

*Progress of Today.
Promise of Tomorrow.*

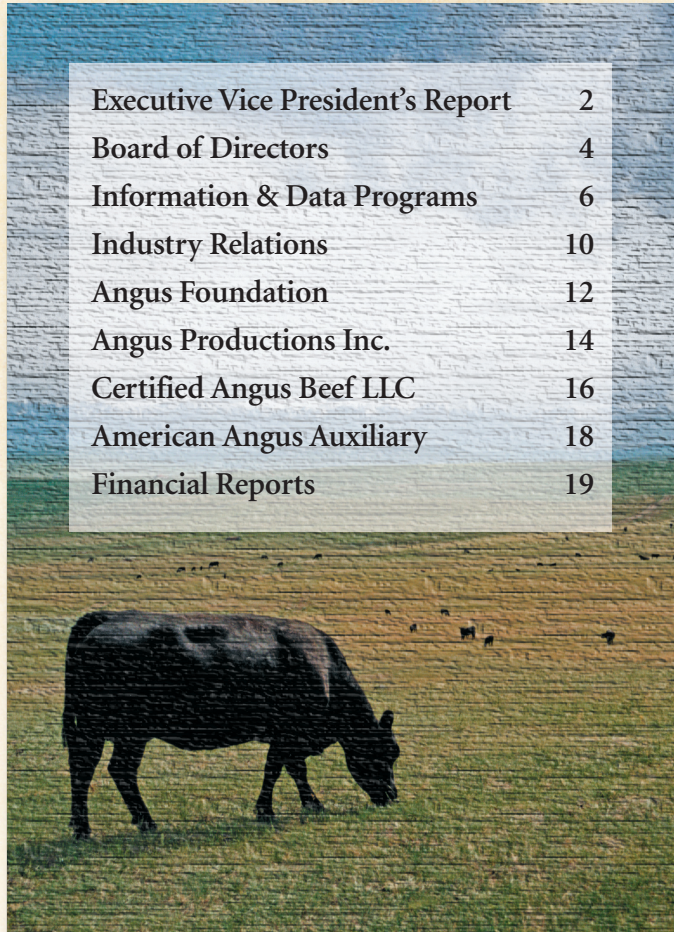
Building on the *Progress* of today to forge the *Promise* of tomorrow.



Progress of Today. Promise of Tomorrow.

Building on the **Progress** of today to forge the **Promise** of tomorrow.

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The American Angus Association and its members are driven by the pursuit of progress.

In the last 20 years, the breed has undergone extensive growth to become the most in-demand beef breed in the world. This is due in part to our members drive to succeed in an ever-changing beef industry landscape, to breed the best in beef cattle genetics,



to broaden Angus influence within the industry, and to own the most sought-after beef cattle worldwide.

In 2006, the Association continued to build upon past successes and promote new progress. Nearly 350,000

registrations were recorded, genetic research projects were identified and established, and massive member-outreach and educational efforts were initiated.

Today, the American Angus Association remains motivated as much by the successes of the past as the promise of the future. We're building on the *Progress* of today to forge the *Promise* of tomorrow.



A Year of Progress



The Angus breed made tremendous progress in 2006. The year marked the 50th anniversary of the American Angus Association's presence in the city of Saint Joseph, Mo. During the organization's last half-century, Association members have built upon a powerful database, awesome in scope and accuracy. American Angus Association genetic selection tools have earned a reputation in the industry for being reliable and effective. In addition, a series of both newly introduced and recurring educational programs and services continue to serve members well. This year alone:



John Crouch, executive vice president

- ✿ registrations for the year, at 347,572, were up 7.19% from the previous year;
- ✿ the number of new regular members was up 4.59%;
- ✿ transfers were up 7.00%;
- ✿ embryo transfer (ET) registrations increased by 11.95%;
- ✿ bulls composed 43.8% of registrations, up from 43.1%;
- ✿ the number of artificial insemination (AI) certificates issued increased 9.38%;
- ✿ weight records submitted through Angus Herd Improvement Records (AHIRSM) were up by 7.0%;
- ✿ the number of herds enrolled in AHIR increased 6.3%;
- ✿ ultrasound measurements were submitted on 18.5% more animals and from 12.8% more herds;
- ✿ female prices averaged \$3,436, up \$243;
- ✿ bull prices averaged \$3,171, up \$136; and
- ✿ a record-high 13.1 million cattle were identified for the Certified Angus Beef LLC (CAB) program.

Yes, life in the Angus world is good. But with such progress, we must continue to create opportunities whereby future generations of Angus breeders can enjoy the same successes we have enjoyed. To do so, we must continually redefine the way we do business. We have created a number of far-reaching programs that assist members as well as commercial producers.

Educational efforts

Association members have access to comprehensive programs regarding promotion and marketing that are unparalleled in our industry.

CAB continues to set the bar for branded beef, and, in doing so, enables premiums to be received by producers of Angus cattle qualifying for the program.

From an Association member-education perspective, Outreach Seminars have been an effective way to communicate with members — a total of 11 seminars were hosted during FY 2006 at different geographic locations nationwide.

In addition, several educational programs on AngusSource[®], AHIR, commercial programs, Angus Information Management Software (AIMS), and \$Values were presented by staff in conjunction with state cattlemen's meetings and state Angus association annual meetings.

Angus Boot Camps, coordinated by the Association and sponsored by the Angus Foundation, gave students a

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crash course in recordkeeping, management, artificial insemination, tattooing and general instruction on Association programs.

New this year, a series of instructional webcasts were introduced. Originating from our offices in Saint Joseph, these online programs reach log-in audiences around the country and cover such topics as AAA Login, Beef Improvement Records (BIR), AngusSource and other issues relevant to beef production.

In addition, interactive online workshops were provided for AIMS users. The tutorials focused on software training and troubleshooting. Programming efforts are also under way to incorporate electronic ID and electronic scales in the software package.

In regard to the youth, education and research needs of the breed, the Angus Foundation provided more than \$100,000 in youth scholarships while promoting educational programs for both youth and adults in the agriculture industry. Funding through the Angus Foundation has also been earmarked for research, which applies not only to the Angus industry, but to the entire beef industry. The benefits from these progressive programs will continue to be far-reaching in their influence on animal agriculture.

A commercial focus

Reaction to and support for AngusSource this year has been overwhelming. The program — which offers commercial users of registered and properly transferred Angus bulls a means to document age, source and genetics — achieved status from the U.S. Department of Agriculture (USDA) as a Process Verified Program (PVP). Interest in AngusSource has been strong, to say the least. In fact, we have expanded AngusSource staff in the office as well as in the field, with a growing number of field reviewers located in key areas of the country to complement regional managers in this effort.

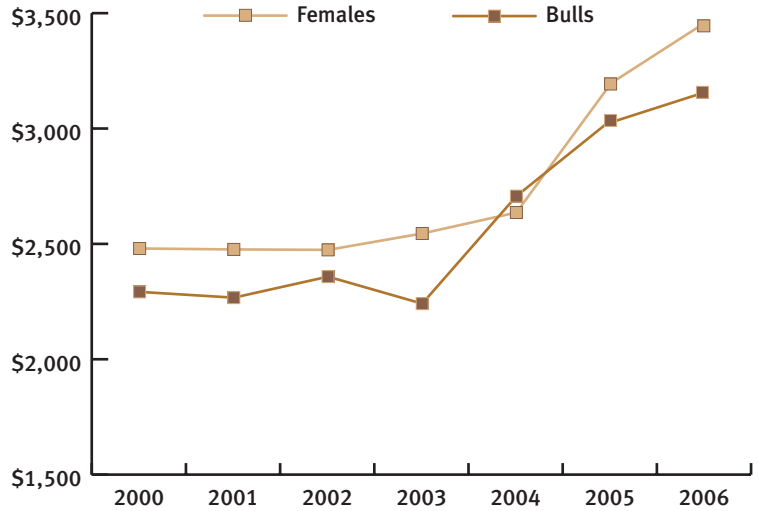
This integral program brings to light the direction of the American Angus Association — continued service to the commercial cattle industry.

As we approach another year, let us do so with a renewed sense of satisfaction and excitement about our future, and stay focused on providing the best possible service for our biggest customers — the commercial cowmen and women of America.

By doing so, we ensure that the progress made today provides opportunity for Angus breeders tomorrow.

John R. Crouch

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



"As we approach another year, let us do so with a renewed sense of satisfaction and excitement about our future, and stay focused on providing the best possible service for our biggest customers — the commercial cowmen and women of America."

— John Crouch

Progress of Today. Future Direction



American Angus Association Board members dedicate themselves to breed progress and expanding the influence of Angus within the beef industry.

Driven by their commitment to the breed's success, Board members meet a minimum of four times per year, and whenever needed, to determine the future direction of Angus-oriented programs and services, to conduct Association business, and to achieve the organization's goals.

As highlights to fiscal year 2006, the Boards of the Association and its entities:

- modified Association policy of accepting ultrasound image data from a single lab to accepting image data from ultrasound interpretation organizations that have consented in writing to provide scan data and other information to the Association under guidelines and protocol developed by the Association;

- directed Association staff to continue ongoing educational efforts — including Outreach Seminars and Angus Boot Camps — and approved additional member education initiatives including online AIMS training and monthly webcasts;
- approved university research proposals related to the effects of scrotal circumference on ultrasound measurements, and characterization of varying temperaments in Angus cattle;
- promoted development of Association research projects related to heifer pregnancy genetic evaluations and stayability in Angus females;
- approved an Angus Foundation comprehensive five-year strategic plan constructed around a major fundraising initiative;
- approved allocation of Association funds to assume financial responsibility for audiovisual equipment, big screen costs and directional signage at the



Serving on the 2005-2006 American Angus Association Board of Directors are (seated, from left) John Crouch, Saint Joseph, Mo., executive vice president; Richard (Dick) Tokach, Saint Anthony, N.D.; Jot Hartley, Vinita, Okla., vice president; Ben Eggers, Mexico, Mo., president; Paul Hill, Bidwell, Ohio, treasurer; Dave Smith, Greensburg, Ind.; Rob Thomas, Baker City, Ore.; (standing, from left) Gregg Blythe, Decatur, Ala.; Phil Trowbridge, Ghent, N.Y.; Jarold Callahan, Yukon, Okla.; John Schurr, Farnam, Neb.; Joe Hampton, Mount Ulla, N.C.; Bill Davis, Sidney, Mont.; Gordon Stucky, Kingman, Kan.; Al DeClerk, Pocahontas, Ark.; Norman Garton, Nevada, Mo.; Jay King, Rock Falls, Ill.; and Robert (Bob) Schlutz, Columbus Junction, Iowa.

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National Junior Angus Show, as well as funding for the class winner awards, contest judges' appreciation gifts, and \$3,000 toward the queen's tea/luncheon;

- ✿ approved the addition of cow energy index values (\$EN) to the maternal expected progeny difference (EPD) section of the Performance Registration Certificate (PRC) as well as the addition of quality grade (\$QG) and yield grade (\$YG) index values on the PRC and online EPD/Pedigree lookup;
- ✿ directed Association staff to pursue multi-breed genetic evaluation and create a separate business entity to offer genetic evaluation services to other approved breed associations;
- ✿ approved opening the USDA GLA genotype live-animal eligibility requirement to allow AngusSource®-tagged cattle to be considered for the carcass specification for the Certified Angus Beef LLC (CAB) program;
- ✿ adopted a resolution endorsing the Angus Foundation's multiyear, multimillion-dollar fundraising campaign to further advance its education, youth and research goals;
- ✿ approved Angus Foundation policy for receiving and approving funding requests from entities outside of the Association;
- ✿ approved committee recommendations for DNA parent verification to negotiate a new contract for parent verification services with the current provider, while continuing to evaluate and research the future use of SNP technology for parentage determination;
- ✿ approved an alternative specification of a ribeye area range of 10 square inches to 16 sq. in. (inclusively) and a hot carcass weight of less than or equal to 999 pounds, as well as instructed staff to investigate the effect of a maximum fat thickness specification for the product; and
- ✿ created a marketing and promotions position within API to assist breeders in the development and coordination of advertising campaigns and promotional efforts via electronic and print media.



Ben Eggers, president

*"Steady increases
in registrations
for twenty years
and continuing
demand for
Certified
Angus Beef®*

*provide the foundation
for growth in revenue,
membership, performance
records and advertising,
along with increased services
from all of our entities.
Angus has truly lived up
to its motto: Angus, the
Business Breed."*

— Ben Eggers

Genetic Progress



Through its Information and Data Programs Division, the American Angus Association continually strives to provide necessary tools for genetic improvement. Through ancestral recording, parentage verification, performance evaluation and decision-support tools, the division provides the foundation for progress in the Angus breed.

Four departments contribute to the division, including the Member Services Department, Performance Programs Department, Information Systems (IS) Department and Angus Information Management Software (AIMS).

Membership

New members increased 4.6%, with 3,558 total regular members joining the Association in fiscal year 2006. The American Angus Association currently has 34,431 active members, including active nonresident and active associate members. Active junior members account for 8,472 memberships.

Two-thirds of the 17,888 members who registered cattle each registered 10 head or fewer, while just more than one-fourth registered 11-49 head. A total of 638 members registered more than 100 animals, accounting for 41.2% of Angus cattle registered in FY 2006.

Growth in registrations

Association members register thousands of cattle every year, building a herd book and database that provide unequalled genetic evaluation and predictive ability.

Member Services assists breeders in processing registrations and transfers, while overseeing the Association rules and regulations, and facilitating DNA parent-verification services.

- ✿ In FY 2006, the membership registered 347,572 animals, a 7.2% increase over last year's figures.
- ✿ Of FY 2006 registrations, more than 60% were submitted in electronic format — 28.7% were submitted via AAA Login, 27.8% were submitted via AIMS, and 4.3% of registrations were submitted through other electronic means. Some 39.3% were submitted by traditional paper registration.
- ✿ Bulls composed 43.8% of registrations; females, 55.8%; and steers, 0.4%. Embryo transfer calves accounted for 35,880 registrations, which is 10.3% of the total and up 12% from last year.
- ✿ A record was once again set this year, with 48.6% of the calves registered being the result of artificial insemination. Natural-service-sired calves accounted for 51.4%.
- ✿ The Association processed 206,121 transfers, an increase of 7.0% from FY 2005. Bulls accounted for 45.1% of the transfers, which is a record high for the Association.

Information Systems

Information Systems is a pivotal component of the Association, responsible for the operation of comprehensive computer and information-handling

Top 10 states in registrations, transfers, new regular members and new junior members for FY 2006

Registrations		Transfers		New regular members		New junior members	
State	No. of head	State	No. of head	State	Members	State	Members
Montana	30,599	Montana	16,311	Texas	350	Texas	127
Missouri	23,966	Texas	15,611	Oklahoma	238	Indiana	88
Texas	23,144	Oklahoma	14,777	Missouri	224	Oklahoma	87
Nebraska	21,643	Missouri	14,373	Kentucky	181	Missouri	86
South Dakota	20,751	Kansas	12,818	Tennessee	176	Illinois	75
Oklahoma	20,202	Nebraska	9,448	Virginia	121	Iowa	63
Kansas	19,217	Kentucky	9,424	Georgia	112	California	53
Iowa	13,326	Tennessee	7,996	Iowa	110	Kentucky	51
Kentucky	12,834	Georgia	7,781	Illinois	104	Kansas	47
Tennessee	11,501	South Dakota	7,766	Alabama	102	Tennessee	43

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systems. This includes the design, maintenance and implementation of systems that provide for the daily processing of registrations, transfers, memberships and performance data. Enhancements and maintenance to core programs such as National Cattle Evaluation (NCE), PathfinderSM and AngusSource[®] represent continued priorities for the IS group.

Increased business activity via the internet and web services translates to an important role for IS. Key responsibilities include the programming, maintenance and operation of the many American Angus Association web sites, such as the Angus home page (www.angus.org) and AAA Login (www.angusonline.org).

The Association's computer system is currently undergoing a major system upgrade. This upgrade is a multiyear project to be completed by the end of 2008.



Angus Information Management Software

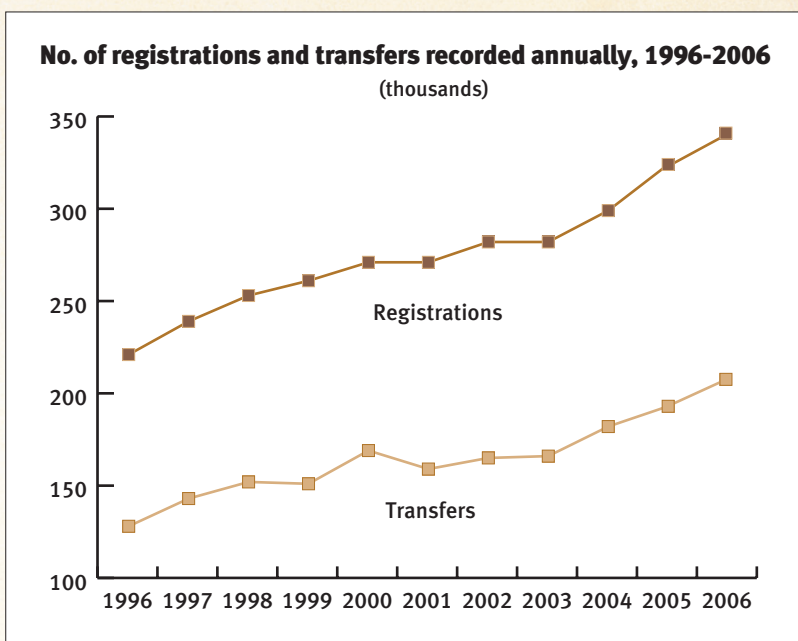
The AIMS program continues to provide a practical alternative for members to manage their herd records and submit data electronically to the Association.

Additional upgrades and education for members using AIMS is accessed through online workshops and various programs throughout the year. Educational sessions are created for both new and experienced AIMS users. In-house technical support is provided to members to fully capitalize on program features.

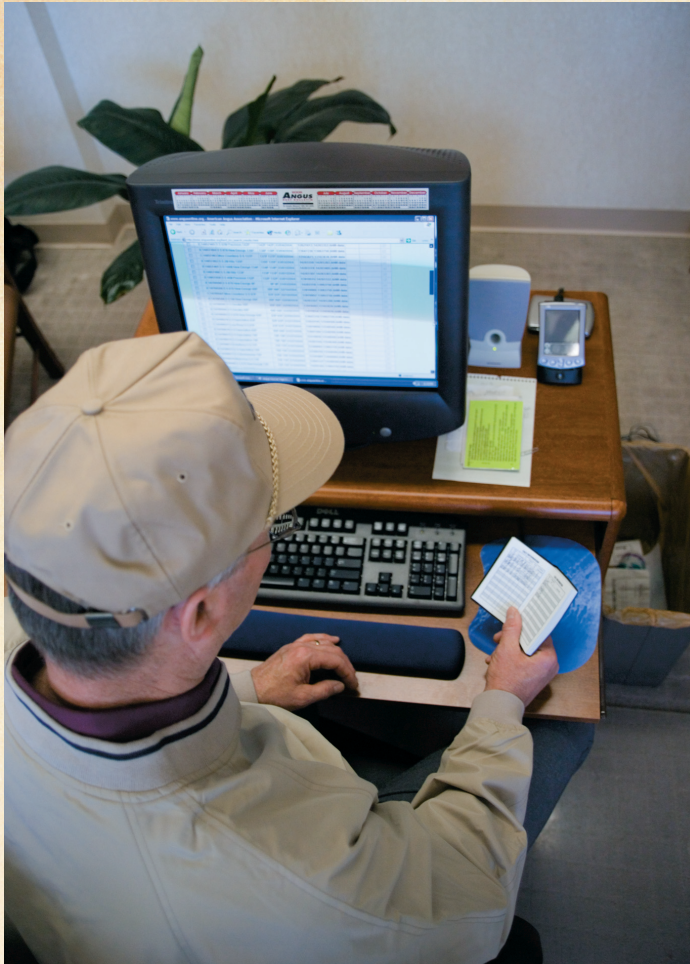
Beef Improvement Records

In FY 2006, 9,683 herds submitted AHIR data, representing a 6.3% increase in herds compared to last year, and a 7% increase in weights submitted. Birth weights (348,292), weaning weights (248,020) and yearling weights (186,522) submitted during the year were up 6.4%, 5.7% and 10.7%, respectively.

Sixty-eight percent of the AHIR weaning weight records were submitted electronically, with 48.7% of electronic



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submissions through the AIMS program, 38.5% via AAA Login and 12.8% by other electronic means. Nearly 77% of AHIR yearling weights were submitted electronically.

With 12.8% additional herds submitting ultrasound in FY 2006, scan data on 150,763 animals were processed, representing an increase of 18.5%. The total ultrasound records surpassed the 700,000 mark.

Progress through research

The Association controls the largest, most well-respected database in the beef cattle industry. In-house NCE and genetic research are conducted utilizing data from the AHIR and Beef Record Service (BRS) programs.

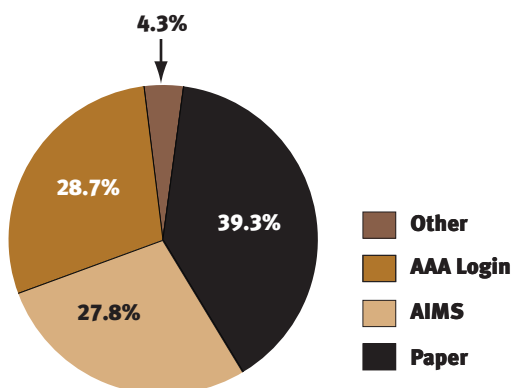
Today's research efforts will in large part determine the genetic progress American Angus Association members will be able to make in the coming decades. The Association placed a renewed focus on research initiatives this year — both in-house and in cooperation with universities across the country.

Reproduction. Collection and analysis of breeding data in Angus females is a priority, with continued emphasis on heifer pregnancy and cow stayability. Members submit breeding, calving and disposal code details on their cow herd to capture reproductive information for future research in this area. In-house research in conjunction with Colorado State University is in progress to refine models for heifer pregnancy genetic values. In addition, work continues on cow longevity and defining Angus cow stayability.

Cattle efficiency. Research continues in Association-funded projects at North Carolina State University and Kansas State University to characterize Angus biological efficiency. A complex measure requiring long-term studies, the projects incorporate new-age technology and practical applications to measure feed efficiency in bulls and heifers, the effects on cow herd efficiency, and potential use of expected progeny differences (EPDs) to make genetic progress in net feed intake.

Temperament. One of the most important behavioral traits in cattle is temperament, as disposition can influence production and management areas in beef production. Research is under way with the University of Missouri to use the Association's database of more than 50,000 yearling temperament scores to assess genetic variation for the trait

FY 2006 registrations, by type of submission



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in Angus cattle and the potential for docility EPDs.

Cattle adaptability. Breeders have awareness of cattle that perform better or worse in various production environments. Limited research has addressed the development of genetic tools identifying cattle with adaptability to environmental challenges.

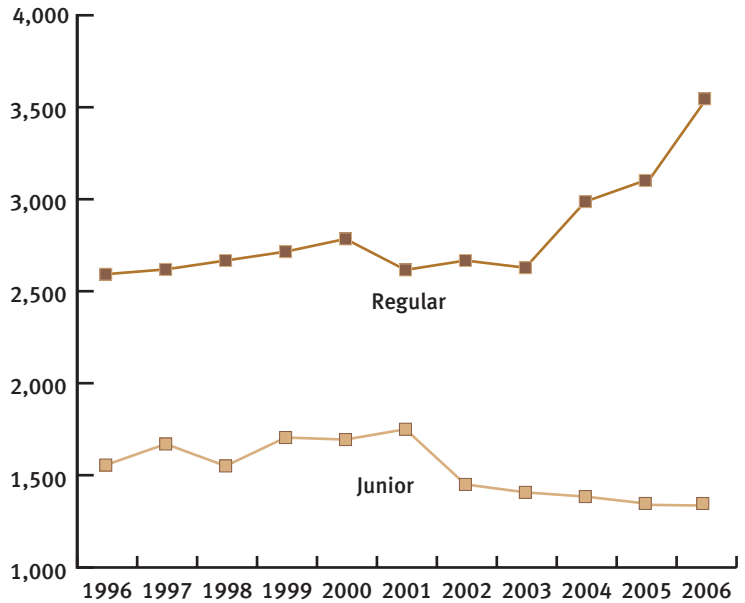
Plans are under way to initiate an adaptability research project, with the collection of hair shedding scores and their relationship to production measures in Angus cattle. The project will involve the collaboration of multiple research stations with Angus cattle in the Gulf Coast and southern region.

Beef end product. The Association continues to amass a comprehensive database of carcass and ultrasound records for genetic prediction and research, while monitoring ongoing industry ultrasound and end-product literature and research projects. In addition, a project with Kansas State University has been funded by the Association to examine ultrasound and carcass relationships with scrotal circumference. As a research collaborator, the USDA-ARS is actively involved in assisting the Association in the review of adjustments and methodology for end point, gender and age in end-product data.

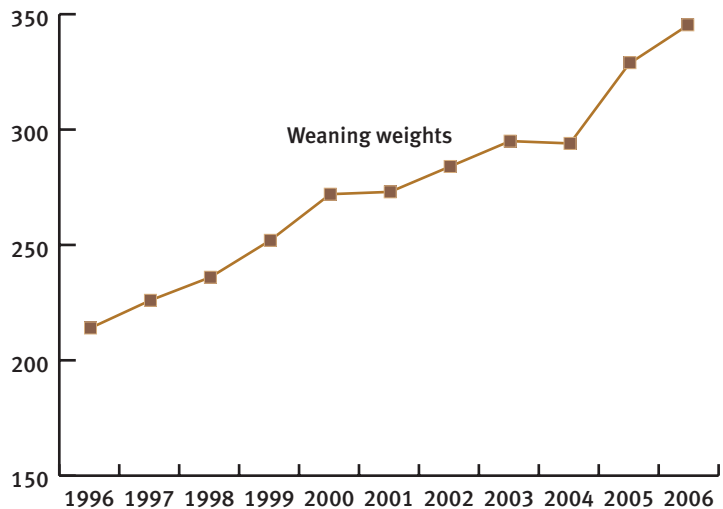
The Association negotiated a new contract for DNA parent-verification services with its current provider, but continues to evaluate and research the future use of new technologies for parent determination.

Educational efforts to communicate with the membership on services and programs include authoring monthly columns in the *Angus Journal*, developing online tutorials for the Angus Education Center (www.angus.org/AngusEducation.html), and posting other help aids to the Association and AAA Login web sites. In addition, staff presented at a variety of producer gatherings, including industry meetings, state and regional Angus meetings, Angus Outreach Seminars, Boot Camps and the National Angus Conference.

No. of new memberships recorded annually, 1996-2006



No. of submitted weight records, by year* (thousands)



*Total weaning weights in the Association database exceeded 5.8 million in FY 2006. Total birth, weaning and yearling weights in the database now total nearly 13.4 million.

Progressive Programs



As the cattle industry has evolved, the American Angus Association has evolved with it. In order to provide members and their commercial counterparts with relevant tools, the Industry Relations Division strives to offer progressive programs and services to members. AngusSource® has grown into a well-recognized marketing program, Angus education and member communication initiatives continue to expand, and Association activities promote an Angus message while building a solid foundation for both adult and junior members. The following are highlights of the Industry Relations Division in fiscal year 2006.

The source

- AngusSource, which enhances the marketing ability of commercial producers who use registered Angus bulls, became a Process Verified Program (PVP) with the U.S. Department of Agriculture (USDA). AngusSource documents source, group age and a minimum of 50% Angus genetics. The program's PVP status adds a level of integrity to AngusSource and provides additional marketing options for enrolled cattle. AngusSource cattle have access to export markets and premiums associated with source and age verification.
- AngusSource also entered into a partnership with Certified Angus Beef LLC (CAB) that allows AngusSource-documented cattle to be eligible for the *Certified Angus Beef*® (CAB®) brand.



- Producers have taken advantage of AngusSource benefits as evidenced by a 433% increase in the number of producers who utilized an AngusSource Marketing Document to market their cattle in July 2006. Information is key to the AngusSource program.
- Once the producer customizes AngusSource documents, the information is posted to the online listing site and e-mailed to a list that has grown to include more than 400 order buyers and feedyards.
- The Premium Value Challenge was created as an incentive for producers to report their premiums for cattle marketed through AngusSource. It also serves as a way to collect price information of calves sold. To be eligible for incentives, entered cattle must have sold for a \$5-per-hundredweight premium over the Cattle-Fax mid-range regional price for the week. The seller must send in selling information within 90 days of the date of sale and have sold a minimum of 40 head of enrolled AngusSource cattle that were entered as one lot. The Premium Value Challenge will reward producers who provide customer feedback and receive a premium for their calves based on Cattle-Fax data for their region.

Educational delivery

- To spread the news about the benefits of the Angus breed, the communications department electronically distributed more than 69,000 press releases and more than 47,000 publicity photos across the United States during FY 2006. The Association uses e-mail as the mode of distribution to reach as many people as possible.
- A monthly webcast was approved and implemented to help keep members informed of Association programs. Conducted monthly to provide more information about Association programs and services, the educational webcasts were posted via the internet. Approximately 70 people logged in for the first live webcast in September. The webcasts, which are archived at www.angus.org, were originally requested by breeders.
- Angus enthusiasts are welcome to request literature and publications available from the Association. Staff created fact sheets about regional managers and AngusSource. These one-page information sheets are tailored for getting general information out fast. The format also allows for easy updates as programs change.



A monthly webcast helps keep members informed of Association programs.

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- Three interns were on hand over the summer to help with Association tasks. Tammy Ettredge, Pilot Point, Texas, was the public relations intern; Erin McMath, Estancia, N.M., was the communications intern; and Matt Coulter, Goodfield, Ill., was the junior activities intern.

Providing events

- Angus members and friends come together often to meet and mingle as part of the Angus family. This happens at many events, including the first meeting of the fiscal year — the American Angus Association Annual Meeting at the North American International Livestock Exposition (NAILE) in Louisville, Ky. Angus Heritage Foundation inductees were honored there. This year's inductees were Harvey and Nina Lemmon, Woodbury, Ga.; Bill and Barbara Rishel, North Platte, Neb.; and Vance and Connie Uden, Franklin, Neb. Morris Pipkin, formerly of Republic, Mo., was inducted posthumously. Angus members also elected new Board members at the meeting and reflected on the previous year.
- Association staff conducted 11 Outreach Seminars. These informal meetings helped Angus producers understand the latest Association genetic selection tools. Each seminar is targeted toward a local audience, which allows for more specialized meetings.
- The Association, along with the Angus Foundation and host-state universities, hosted three Cattlemen's Boot Camps in FY 2006. Boot Camps were hosted at Colorado State University, Fort Collins, Colo.; Cal Poly in San Luis Obispo, Calif.; and the University of Illinois, Champaign-Urbana.
- National Junior Angus Association (NJAA) members and their friends and family gathered in Indianapolis, Ind., for the National Junior Angus Show (NJAS). Juniors participated in contests ranging in everything from photography to showmanship. The show featured 1,177 cattle entries, plus many other entries in contests outside the showing.
- The annual Leaders Engaged in Angus Development (LEAD) Conference was held in Oklahoma City, Okla. A record-setting 163 Angus youth gathered to increase their leadership skills, learn about the ag industry and form lasting relationships with other NJAA members.



Angus shows are a time-honored tradition, allowing Association members and friends to meet and mingle as part of the Angus family.



The 2006 National Angus Conference & Tour featured Angus operations in Idaho and Oregon. The annual event gives participants a chance to view herds at different locations.

Progress of Today. Funding the Future



The Angus Foundation enables Angus enthusiasts to provide for the future of the breed by funding education, youth and research activities. The not-for-profit 501(c)(3) organization has been providing partnership to the American Angus Association for more than 25 years.

Following are highlights of Angus Foundation activities and notable achievements accomplished during 2006.

Donors. There were four significant supports of the Angus Foundation this year. Woodlawn Farms, Blanford and Joan Pierce, Creston, Ill., donated \$25,000 to create the Woodlawn Farms Angus Scholarship Endowment Fund. Schaff Angus Ranch, Joe and Ruby Schaff, Saint Anthony, N.D., donated \$10,000 to create the Joseph and Ruby Schaff/Schaff Angus Ranch Scholarship Endowment Fund. Morgan Angus, John and Jan Morgan, Mystic, Ga., donated an unrestricted gift of \$10,000 in honor of Dave McMahon of Belle Point Ranch, Lavaca, Ark. Additionally, an anonymous gift of \$10,000 was given to the Angus Foundation.

Angus Foundation Heifer Package. Setting an all-time record high, the Angus Foundation Heifer Package, donated in 2006 by Rishel Angus, Bill and Barb Rishel, North Platte, Neb., sold for \$250,000. Purchasers of the package were Canyon Creek Angus LLC, owned by Ronald and Myki Simek, Genoa, Nev.; and Ben and

Lindsey Simek and family, Cody, Wyo. The package also included features from American Live Stock Insurance, Lathrop Livestock Transportation and Trans Ova Genetics.

Education expanded. The Angus Foundation, along with the Association and host-state universities, hosted three Cattlemen's Boot Camps in FY 2006. Boot Camps were hosted at Colorado State University, Fort Collins, Colo.; Cal Poly in San Luis Obispo, Calif.; and the University of Illinois, Champaign-Urbana. Collectively, the Boot Camps drew in a crowd of some 300 participants.

Youth support increased. A record amount of scholarships were awarded to Angus youth in 2006. Due to the record-breaking sale of the Angus Foundation Heifer Package and numerous other generous donations, the Angus Foundation was able to award \$100,000 in scholarship money to 52 junior Angus members.

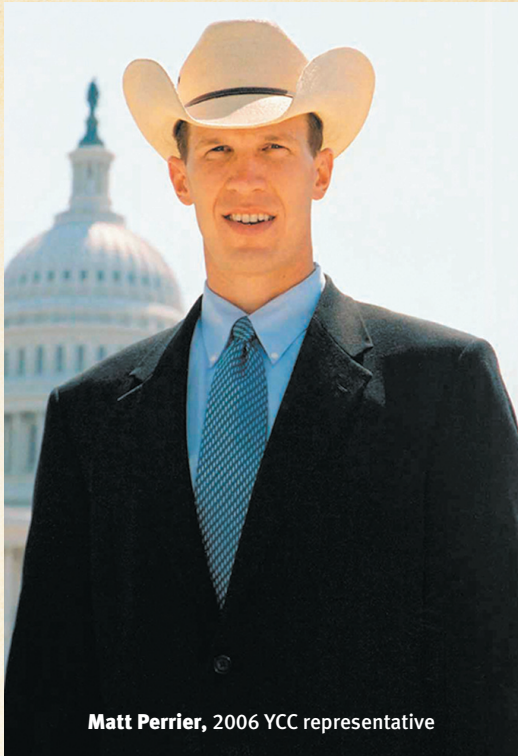
Angus Foundation Silent Auction and Golf Tournament. The Angus Foundation raised more than \$7,200 at the 2006 National Junior Angus Show (NJAS) in Indianapolis, Ind., as a result of the Silent Auction.

The Golf Tournament, also hosted alongside the NJAS, yielded more than \$24,000 in donations. Angus breeders participated in the tournament by sponsoring the event, playing in the tournament, or both.



A record-setting 163 Angus youth stamped to the 2006 LEAD Conference Aug. 3-6 in Oklahoma City, Okla.

Promise of Tomorrow.



Matt Perrier, 2006 YCC representative

Young Cattlemen's Conference (YCC). The Angus Foundation sponsored Matt Perrier, Eureka, Kan., to represent the American Angus Association at the National Cattlemen's Beef Association YCC June 1-8.

Angus Legacy Society. Introduced in April by the Angus Foundation, the Angus Legacy Society is a planned giving program through which Angus enthusiasts name the Angus Foundation as a charitable beneficiary in their wills (bequests), life insurance or charitable remainder trust. More than \$1.25 million in planned giving commitments were confirmed to the Angus Foundation in 2006.

"The Angus Foundation's growth in 2006 is attributed to you, our generous benefactors and supporters. Significant advancements in education, youth and research were realized because of your financial support and other revenue sources.

With your continued support, we can successfully capitalize on education, youth and research opportunities on the horizon for the advancement of our beloved Angus breed."

*— Elliford Jenkins,
Angus Foundation president*

Information, Service, In



In fiscal year 2006, Angus Productions Inc. (API) developed progressive methods to provide Angus producers with practical information about Association programs and services as well as the industry's latest developments in research and technology. Through the *Angus Journal*, *Angus Beef Bulletin*, Web Services Department and Special Services Department, API keeps producers informed about the tools they need to succeed.

In FY 2006, the *Angus Journal* continued its focus on giving Association members a competitive edge in the industry, while the *Angus Beef Bulletin* provided commercial producers with information on how to use innovative Association recordkeeping and marketing tools to optimize profits.

Integrated online coverage of Association and industry events, topic web sites and continued technological updates furnished immediate contact with producers.

API strives to deliver the most in-depth, accurate and cost-effective industry coverage within and beyond the

pages of its publications, while strengthening the Angus message and promoting the breed.

API is a wholly owned, for-profit subsidiary of the American Angus Association. Following are API highlights for FY 2006.

Progress in service and creativity

- ❁ The Web Services Department updated its production flow procedures in order to provide its customers with timely and creative web site designs and updates, banner ads, sale reports and sale book postings.
- ❁ The Web Services Department revised www.angusjournal.com to include the most recent five News Updates from the Angus e-List. With more than 100,000 visits each month, www.angusjournal.com is growing every year.
- ❁ Angus e-List continues to grow as well, with more than 4,300 voluntary subscribers. New in FY 2006 for the Angus e-List were Banner Blasts, business-card-sized ads that can be linked to any existing online ad, sale book or web site.
- ❁ Expected progeny differences (EPDs) and dollar value indexes (\$Values) continue to be automatically updated on producers' web sites, which ensures customers see the most current and accurate information.
- ❁ More than 41 ranch and other industry web sites were created or are currently being created by the department during FY 2006, bringing the total to 210 web sites.
- ❁ The Web Services staff developed a creative new way to look at online sale books, making them more pleasing to the eye and more efficient for the viewer. The new style lets the viewer preview smaller, easier-to-load pages, with the capability to see the larger, clearer pages with just one click.



Angus Productions Inc. is headquartered in Saint Joseph, Mo.

Distribution increases

- ❁ API continues to increase the visibility of the *Angus Beef Bulletin* toward its circulation goal of 100,000 readers. The newspaper-style publication's September 2006 issue was distributed to 95,750 readers. On a cost-per-reader basis, a full-page ad in the *Angus Beef Bulletin* reaches potential customers for less than 1.5¢ per reader. Increases in the number of pages and number of advertisers for each issue compared to FY 2005 show the steady progress of the Angus message.

Innovation

The *Angus Journal's* readership has increased as well, with the September issue going to 17,860 regular subscribers and 3,856 junior members. Overall page counts are above FY 2005 totals, and an ad in the *Angus Journal* can still reach potential customers for less than 5¢ per reader.

Growth in customer service

The Special Services Department has handled an increasing number of promotional material every year. The growth in sale books, post cards, brochures and newsletters led to the addition of a second assistant and a part-time proofreader.

Professional honors

API Editorial, Advertising and Web Services departments earned honors in the Livestock Publications Council (LPC) Critique Contest.

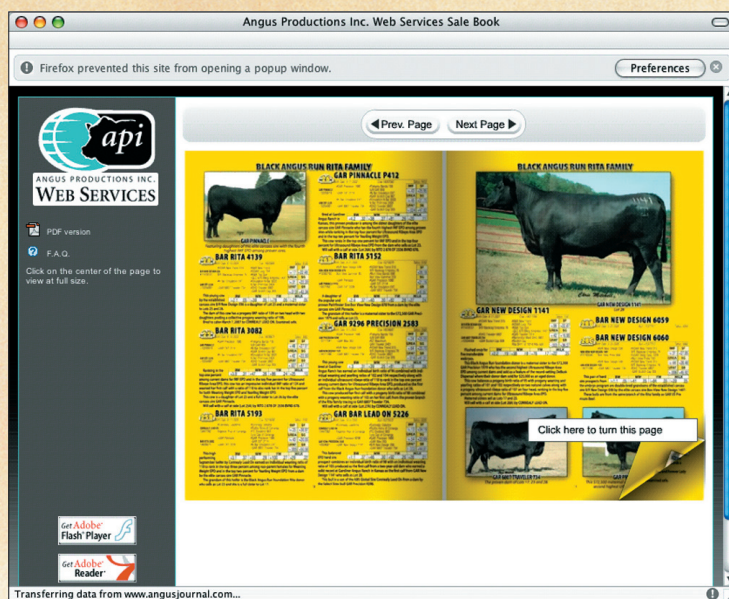
The editorial team of the *Angus Journal* and the *Angus Beef Bulletin* received six firsts, two seconds and six honorable mentions for writing, design and photography.

The API advertising team received one honorable mention for the "2005 Angus Foundation Annual Report."

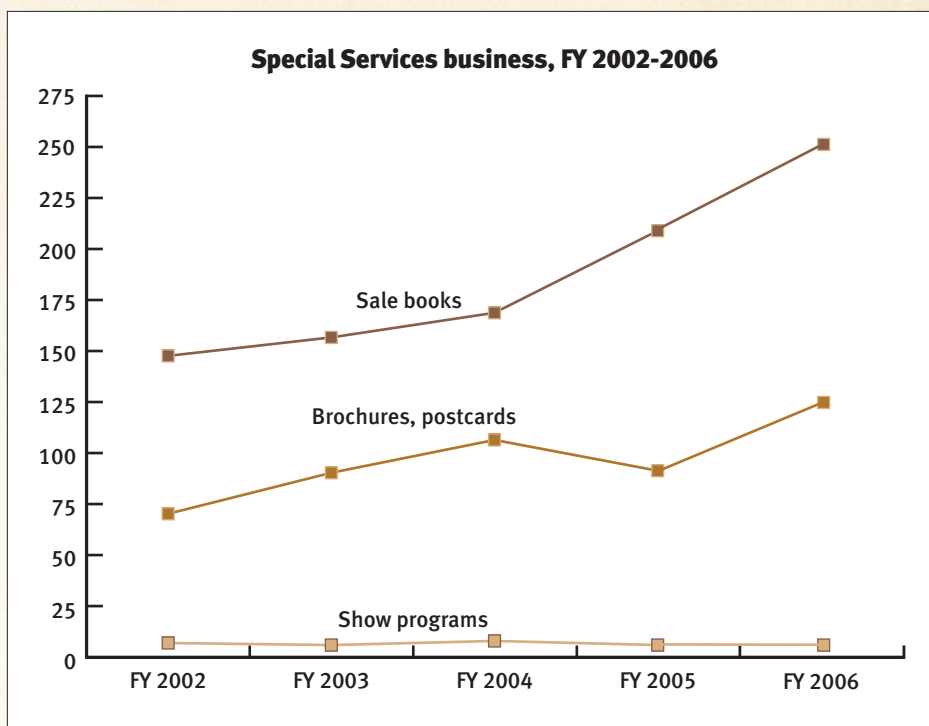
The Web team earned one second-place award in the Breeder Web Site category, and one honorable mention in the Association Web Site category.

Associate Editor Crystal Albers took first in the On-Farm Production category from the American Agricultural Editors' Association (AAEA) writing awards program, helping her achieve Level 2 in AAEA's Master Writer program.

API General Manager and President Terry Cotton was elected to serve on the LPC Board of Directors.



Web Services introduced a creative way to view online sale books.



Branded Opportunity



The *Certified Angus Beef*® (CAB®) brand succeeds at every level because it helps producers, packers, foodservice distributors and retailers stand above the commodity market. It helped 13,000 licensees sell more than 543 million pounds of CAB brand products this year — the highest figure since 2003.

With a record-low 14% acceptance rate among a record-high 13.1 million identified cattle, licensed processors had to show their ingenuity. Greater efficiency provided the highest-ever carcass utilization, with 295 lb. of every accepted carcass sold as CAB brand product. That's more than twice the typical level in the branded beef industry. Making the most of available supply, retail and foodservice divisions each

Right: In its approved form, the "Targeting the Brand" mark can be used in producer advertisements, company letterhead and farm signs. Web downloads and decals are available at www.cabpartners.com.



CAB introduced the filet of rib steak cutting method to retailers and foodservice distributors. The new method portions larger ribeyes into acceptable steak size.

broke sales records. The international division continued building sales in markets open to U.S. beef.

As age, source and process verification of cattle became more important, the American Angus Association's AngusSource® program provided a new opportunity. The Certified Angus Beef LLC (CAB) Board voted in June to expand CAB brand eligibility to include AngusSource-tagged calves of any hide color.

Brand specs

In September, the Board voted to enhance brand uniformity by replacing the Yield Grade (YG) 3.9 limit with more specific controls on weight (<1,000 lb.) and ribeye area (REA; 10-16 sq. in.). A fat thickness specification is under review.

Across the U.S., supplies of most cattle began a cyclical increase last year. Not so for the high-marbling kind needed for the CAB brand. No matter that the premiums for quality continued to grow, cattle somehow kept missing the mark.

Many of them had the genetic potential, but technology and competing economic signals derailed it somewhere between the ranch and packinghouse.

Insufficient marbling turned up as the top concern of purveyors, restaurateurs and supermarket operators in the 2005 National Beef Quality Audit (NBQA). What was going on? The CAB Supply Development team took action in the spring, calling together a "think tank" of meat and animal scientists from across the country to find answers.

The result was a comprehensive research paper, titled "Declining Quality Grades: A Review of Factors Reducing Marbling Deposition in Beef Cattle." CAB vice president Larry Corah and Supply Development Director Mark McCully wrote the report based on input from the scientists, plus 40 other published and footnoted sources.

An industry hungry for answers ate it up. Made available on www.cabpartners.com in June, it had been downloaded more than 1,400 times within a month. Initial publication in producer media was followed by a series of seven news releases and radio spots. Web downloads surged with every publication into fall.

Identifying roadblocks

The CAB team continues to work with producers, scientists and industry to overcome the identified roadblocks to marbling. By analyzing the CAB Feedlot-Licensing Program (FLP) database of more than a million

Promise of Tomorrow.

entries, answers began to appear. That information and the research review began to supply the agenda for many seminars and programs across the spectrum of the beef industry during the fall. Those include many sponsored by universities, pharmaceutical or feed companies and producer associations.

The following are highlights from throughout the year.

- ❁ Supply Development expanded into producer programs, marketing and information divisions, pursuing target market strategies in South Dakota and Texas, and hosting Brand Builders sessions at the headquarters office in Wooster, Ohio.
- ❁ A new logo for producer use and registration of “The Brand That Pays®” provided visual direction.
- ❁ Tyson Fresh Meats’ introduction of CAB brand Natural helped grow the niche fivefold.
- ❁ The marketing communications team completed its campaign in Pittsburgh, Pa., and Detroit, Mich. Programs expanded to feature Price Chopper in Albany, N.Y., and accounts in Sacramento, Calif.
- ❁ Regional Roundup and Stampede seminars for licensed foodservice and retail customers took educational programs into more markets. A renewed waitstaff training program added to the grassroots initiative started with last year’s in-store retail training program.
- ❁ Renewed customer service programs, contests and foodservice distributor training created strong connections for maintaining worldwide brand assurance.
- ❁ New value-added products, including heat-and-serve items from Smithfield/RMH Foods, expanded brand presence in retail stores. In foodservice kitchens, chefs embraced a growing number of value-added products for timesaving menu solutions.



Terry Reetz, Nebraska Angus producer, raises cattle for CAB brand Natural.

“For long-term success, there can be no smoke and mirrors. Consistency, integrity, quality and trust have always been vital parts of the CAB brand.”

—Jim Riemann, CAB president

Supporting Progress



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 progress of the Angus breed, and organizing social programs and activities.

Consisting completely of volunteers from across the nation, 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 members, the Auxiliary has adapted in order to offer programs, services and assistance both on the state and national levels.

The organization continues to evolve and grow along with the Angus breed, providing even more opportunities for Angus enthusiasts.

Following are the highlights of Auxiliary service in fiscal year 2006.

The Auxiliary awarded \$10,000 in scholarships to five girls and five boys, including Kyleigh Santee, Langdon, Kan.; Emily Tennant, Greensboro, N.C.; Haley Rieff, Bentonville, Ark.; Christina Egner, Shelby, Ohio; Lauren Schroeder, Clarence, Iowa; Waco Phipps, Kearney, Neb.; Jordan Hunter, Fair Grove, Mo.; Billy Lewis, Walstonburg, N.C.; Kenny Hopper, Leonardville, Kan.; and William Mayfield, Pulaski, Tenn.

Angus merchandise was sold online at www.angussalebarn.com, allowing for credit card purchases, to provide financial support for the Auxiliary's many programs. Merchandise was also sold at the Auxiliary's booth at the National Junior Angus Show (NJAS) in Indianapolis, Ind.; during Angus activities at the North American International Livestock Exposition (NAILE) in Louisville, Ky.; and at various state events throughout the year.



Officers of the American Angus Auxiliary for 2006 include (from left) Nancy Thelen, Saline, Mich., secretary-treasurer; Mary Greiman, Garner, Iowa, president-elect; Sharee Sankey, Council Grove, Kan., president; and Shirley Williams, Van Buren, Ark., advisor.

The 23rd Annual All-American *Certified Angus Beef*® (CAB®) Cook-Off gave 35 teams the opportunity to compete for the Black Kettle Award, given in memory of Paul St. Blanc and awarded to the highest-placing team (or teams) among all categories. This year, the award was given to the Indiana senior fresh meat team for their entry, "Pepperrock Stuffed Beef Filets."

At the midyear meeting that took place alongside the NJAS, a change in the scoring of the Auxiliary scholarship form was passed with regard to points awarded for Bronze and Silver awards (then three points) and letters of recommendation (then six points). A motion was made to move three points from the letters of recommendation to the Bronze and Silver awards, making the letters worth three points and attainment of the Bronze and Silver awards worth six points. The score sheet and scholarship form will be updated to reflect these changes.

"Making a difference with support to National Junior Angus Association and Certified Angus Beef activities, events and programs, the Auxiliary secures the future of our breed."
—Sharee Sankey,
Auxiliary president

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, 2006 and 2005, 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, 2006 and 2005, 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, 2006

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 Financial Position

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,232,584	\$ 1,803,750
Accounts receivable	2,611,128	2,399,182
Pledges receivable-current	75,000	-
Interest receivable	39,866	39,266
Inventories	697,150	642,394
Prepaid expenses	376,007	386,307
Total current assets	<u>5,031,735</u>	<u>5,270,899</u>
Investments		
Unrestricted-Association	7,709,013	7,539,009
Unrestricted-Subsidiaries	4,502,332	4,040,142
Board designated	6,667,554	5,334,229
Temporarily restricted	139,214	55,012
Permanently restricted	45,000	10,000
Total investments	<u>19,063,113</u>	<u>16,978,392</u>
Property & Equipment		
Buildings and land improvements	3,572,374	3,509,458
Furniture, fixtures and equipment	2,308,826	2,261,867
Electronic data processing equipment	3,527,794	3,466,831
Work in process-information system	458,751	106,155
Total, at cost	9,867,745	9,344,311
Less accumulated depreciation	5,693,549	5,347,415
Total property and equipment	<u>4,174,196</u>	<u>3,996,896</u>
Other Assets		
Deferred income taxes	52,222	-
Long-term pledges-net	190,919	-
Total other assets	<u>243,141</u>	<u>-</u>
Total Assets	<u>\$28,512,185</u>	<u>\$26,246,187</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 549,504	\$ 914,258
Accrued liabilities	771,448	743,148
Taxes payable	74,621	7,008
Deferred income	771,911	725,396
Total current liabilities	<u>2,167,484</u>	<u>2,389,810</u>
Long-term Liabilities		
Deferred income	120,000	-
Deferred compensation	385,439	331,818
Accrued postretirement benefits	656,200	944,217
Total long-term liabilities	<u>1,161,639</u>	<u>1,276,035</u>
Total liabilities	<u>3,329,123</u>	<u>3,665,845</u>
Net Assets		
Unrestricted		
Operating	18,653,932	17,502,919
Board designated	6,298,107	5,067,423
Temporarily restricted	161,023	-
Permanently restricted	70,000	10,000
Total net assets	<u>25,183,062</u>	<u>22,580,342</u>
Total Liabilities and Net Assets	<u>\$28,512,185</u>	<u>\$26,246,187</u>

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

Years Ended September 30, 2006 and 2005

	2006	2005
Changes in Net Assets		
Revenues, gains and other support:		
Royalties	\$11,981,557	\$12,019,976
Advertising income	6,108,112	4,869,578
Registrations	4,383,596	4,108,806
Transfers	1,240,965	1,143,083
Artificial insemination certificates	1,556,500	1,421,990
Memberships	721,278	679,770
Performance programs	1,122,344	1,058,340
AngusSource® enrollment	94,252	84,572
Web site revenue	277,601	246,647
Subscriptions	898,568	874,453
Contributions	676,913	324,927
Account and merchandise sales	434,744	394,263
Software sales	101,349	108,074
Support fees	469,820	418,634
Other income	187,107	155,163
Investment income	1,406,665	722,671
Total revenues, gains, and other support	<u>31,661,371</u>	<u>28,630,947</u>
Expenses		
Program services:		
Certified Angus Beef	12,514,274	12,439,876
Angus Productions Inc.	7,126,287	5,936,303
Member services	2,153,054	2,051,751
Angus Information Management		
Software	363,536	349,671
Performance programs	1,608,334	1,649,780
Commercial programs	747,048	405,655
Industry and member communications	1,058,116	1,109,670
Field services	986,469	1,176,221
Activities	1,688,808	1,522,335
Angus Foundation	544,866	323,748
Total expenses	<u>28,790,792</u>	<u>26,965,010</u>
Changes in net assets before postretirement benefit expense, net unrealized gain (loss) on investments and income taxes	2,870,579	1,665,937
Provision for Postretirement Benefit Net Unrealized Gain (Loss) on Investments	277,741	(178,000)
Changes in net assets before income taxes	2,624,582	2,304,884
Provision for Income Taxes	(21,862)	(6,069)
Changes in Net Assets	<u>\$ 2,602,720</u>	<u>\$ 2,298,815</u>
Changes in Unrestricted Net Assets	\$ 2,381,697	\$ 2,298,815
Changes in Temporarily Restricted Net Assets	161,023	-
Changes in Permanently Restricted Net Assets	60,000	-
Changes in Net Assets	2,602,720	2,298,815
Net Assets, beginning of year	<u>22,580,342</u>	<u>20,281,527</u>
Net Assets, end of year	<u>\$25,183,062</u>	<u>\$22,580,342</u>

**American Angus Association and Its Subsidiaries
Consolidated Statements of Cash Flows**

Years Ended September 30, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities		
Changes in net assets	\$2,602,720	\$2,298,815
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation	757,851	770,136
(Gain) loss on sale of equipment	5,072	(3,566)
Net realized (gain) on sale of investments	(959,266)	(417,539)
Net unrealized (gain) loss on investments	523,738	(816,947)
Net effect of changes in operating assets and liabilities:		
Accounts and interest receivable	(212,546)	(179,866)
Pledges receivable-net	(265,919)	-
Inventories	(54,756)	159,542
Prepaid expenses	10,300	(121,020)
Deferred income taxes	(52,222)	-
Accounts payable	(364,754)	584,075
Accrued liabilities, deferred income, deferred compensation, and postretirement benefits	(39,581)	191,645
Taxes payable	67,613	-
Net cash provided by operating activities	<u>2,018,250</u>	<u>2,465,275</u>
Cash Flows From Investing Activities		
Proceeds from sale of equipment	39,985	14,361
Proceeds from sale of investments	4,876,297	4,125,679
Purchases of property and equipment	(980,208)	(677,343)
Purchases of investments	(6,525,490)	(4,970,354)
Net cash used in investing activities	<u>(2,589,416)</u>	<u>(1,507,657)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(571,166)	957,618
Cash and Cash Equivalents, beginning of year	<u>1,803,750</u>	<u>846,132</u>
Cash and Cash Equivalents, end of year	<u>\$1,232,584</u>	<u>\$1,803,750</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, 2006 and 2005

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. Significant estimates incorporated into the Association's financial statements include royalty income for meat packers, allowance and discount for pledges and receivables, depreciation, and estimated deferred revenue. Actual results could differ from those estimates.

Net Assets

Financial statement presentation follows the recommendations of Financial Accounting Standards Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS-117, the Association 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.

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, investments with banks, mutual funds, short-term discount notes, and money market accounts with an initial maturity date of three months or less. Some investments meeting these criteria are instead classified as long-term investments if it is the Association's intent that they be consistently considered as a part of the long-term investment pool.

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 by management to be necessary.

Pledges receivable are for unconditional promises to give that are due within one to five years. Pledges receivable are stated at the pledged amount with the exception that long-term promises to give are discounted to reflect their present value. Because these balances tend to be from dedicated community leaders or from trusts and wills, they have been generally deemed to be collectible. An allowance account is established whenever, in the judgment of management, collection of a balance is questionable.

Pledges receivable, due in subsequent years, are reported at the net present value of the stated amount.

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, equity securities, certificates of deposit, and money market accounts. Investments in U.S. Government and other governmental agency securities, mutual funds, and equity securities are carried at fair value with unrealized and realized gains and losses on investments reported as an increase or decrease in the appropriate category of 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, 2006 and 2005

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.

Deferred Income-Pledges

The Foundation received a pledge that includes a provision calling for the Foundation to provide certain services to be acquired from the Association and its subsidiaries. The revenue related to these future services is deferred until future years when the services are provided.

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, supports youth programs, and supports 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, 2006 and 2005

Note 1—Investments

The following is a summary of investments held at September 30, 2006 and 2005:

	2006	2005
Held at fair market value:		
U.S. Government and other governmental agency securities	\$ 3,331,571	\$ 2,731,857
Mutual funds	5,782,907	5,328,887
Equity securities	7,053,728	5,532,984
Held at cost:		
Certificates of deposits	1,865,931	2,770,891
Money market accounts	1,028,976	613,773
Total investments	<u>\$ 19,063,113</u>	<u>\$ 16,978,392</u>

Investment returns for the years ended September 30, 2006 and 2005 consist of the following:

	2006	2005
Interest and dividend income	\$ 510,598	\$ 359,629
Net realized gain	959,266	417,539
Management fees	(63,199)	(54,497)
Investment income	1,406,665	722,671
Net unrealized gain (loss)	(523,738)	816,947
Total investment return	<u>\$ 882,927</u>	<u>\$ 1,539,618</u>

Note 2—Pledges Receivable

General pledges receivable contain the following components:

	2006	2005
Total general pledges receivable	\$ 275,000	\$ —
Less: unamortized discount	9,081	—
Net general pledges receivable	265,919	—
Less: current portion	75,000	—
Long-term pledges receivable, net	<u>\$ 190,919</u>	<u>\$ —</u>

The general pledges receivable are expected to mature according to the following schedule:

2007	\$ 75,000
2008	50,000
2009	50,000
2010	50,000
2011	50,000
Total	<u>\$ 275,000</u>

Interest was imputed at a rate of 5% in discounting long-term general pledges to give.

The Association has been informed of multiple donor's naming the Angus Foundation as a charitable beneficiary in their revocable wills. Since the gifts are revocable, they are not reflected within the accompanying consolidated financial statements due to their conditional nature.

Note 3—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 2006 and 2005, the Association contributed \$710,143 and \$589,255, 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 nonqualified 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 \$72,550 in 2006 and \$20,750 in 2005. 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 \$385,439 in 2006 and \$331,818 in 2005.

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 plan was terminated for employees hired after March 1, 2006. 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:

	2006	2005
Benefit obligation—net	<u>\$ 673,000</u>	<u>\$ 967,233</u>
Accrued benefit cost:		
Current liability	\$ 16,800	\$ 23,016
Long-term liability	656,200	944,217
Total	<u>\$ 673,000</u>	<u>\$ 967,233</u>

Benefits expense (includes benefits paid of \$16,492 and \$15,678 for the years ending September 30, 2006 and 2005, respectively)	<u>\$ (277,741)</u>	<u>\$ 178,000</u>
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Weighted average assumptions:

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

American Angus Association and Its Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

Note 4—Provision for Income Taxes

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

	<u>2006</u>	<u>2005</u>
Federal income tax	\$ 9,259	\$ 4,248
State income tax	12,603	1,821
Total provision for income taxes	<u>\$ 21,862</u>	<u>\$ 6,069</u>

Total payable for income taxes is \$74,621 and \$7,008 for the years ending September 30, 2006 and 2005, respectively.

Deferred tax assets:

Property and equipment depreciation differences	\$ (8,354)	\$ —
Differences in revenue recognition for deferred compensation	38,796	—
Differences for postretirement benefit	21,780	—
Total deferred tax assets	<u>\$ 52,222</u>	<u>\$ —</u>

Note 5—Board Designated, Temporarily Restricted, and Permanent Restrictions

Included in unrestricted net assets are the following Board designations:

	<u>2006</u>	<u>2005</u>
Research for breed improvements	\$ 416,398	\$ 397,122
Information systems	2,582,463	2,066,573
Supplemental health benefits	972,248	841,232
Capital replacement	100,000	100,000
Youth and education programs	726,998	607,484
Donor relations and general administration	1,500,000	1,055,012
Total Board designations	<u>\$6,298,107</u>	<u>\$5,067,423</u>

The temporarily restricted net assets balance consists of:

Research	\$ 19,500	\$ —
Education	2,310	—
Future operations and donor relations	139,213	—
Total temporarily restricted net assets	<u>\$ 161,023</u>	<u>\$ —</u>

Permanently restricted net assets represent four endowments totaling \$70,000 and \$10,000 for both 2006 and 2005, respectively, the income from which is temporarily restricted support for the Angus Foundation programs.

Note 6—Royalties

Royalties relate primarily to Certified Angus Beef LLC (CAB) and represent payments made by meat packers to CAB for the sale of CAB licensed product. Royalties from four customers represented 32% of the Association's total revenues, gains, and other support for the year ending September 30, 2006. Royalties from three customers represented 31% of the Association's total revenues, gains, and other support for the year ending September 30, 2005.

Note 7—General and Administrative/Fund-raising Expenditures

In 2006 and 2005, the Association conducted activities that included requests for contributions, as well as program and management and general components. General and administrative, and fund-raising 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:

	<u>2006</u>	<u>2005</u>
General and administrative	\$3,180,787	\$ 2,891,151
Fund-raising	127,969	70,517

Note 8—Allocation of Joint Costs

The costs associated with fundraising have been specifically identified by function and have been presented in the Statement of Functional Expenses as marketing and promotions expenses. The cost of conducting these activities include a total of \$254,503 of joint costs, which were not specifically attributable to particular components. The joint costs were allocated as follows:

Program service	\$ 78,901
Marketing and promotions	123,476
Operations and general expenses	52,126
Total	<u>\$ 254,503</u>

Note 9—Advertising

Advertising expense for the years ended September 30, 2006 and 2005 totaled \$1,918,244 and \$2,357,648, respectively.

Note 10—Supplemental Cash Flow Disclosures

Cash paid for income taxes was \$6,471 and \$16,649 in 2006 and 2005, respectively.

Note 11—Commitments

The Association has capitalized \$458,751 of work in progress at September 30, 2006 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 12—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.