaboration of the editorial team and Web services, include: country-of-origin labeling, www.countryoforiginlabeling.info; drought, www.angusjournal.com/drought; BCS, www.cowbcs.info; beef cow efficiency, www.beefcowefficiency.com; and Angus international, www.angusinternational.info.

- ◆ Continued emphasis was placed on distributing editorial news through the Angus eList, which now has 3,530 subscribers.

GROW DEMAND

While beef supplies remained at a cyclical low, an upward turn began in 2005, and the *Certified Angus Beef*® (CAB®) brand enjoyed a great recovery year. Sales increased some 30 million pounds, to 533 million pounds, and demand grew in both domestic and reopened international markets, such as Mexico.

The number of identified cattle reached a record 12.8 million head, up 7.9% for the year, and led to a 7.8% increase in the number of carcasses certified, to almost 2 million. Market pressures held the CAB-acceptance rate at 15.6%, but all the signs say the best is yet to come.

Leadership among the brand's more than 13,000 partners can be credited with the comeback. Licensees took ownership in the brand, invested in training employees to communicate its value to customers and renewed their commitment to quality.

Ground beef continued to lead the way, stacking a 13.4% increase onto its brand-leading 13.5% increase the previous year. Driven by foodservice demand, processor grinds were the fastest-growing category, up 24.5%, but retail

holds the key to capturing more of this huge market. Overall retail sales grew 5.0% to 291.9 million pounds.

Certified Angus Beef LLC (CAB) marketing efforts last year contributed to producers receiving near-record prices for high-quality cattle as consumer demand continued to grow. Leadership and proactive communication helped all customers, from bull buyers to consumers, understand there is a difference between price and value.

The following are highlights from throughout the year:

- ◆ The 2005 National Angus Carcass Challenge (NACC) grew 30% to exceed 8,000 head, after the 2004 winning pen achieved 93% CAB acceptance and USDA Prime.
- ◆ The Feedlot-Licensing Program's (FLP's) 80 partner yards in 17 states enrolled a record 246,000 cattle, exceeding 1.15 million head during its six-year span. That database now contains more than 650,000 individual records.
- ◆ Economic analysis and consultation play increasing roles in the FLP, as CAB staff break out data by customer, performance and CAB acceptance, showing the dollar impact of hitting the brand's target. Technical bulletins summarize issues such as calf health, yield grade and percent Angus.
- ◆ Supply Development targeted Angus producers in South Dakota and Montana. Strategies included "Black Ink Basics" seminars in those areas, and the first "Brand Builders" seminars at the Wooster, Ohio, office. An expanded Industry



Wade and Cleo Barry, producers for the brand

Information Division supplied customized news releases and feature articles to key agricultural media and transformed the new www.cabpartners.com Web site into a producer interface with the brand.

- ◆ Consumer marketing strategies continued to expand brand presence in Pittsburgh, Pa., and Detroit, Mich., and began taking shape in Albany, N.Y. Chef Dianna Stoffer and Home Economist Sarah Donohoe worked through television, radio and cooking classes to reach millions of consumers.
- ◆ Hearing seasonal recipes and cooking tips on the radio led consumers to local stores and restaurants carrying the CAB brand. Prize packages expanded the promotion's impact. Print coverage from recipes and full-page meal solutions led consumer media circulation to exceed 34.5 million.
- ◆ Educational programs provided knowledge for developing licensees' CAB sales and service. Chefs learned about beef production factors influencing quality. Similar focus at the annual Roundup seminar for distributors and retailers attracted the largest number of international partners ever and helped rejuvenate the brand's presence in opening international markets. The first regional "Stampede" seminar for chefs forged relationships with local distributors.
- ◆ Health care provided an avenue for growing foodservice sales, which increased 11.5% to 180.7 million pounds. Sales and marketing materials expanded the effort and introduced specialty items, like boneless short ribs.
- ◆ Also in foodservice, a frankfurter from Smithfield Foods expanded the brand's product line for chains, entertainment venues and independent operators. Success with the CAB brand in its Mexico locations led Hard Rock Cafe to include CAB burgers in all its restaurant menus in major U.S. cities.
- ◆ A 30-second television commercial completed the package of marketing resources available to licensed retailers. A video library began providing licensees with product images to include in their commercials.

"Our licensees took more ownership in the brand, invested in training employees to communicate its value to customers, and renewed their commitment to quality."

— Jim Riemann, Certified Angus Beef president



BOLSTER THE BREED

Since 1952, the American Angus Auxiliary has existed to support and promote the Angus breed. With a strong focus on providing opportunities for and championing Angus youth, Auxiliary volunteers from across the United States devote their time, values and energy to keeping the Angus breed and its supporters at the forefront of the beef industry.

To be viable in the future, the organization has continued to adapt, evolve and grow along with the Angus breed, providing even more opportunities for Angus youth.

Below are the highlights of Auxiliary service in fiscal year 2005.

- ◆ The Auxiliary awarded \$9,700 in scholarships to five girls and five boys, including Julie Thelen, Saline, Mich.; Mallory Trospen, Hamilton, Mo.; Samantha Harl, Hastings, Neb.; Katrina Dubs, Billings, Mont.; Bridget Driscoll, Williamsburg, Iowa; Clayton Lampe, Scott City, Kan.; Andrew Foster, Niles, Mich.; Brett Naylor, Buffalo, Mo.; Brandon Creamer, Montrose, Colo.; and Benjamin Greene, Covington, La.
- ◆ The Auxiliary introduced www.angussalebarn.com, with online credit card purchasing, to provide financial support for the Auxiliary's many programs. Angus merchandise was also 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.
- ◆ Harvey and Nina Lemmon, Woodbury, Ga., donated Lemmon Pride P217 to the Auxiliary to be auctioned during Angus events at the 2005 North American International Livestock Exposition (NAILE) in Louisville, Ky., to support the Auxiliary scholarship fund.
- ◆ The Auxiliary awarded the first Leaders Engaged in Angus Development (LEAD) scholarships at the 22nd Annual All-American *Certified Angus Beef*® (CAB®) Cook-Off. The scholarships will pay the LEAD Conference registration fee for the winning intermediate division team of the Cook-Off fresh meat competition.
- ◆ The 2005 Cook-Off was also the first time two Black Kettle awards, given in memory of Paul St. Blanc and awarded to the highest-placing team or teams among all categories, were announced.
- ◆ Proposed amendments to the Auxiliary bylaws were presented to the membership to enable the Auxiliary to achieve its purpose and empower members to make a difference. There were four major areas of change: 1) formation of a board of directors, which includes the officers, four regional directors and one at-large director; 2) update of financial sections to reflect the Auxiliary's recent alliance with the Angus Foundation and the addition of the Executive Treasurer position; 3) realignment of the Auxiliary fiscal year to that of the Association; and 4) introduction of gender-neutral language throughout the bylaws so participation of men, as well as women, is welcome.
- ◆ Auxiliary members gathered in Saint Joseph, Mo., for a two-day conference titled "Excellence — No Exception II." The group learned about the work of the Association through in-depth tours of each department of the Association and Angus Productions Inc. (API), as well as briefings by staff members. Auxiliary officers presented the history and framework of major Auxiliary programs and activities. Participants generated enthusiasm for conducting proven programs in new ways and exploring new projects.
- ◆ Lois Foster, Niles, Mich., was named Distinguished Woman for her dedication to the Auxiliary. She became one of only 20 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, 2005 and 2004, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Angus Association and its subsidiaries as of September 30, 2005 and 2004, 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 12, 2005

American Angus Association and Its Subsidiaries Consolidated Statements of Financial Position

September 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,803,750	\$ 846,132
Accounts receivable	2,399,182	2,221,444
Interest receivable	39,266	37,138
Inventories	642,394	801,936
Prepaid expenses	386,307	265,287
Total current assets	<u>5,270,899</u>	<u>4,171,937</u>
Investments	<u>16,978,392</u>	<u>14,899,231</u>
Property & Equipment		
Buildings and land improvements	3,509,458	3,399,826
Furniture, fixtures and equipment	2,261,867	2,137,987
Electronic data processing equipment	3,466,831	3,563,971
Work in process-information system	106,155	-
Total, at cost	<u>9,344,311</u>	<u>9,101,784</u>
Less accumulated depreciation	<u>5,347,415</u>	<u>5,001,300</u>
Total property and equipment	<u>3,996,896</u>	<u>4,100,484</u>
Total Assets	<u>\$26,246,187</u>	<u>\$23,171,652</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 921,266	\$ 337,191
Accrued liabilities	743,148	496,236
Olympic sponsorship	-	277,416
Deferred income	725,396	683,119
Total current liabilities	<u>2,389,810</u>	<u>1,793,962</u>
Long-term Liabilities		
Deferred compensation	331,818	307,303
Accrued postretirement benefits	944,217	788,860
Total long-term liabilities	<u>1,276,035</u>	<u>1,096,163</u>
Total liabilities	<u>3,665,845</u>	<u>2,890,125</u>
Net Assets		
Unrestricted	22,570,342	20,271,527
Permanently restricted	10,000	10,000
Total net assets	<u>22,580,342</u>	<u>20,281,527</u>
Total Liabilities and Net Assets	<u>\$26,246,187</u>	<u>\$23,171,652</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 Consolidated Statements of Activities and Changes in Net Assets

Years Ended September 30, 2005 and 2004

	2005	2004
Changes in Unrestricted Net Assets		
Revenues, gains and other support:		
Royalties	\$12,019,976	\$11,379,316
Advertising income	4,869,578	4,645,113
Registrations	4,108,806	3,733,164
Transfers	1,143,083	1,064,592
Artificial insemination certificates	1,421,990	1,311,735
Memberships	679,770	635,296
Performance programs	1,058,340	943,085
AngusSource enrollment	84,572	38,961
Web site revenue	246,647	263,116
Subscriptions	874,453	858,126
Contributions	324,927	302,854
Account and merchandise sales	394,263	391,554
Software sales	108,074	88,971
Support fees	418,634	418,207
Other income	155,163	156,053
Investment income	722,671	543,028
Total revenues, gains and other support	<u>28,630,947</u>	<u>26,773,171</u>
Expenses		
Program services:		
Certified Angus Beef	12,439,876	12,038,220
Angus Productions Inc.	5,936,303	5,678,260
Member services	2,051,751	2,062,722
Angus Information Management		
Software	349,671	476,077
Performance programs	1,649,780	1,398,034
Commercial programs	405,655	333,486
Industry and member communications	1,109,670	1,488,211
Field services	1,176,221	728,143
Activities	1,522,335	1,367,313
Angus Foundation	323,748	269,578
Total expenses	<u>26,965,010</u>	<u>25,840,044</u>
Changes in net assets before postretirement benefit expense, net unrealized gain on investments and income taxes	1,665,937	933,127
Postretirement Benefit Expense	(178,000)	(179,573)
Net Unrealized Gain on Investments	816,947	671,422
Changes in net assets before income taxes	2,304,884	1,424,976
Provision for Income Taxes	6,069	40,295
Changes in Unrestricted Net Assets	2,298,815	1,384,681
Changes in Permanently Restricted Net Assets	-	-
Changes in Net Assets	2,298,815	1,384,681
Net Assets, beginning of year	20,281,527	18,896,846
Net Assets, end of year	<u>\$22,580,342</u>	<u>\$20,281,527</u>

American Angus Association and Its Subsidiaries Consolidated Statements of Cash Flows

Years Ended September 30, 2005 and 2004

	2005	2004
Cash Flows From Operating Activities		
Changes in net assets	\$ 2,298,815	\$ 1,384,681
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation	770,136	847,070
(Gain) loss on sale of equipment	(3,566)	3,341
Net realized gain on sale of investments	(417,539)	(374,728)
Net unrealized gain on investments	(816,947)	(671,422)
Net effect of changes in operating assets and liabilities:		
Accounts and interest receivable	(179,866)	(52,157)
Inventories	159,542	(22,420)
Prepaid expenses	(121,020)	106,307
Accounts payable	584,075	(600,156)
Accrued liabilities, deferred income, deferred compensation, and postretirement benefits	191,645	426,551
Net cash provided by operating activities	<u>2,465,275</u>	<u>1,047,067</u>
Cash Flows From Investing Activities		
Proceeds from sale of equipment	14,361	9,067
Proceeds from sale of investments	4,125,679	6,355,682
Purchases of property and equipment	(677,343)	(560,836)
Purchases of investments	(4,970,354)	(8,040,060)
Net cash used in investing activities	<u>(1,507,657)</u>	<u>(2,236,147)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	957,618	(1,189,080)
Cash and Cash Equivalents, beginning of year	846,132	2,035,212
Cash and Cash Equivalents, end of year	<u>\$ 1,803,750</u>	<u>\$ 846,132</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, 2005 and 2004

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 as a not-for-profit organization 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 calculated using royalty estimates derived from unreported sales estimated from historical sales information. All other accounts receivables are uncollateralized customer obligations that 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. No reserve is deemed to be necessary.

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. 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.

American Angus Association and Its Subsidiaries Summary of Significant Accounting Policies

September 30, 2005 and 2004

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 Association provides certain health care benefits for retired employees who meet eligibility requirements. The Association's share of the estimated costs of benefits, which 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), and is not considered to be a private foundation. Angus Productions Inc. is not a tax-exempt organization.

Description of Programs

The Association operates the following programs:

Certified Angus Beef. The Certified Angus Beef Program 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, 2005 and 2004

Note 1—Investments

The following is a summary of investments held at September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
U.S. Government and other governmental agency securities	\$ 2,731,857	\$ 2,932,230
Mutual funds	5,328,887	2,990,941
Equity securities	5,532,984	4,534,004
Certificates of deposits	2,770,891	4,010,170
Money market accounts	613,773	431,886
Total investments	<u>\$ 16,978,392</u>	<u>\$14,899,231</u>

Investment returns for the years ended September 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Interest and dividend income	\$ 359,629	\$ 221,637
Net realized gain	417,539	374,728
Management fees	(54,497)	(53,337)
Investment income	722,671	543,028
Net unrealized gain	816,947	671,422
Total investment return	<u>\$ 1,539,618</u>	<u>\$ 1,214,450</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 the fiscal years ended 2005 and 2004, the Association contributed \$589,255 and \$553,647, 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. 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 \$20,750 in 2005 and \$36,000 in 2004. 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 \$331,818 in 2005 and \$307,303 in 2004.

During the fiscal year ended September 30, 2001, the Board of Directors approved a plan 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:

	<u>2005</u>	<u>2004</u>
Benefit obligation—net	\$ 967,233	\$ 805,000
Accrued benefit cost:		
Current liability	\$ 23,016	\$ 16,140
Long-term liability	944,217	788,860
Total	<u>\$ 967,233</u>	<u>\$ 805,000</u>

Benefits expense (includes benefits of \$15,678 and \$12,226 for the years ending September 30, 2005 and 2004, respectively)

\$ 178,000	\$ 179,573
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Weighted average assumptions:

Discount rate	6%	6%
Expected return on plan assets	8%	8%

Note 3—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:

	<u>2005</u>	<u>2004</u>
Federal income tax	\$ 4,248	\$ 33,756
State income tax	1,821	6,539
Total provision for income taxes	<u>\$ 6,069</u>	<u>\$ 40,295</u>

Total payable for income taxes is \$7,008 and \$12,806 for the years ending September 30, 2005 and 2004, respectively.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2005 and 2004

Note 4—Board Designated and Permanent Restrictions

Included in unrestricted net assets are the following Board designations:

	2005	2004
Research for breed improvements	\$ 397,122	\$ 384,081
Information systems	2,066,573	2,032,199
Supplemental health benefits	841,232	714,296
Capital replacement	100,000	100,000
Youth and education programs	607,484	553,105
Donor relations	1,055,012	416,254
Total Board designations	<u>\$5,067,423</u>	<u>\$4,199,935</u>

Permanently restricted net assets represent an endowment totaling \$10,000 for both 2005 and 2004, the income from which is unrestricted support for the Angus Foundation.

Note 5—Royalties

Royalties consist of revenues from Certified Angus Beef LLC. Royalties from three customers represented 31% of the Association's total revenues, gains, and other support for the year ending September 30, 2005. Royalties from one customer represented 20% of the Association's total revenues, gains, and other support for the year ending September 30, 2004.

Note 6—General and Administrative/ Fund-Raising Expenditures

In 2005 and 2004, the Association conducted activities that included requests for contributions, as well as program and management and general components. General and administrative, and fundraising expenses were allocated to program services based on allocation formulas believed by management to be representative of the actual efforts required by each program. Total costs related to each of these categories of costs were:

	2005	2004
General and administrative	\$2,891,151	\$ 2,851,435
Fundraising	70,517	19,327

Note 7—Advertising

Advertising expense for the years ended September 30, 2005 and 2004 totaled \$2,357,648 and \$2,654,760, respectively.

Note 8—Supplemental Cash Flow Disclosures

Cash paid for income taxes was \$16,649 and \$24,912 in 2005 and 2004, respectively.

Note 9—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 \$277,416 at September 30, 2004 was fulfilled in 2005 through a contribution of in-kind and cash payments.

Note 10—Commitments

The Association has capitalized \$106,155 of work in progress at September 30, 2005 for a computer software upgrade. Additional costs estimated by management to complete this upgrade are approximately \$2,200,000 with an expected completion date of July 2008.

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.

*Empowering
Members*



American Angus Association

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