

ANGUS

2014 ANNUAL REPORT



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TIMES ARE GOOD IN THE CATTLE BUSINESS.

Historic market prices, growing demand for quality beef and an industry on the cusp of expansion – welcome headlines following a multi-year struggle with drought, rising input costs and a shrinking cow base.

Each day in agriculture offers a constellation of risks and rewards, yet 2014 reminded us that challenges are only temporary.

Eventually, rains come, poor markets reverse and tides begin to turn. Each setback leads to a fresh beginning, and those who endure the trials emerge stronger for the wear.

Throughout the American Angus Association's 131-year history, breeders have shared these struggles, built on successes, and selected for cattle genetics that can ride the waves of an evolving industry.

You, the Angus breeder, are at the center of it all. The architect responsible for sensibly crafted genetics. The scientist charged with gathering and analyzing complex data. The marketer focused on earning a customer's trust and building a profitable brand. And the environmental steward trusted with preserving the land and protecting the ranching way of life.

Your business requires many talents, days of tireless labor, early mornings welcoming new calves – and a little bit of luck. It's a profession unthinkable for some. But those who make a living in America's last best places wouldn't have it any other way.

Because of your perseverance, the best is yet to come.

ANGUS MEANS BUSINESS.

THE BUSINESS BREED



When traveling down Frederick Avenue in Saint Joseph, Mo., it may be easy to drive by the American Angus Association headquarters without a second glance.

The unassuming, 1950s-style brick building has been home to the business breed for nearly 60 years, quietly humming with activity as registrations are processed, DNA samples submitted and teams collaborate on the breed's next success story.

The daily work accomplished within the building's walls is quite astounding. On any given day, Angus employees process nearly 1,200 registrations; submit 650 transfers; send in 1,000-plus DNA samples to partner labs; produce an entire sale book; and provide 24-hour turnaround on data submitted to the Association.

I couldn't be more proud of those involved in making these endeavors a reality. From the staff and employees who go to work for the business breed each day, to the volunteer leaders who sacrifice time at home to make critical decisions for our future.

There have been many challenges this fiscal year, but when you consider the breed's achievements, it's been a time of great opportunity for Angus cattlemen. To properly measure our success, we need only look at the breed's prominence in the beef cattle industry.

Average prices for registered Angus bulls sold at auction and reported to the American Angus Association have risen sharply from \$3,031 per head in fiscal year 2008 to \$4,997 per head in fiscal year 2014. That's nearly \$2,000 per head in added value for breeders of registered Angus bulls.

For the first time in our history, gross revenue for reported registered Angus cattle sales has surpassed \$326 million. Collectively, Angus breeders across the country earned \$61.5 million more than the prior fiscal year – a 23% increase in total dollars spent on registered Angus seedstock.

During the past year, the average registered Angus sale generated twice as much income as it did in 2010, or nearly \$250,000 more than four years

ago. That's positive news for rural communities and families across the nation looking to sustain their way of life on the ranch.

Yes, it's a good time to be involved in the cattle business, and an even better time to be raising Angus cattle. Our market share in the industry is expanding, as more commercial cattlemen realize value in Angus-based herds, feedlot managers seek out black hides to fill their pens, and beef consumers demand quality in their meat purchases. And they are willing to pay for it.

The *Certified Angus Beef*[®] (CAB) brand is a testament to the value of quality beef in the marketplace. Since 2008, when restaurant business plummeted as a result of the economic downturn, sales of CAB brand product have increased by 39% to more than 880 million pounds in fiscal year 2014.

While the industry witnessed a decline in overall cattle harvest, a greater share of those Angus-influenced animals met the 10 CAB specifications. As a result of the unwavering efforts of Angus cattlemen throughout the country, today more head are being certified for the program annually than ever before in the brand's 36-year history.

As you'll read in the following pages, there's much more to our shared success story. Nearly every measurable breed indicator saw positive movement in fiscal year 2014. Total registrations are up more than 9,500 head at 298,369 animals; and more than 53% of calves recorded were produced by artificial insemination (AI) – the second-largest figure ever for the Association.

Carcass records increased by 165%, and the number of weight records received grew by more than 17,000 records from 700 additional herds. That's proof that Angus producers are committed to constant improvements to keep the breed at the forefront for years to come.

Thanks to our members, Angus will continue to lead the industry in quality genetics, quality performance and quality beef.

Thanks to you, our future is brighter than it's ever been.

A handwritten signature in black ink that reads "Bryce F. Schumann". The signature is written in a cursive, flowing style.

Bryce Schumann
Chief Executive Officer

MOVING FORWARD

Leadership is essential to the success of the business breed. Since the organization was founded in 1883, individuals from throughout the country have volunteered their service on the American Angus Association Board of Directors. They meet at least four times each year to discuss progress and evaluate strategic plans for the organization's nearly 25,000 members.

The Board of Directors is composed of members from nearly every geographic region in the United States who offer a critical perspective on how to keep the Association's programs and services relevant on the farm and ranch. Over the years, their foresight led to establishing the nation's largest collection of beef cattle records and performance measures, the formation of the industry-leading *Certified Angus Beef*[®] brand, and the early adoption of genomic technology and DNA testing, among many other notable achievements.

A historic decision made by the Board of Directors in fiscal year 2014 was approving a unification plan for Angus Productions Inc. (API) and the Association's public relations department. Bringing together a talented staff of media professionals, the Association continues to forge new paths ahead of industry competitors in its ability to share the Angus message with an ever-increasing audience. Efforts in print, television, radio and digital communications are now housed under one roof to better serve members and their customers by providing an expansive media platform to market and inform.

The Board of Directors also oversaw preparations for the first-ever Angus Means Business National Convention and Trade Show, Nov. 4-6, 2014, in Kansas City, Mo. A departure from the traditional event held in Louisville, Ky., the convention provides a unique setting for Angus breeders to engage with fellow seedstock producers, commercial cattlemen, feedlot managers, packers and allied industry partners. It also features an expanded educational component that explores how our members fit into the larger beef production system — all in conjunction with regular annual Association business and meetings.

Also in fiscal year 2014, the Board of Directors:

- Oversaw recalibration of genomic-enhanced EPDs incorporated in the National Cattle Evaluation (NCE), based on more than 57,000 animals.
- Directed staff to incorporate tenderness EPDs and accuracies as part of the weekly NCE.
- Approved research to enhance economically important indexes by incorporating the feed intake EPD into the feedlot value dollar (\$F) index.
- Approved the development of a foot scoring system with data collection guidelines.
- Approved a proposal to continue AngusSource[®] as a USDA Process Verified Program (PVP).
- Approved a new Allied Angus Breeders Undergraduate Scholarship program through the Angus Foundation.
- Guided the development of AngusAuctions.com, an API partnership with DV Auction. Together, they have created the largest collection of online cattle buyers in the industry.



The 2013-2014 American Angus Association Board of Directors are (seated from left): Tom Burke, Smithville, Mo.; Doug Schroeder, Clarence, Iowa; Jim Sitz, Dillon, Mont., treasurer; Gordon Stucky, Kingman, Kan., president and chairman of the board; Cathy Watkins, Middletown, Ind., vice president and vice chairman of the board; Scott Foster, Niles, Mich.; Bryce Schumann, Saint Joseph, Mo., chief executive officer; (standing from left) Leo McDonnell Jr., Columbus, Mont.; Charlie Boyd II, Mays Lick, Ky.; Don Schiefelbein, Kimball, Minn.; Vaughn Meyer, Reva, S.D.; Phil Howell, Winchester, Ind.; Kevin Yon, Ridge Spring, S.C.; Arlen Sawyer, Bassett, Neb.; John Pfeiffer Jr., Mulhall, Okla.; Darrell Silveira, Firebaugh, Calif.; Chris Sankey, Council Grove, Kan.; and John Elbert Harrell, Opelika, Ala.



ANGUS

THE BUSINESS BREED

2014
HIGHLIGHTS



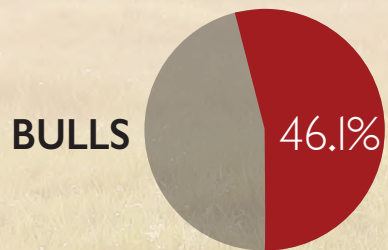
\$326
MILLION

REVENUE FOR
REPORTED
ANGUS SALES

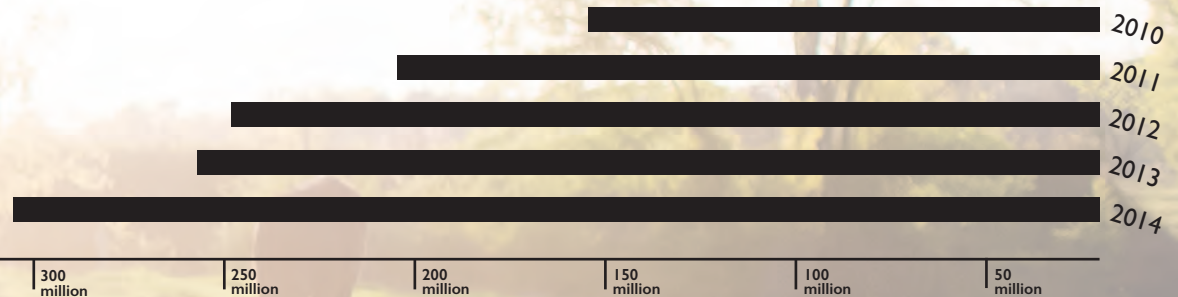
TOTAL REGISTRATIONS

298,369

* UP 9,500 HEAD

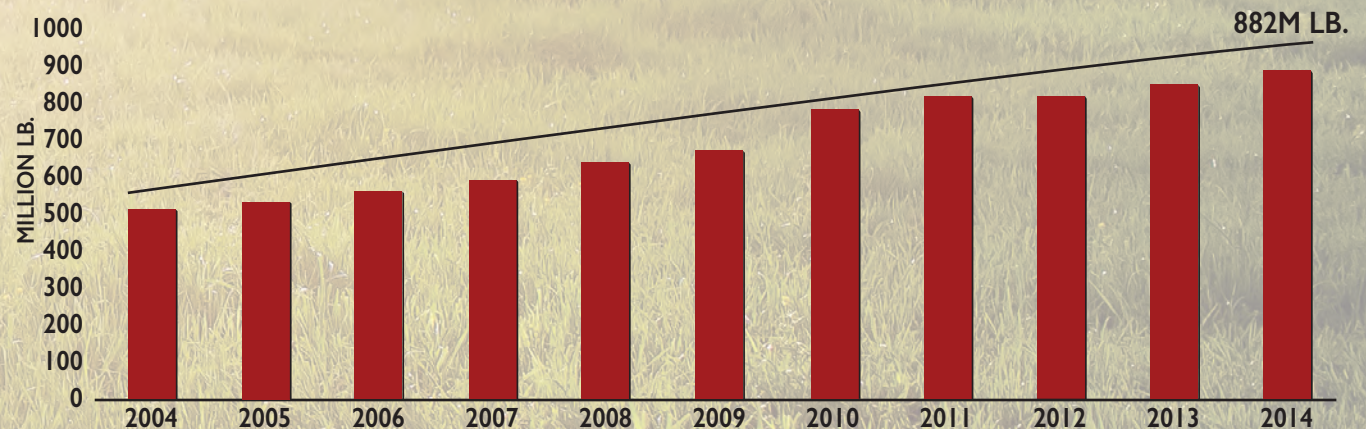


ANGUS SALES REVENUE



\$4,997	53%	23,500	882
RECORDED ANGUS BULL SALE AVERAGE	CALVES RECORDED PRODUCED BY AI	ANGUS MOBILE APP DOWNLOADS	MILLION POUNDS CAB PRODUCT SOLD

CERTIFIED ANGUS BEEF® BRAND SALES BY FISCAL YEAR



EQUIPPED FOR QUALITY

The Angus breed's strength is rooted in superior genetics. For generations, Angus cattle have been carefully selected for high quality performance, stayability and traits necessary to survive the nation's varied landscapes and Mother Nature's unpredictable swings.

The breed's genetic progress would be bridled without Angus seedstock producers, of all herd sizes, who are motivated by continuous improvement. They are driven to analyze each expected progeny difference (EPD) and dollar value index — with every breeding decision, advancing the nation's calf crop.

Today's database at the American Angus Association houses records on more than 20 million animals. In fiscal year 2014, Angus breeders submitted thousands of additional records to the Association — everything from pedigree basics to sophisticated performance data and DNA.

That computing power comprises the world's largest single-breed beef cattle database and allows for the weekly release of EPDs, a capability that facilitates more rapid, more accurate herd improvement.

MEMBER SERVICES

The American Angus Association's nearly 25,000 breeders are at the center of every program, every decision and every service offered through the organization. A true commitment to customer service has established the Association and its employees as trusted partners for farms and ranches across the country.

Breeders rely on the Association to process and assist with registrations and transfers, facilitate DNA services, and oversee rules and regulations. During fiscal year 2014:

- Total animals registered reached 298,369, a 3.3% increase from fiscal year 2013, representing 137,612 bulls (46.1% of registrations); 159,687 females (53.5%); and 1,070 steers (0.4%);

- Embryo transfer registrations reached 29,571, accounting for about 10% of total registrations;

- The number of artificial insemination (AI) certificates reached 140,802, with recorded AI-sired calves at 53.1% of registrations, the second-highest percentage ever recorded and indicating continued commitment to breeding technology;

- Overall, the percentage of registrations stored electronically rose again in fiscal year 2014 to 40.7% of total registrations; and

- AAA Login continues to be the leading choice for submitting registrations, at 50% of the total, followed by the Angus Information Management Software (AIMS, 25%), paper (17%) and other means (8%).

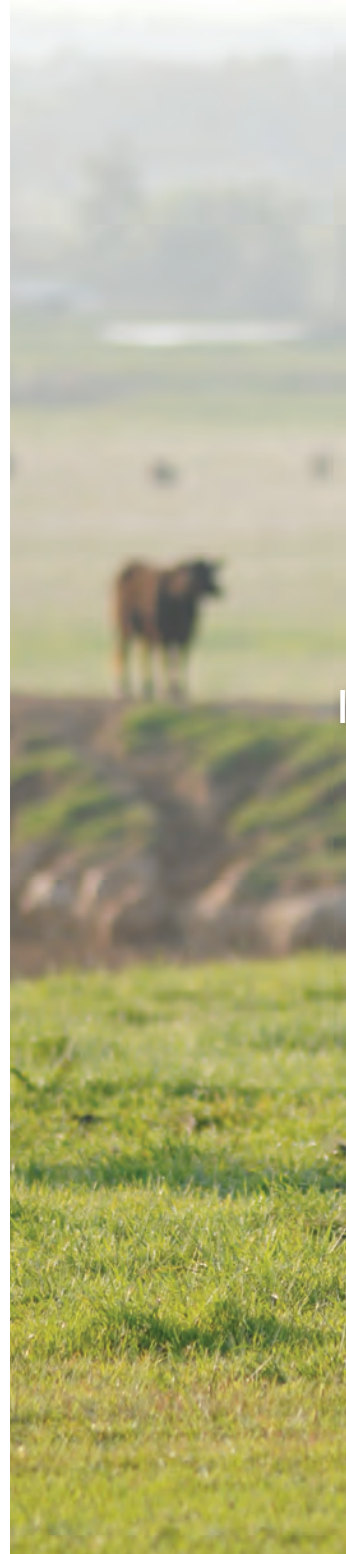
COMMERCIAL PROGRAMS

The Association also strives to add value for commercial cattlemen who use Angus genetics as a foundation for their operation. By investing in a registered Angus bull, producers gain access to the breed's expansive programs and services, valuable database, genomic evaluations, and marketing platforms.

During fiscal year 2014, the Association hosted educational meetings where staff explained selection tools, the Beef Record Service, AngusSource[®], AngusSource[®] Genetic, and the commercial DNA tests GeneMax[®] Focus and GeneMax[™] Advantage.

Commercial producers can also use the Association's powerful online management tool, AAA Login, to view current bull inventories and EPDs, record calf records and take advantage of other Association programs that can help improve operations.

Once again in fiscal 2014, BRS/AngusSource Black Books were distributed to both commercial and registered producers to capture valuable herd data. Similar herd management functions using the Angus Mobile smartphone app were also encouraged.



Weekly National Cattle Evaluation

8.5 million
WEANING WEIGHTS

110,404
CARCASS RECORDS

13,000
INDIVIDUAL FEED INTAKES

MORE THAN 1.7M
ULTRASOUND RECORDS



ANGUSSOURCE®

In an effort to reward commercial cattlemen for their investment in quality Angus genetics, the Association offers marketing support that sets Angus-sired calves apart from their black-hided counterparts.

AngusSource, now in its eleventh year, remains true to its mission: identify and increase the value of Angus-sired calves, provide updated marketing documents and create additional methods to promote Angus-sired calves.

There are two options available for cattlemen – AngusSource, the traditional USDA Process Verified Program (PVP) that documents group age, source and a minimum 50 percent Angus genetics; and AngusSource Genetic, which was introduced in 2013 as an alternative program for producers who did not desire third-party verification.

The American Angus Association recognizes marketing emphasis should continue to be placed on the value of quality Angus genetics for commercial Angus partners who sell feeder calves and replacement females. The program's marketing document is the nexus of this strategy, and it is passed on to potential buyers who certify a calf's genetic integrity and potential performance. Buyers, feedyards and packers continue to sign up for the weekly emails showing enrolled calves for sale.

The AngusSource and AngusSource Genetic online marketing document now highlight the sires' average beef value (\$B) index and averaged weaned calf value (\$W) index, along with the percent rank for each enrollment group. Additionally, producers now have the option to test a portion of their enrollment group using the GeneMax® Focus test, and include the average scores on marketing documents for feeder cattle or replacement females.

Calves enrolled in AngusSource are issued a white tamper-evident tag, while AngusSource Genetic calves are identified by green, tamper-evident tags. Producers have the option to use the Association's AAA Login to enroll their calves in AngusSource Genetic.

Fiscal year 2014 continues to be a transition for the programs; however, more than 300 producers have enrolled nearly 70,000 feeder calves and replacement females in the past year.

PERFORMANCE PROGRAMS

Once data is reported to the Association, it joins ranks with more than 20 million records on animals in the registry. Growing by the day, the massive database is the foundation for the Angus breed's cutting-edge genetic selection tools and performance programs.

Fiscal year 2014 brought continued growth for the MaternalPlus® program. The voluntary, inventory-based reporting system is designed to capture additional data that will be used to develop and expand reproductive and lifetime productivity tools. More than 100 Association members have enrolled approximately 17,000 cows and 4,600 heifers into the program.



A number of new tools are under development to more comprehensively evaluate Angus cattle for traits such as tenderness, pulmonary arterial pressure (PAP) and foot structure. Feed intake information, already used in calculation of the residual average daily gain EPD, will be incorporated into the feedlot dollar value (\$F) index, which is a component of \$B. During fiscal year 2014, genomic information was incorporated into the heifer pregnancy EPD.

Without disruption, the National Cattle Evaluation (NCE) EPDs continued to be processed weekly and released online every Friday. This evaluation is based on the accumulation of 8.5 million weaning weights; 110,404 carcass records; 13,000 individual feed intake records; and more than 1.7 million ultrasound records.

In addition, high-density genomic results in collaboration with Zoetis and GeneSeek are now included in evaluations for nearly 90,000 animals.

INFORMATION MANAGEMENT

Perhaps one of the greatest partners for Association members is the Information Systems team. They provide the driving mechanism behind all Association business. Information Systems supplies genetic evaluation capabilities as well as program support for the Association, Angus Genetics Inc. (AGI), Angus Foundation, Angus Productions Inc. (API) and Angus Information Management Software (AIMS).

Association members enjoy a 24-hour turnaround time on all registrations, transfers, memberships and performance data. The department

also provides programming support for the Custom Cattle Tags website; AGI analysis; weekly NCE evaluations; and several enhancements to in-house systems, AAA Login and Association websites.

The Angus Mobile smartphone application saw continued growth during the past year. Launched in 2012, the app now has more than 23,500 downloads and is available on iPhone, iPad, Android and Windows devices. Continued development and enhancements are going into the app, such as a new announcements section and progress toward adding a DNA section under the MyHerd feature.

Technology updates have been ongoing through fiscal year 2014. The following improvements to AAA Login were made: a calving calendar report, options to hide/display registered Angus bulls, sale data, breeding updates, additional options for paying membership dues, Association invoice preferences and DNA features, such as reports for samples that need resubmitting and animals with excluded parentage.

The department continued to implement hardware and software designed to improve processing time, reduce input costs and ensure programs and services are reliable when Angus breeders are accessing information.

For nearly 15 years, AIMS has helped producers manage herd records. AIMS continued to be updated and enhanced in fiscal year 2014 with three updates, including redesigning how certain records are managed.

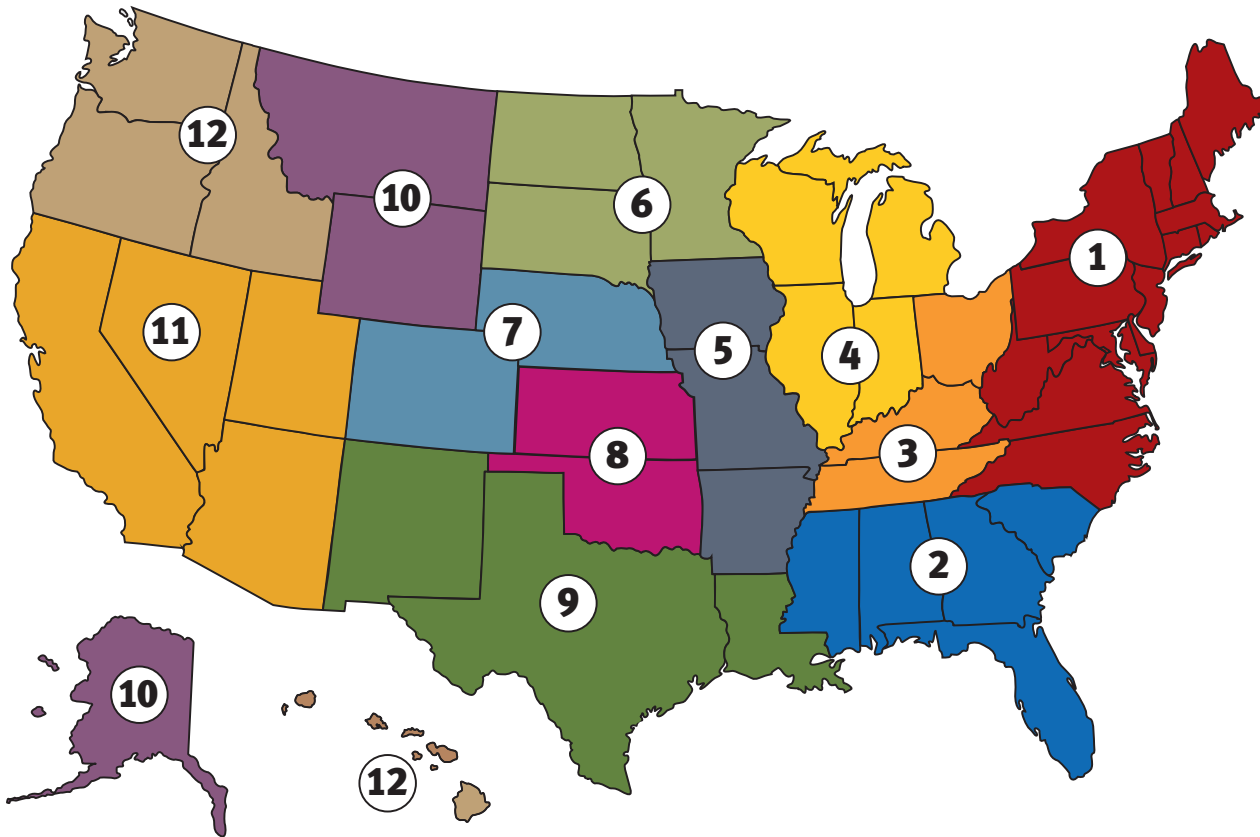
REGIONAL MANAGERS

Regional Managers log thousands of miles each year while traveling the vast expanse of Angus country. They serve as the face of the organization and provide valuable one-on-one conversations with members, sharing insight on Association programs and services, and offering marketing advice.

While their schedules fluctuate with farm visits and sales, all serve as a source of knowledge for Angus genetic evaluation, AngusSource, API services and herd marketing, upcoming sales and events, Angus Foundation inquiries, *Certified Angus Beef*® brand specifications, and other Association programs.

In fiscal year 2014, restructuring resulted in 12 regions throughout the United States. Several new hires joined the Angus team and have been getting to know breeders in their respective territories. All are dedicated to providing the members in their regions the best service possible.

REGIONAL MANAGERS



- 1** CHRIS JEFFCOAT
- 2** DAVID GAZDA
- 3** ALEX TOLBERT
- 4** CASEY JENTZ
- 5** WES TIEMANN
- 6** AMERICAN ANGUS ASSOCIATION
- 7** JAY NORDHAUSEN
- 8** JEFF MAFI
- 9** RADALETINER
- 10** KURT KANGAS
- 11** TERRY COTTON
- 12** JAKE TROUTT

A SHARED VISION

The Angus breed is a mainstay that bonds friendships across state lines, families across generations and beef consumers worldwide.

Beyond the cattle quietly grazing in the pastures, there's tremendous strength in Angus people, Angus families and Angus friends. The Association recognizes that value and focuses many of its efforts on uniting Angus breeders in competition, fellowship and a shared vision.

EVENTS & EDUCATION

From educational seminars, social events and showing competitions, cattlemen of all types gather together each year through functions hosted by the American Angus Association. The department facilitates activities for both adult and junior members, and coordinates cattle shows throughout the country. In fiscal year 2014, the events and education department:

- Welcomed the seventh-annual Beef Leaders Institute (BLI), which provided 18 young Angus breeders with leadership development sessions and educational tours in three states.
- Oversaw 17 Roll of Victory (ROV) Shows with nearly 2,000 cattle competing for points.
- Hosted a Cattlemen's Boot Camp event for nearly 50 seedstock and commercial producers, in partnership with the University of Missouri.

- Managed the 2014 National Western Angus Bull Sale, held in conjunction with the National Western Stock Show (NWSS), where the 39 lots averaged \$7,141.
- Provided premium support to 26 open shows and more than 40 junior shows across the country.
- Started planning for the 2014 Angus Means Business National Convention and Trade Show, as the first-ever stand alone event for the breed to conduct its Annual Meeting, educational workshops and social activities.
- Promoted Jaclyn Upperman, formerly director of junior activities, as the Association's new director of events and education.
- Promoted Ashley Mitchell, formerly assistant of activities and junior activities, to assistant director of events and education.

NATIONAL JUNIOR ANGUS ASSOCIATION

Encouraging the next generation of Angus leaders is the mission behind the National Junior Angus Association (NJAA). The organization represents more than 6,000 members – one of the largest among junior beef breed groups – and is dedicated to the breed's youngest members, those 21-years-old and younger.



Industry Relations & Activities



Through conferences and shows across the country, the NJAA encourages leadership development, Angus appreciation and industry knowledge, as well as lifelong friendships.

During fiscal year 2014, the NJAA reports the following highlights:

- The 2014 “Angus in the Heartland” edition of the National Junior Angus Show (NJAS) took place July 6-12 in Indianapolis, Ind., with more than 700 Angus juniors exhibiting 1,071 entries.
- Themed “Farmers & Forefathers: Cultivating Angus Youth,” nearly 130 participants from the U.S. and Canada attended the 2014 Leaders Engaged in Angus Development (LEAD) Conference, July 31- Aug. 3 in Philadelphia, Pa.
- More than 50 junior members and state advisors attended “Raising the Bar” workshops in Lincoln, Neb., and Lubbock, Texas — three-days spent building stronger teams within state junior associations and developing regional relationships among members.
- The Western Regional Junior Angus Show took place in Reno, Nev., with 130 head of cattle shown; and the Eastern Regional was held in Raleigh, N.C., with 194 head shown.
- Emma Jumper, Paragould, Ark., was selected as the third Angus Ambassador

“As the American Angus Association, we are known as the business breed for a purpose. We lead this country, and the world, in providing one of the most stable and safe food supplies. But it’s not just about stopping where we are and being content. It’s about growing and keeping on for the future.” – Emma Jumper

and will represent the Association for a year at industry conferences and events across the United States and Canada.

- New officers elected to the National Junior Angus Board (NJAB) in July 2014 were: Chairman Cory Watt, Iva, S.C.; Vice Chairman Shane Kerner, Weiser, Idaho; Foundation Director Will Fiske, Greenville, Va.; Communications Director Tylee Jo Williams, Rio Vista, Texas; Leadership Director Jessica Radcliffe, Weston, Wis.; and Membership Director Lindsay Upperman, Chambersburg, Pa.
- Newly elected NJAB directors were: Michael Cropp, Damascus, Md.; Lauren Grimes, Hillsboro, Ohio; Jake Heimsoth, Cameron, Mo.; Alex Rogen, Brandon, S.D.; Katy Tunstill, Fayetteville, Ark.; and Evan Woodbury, Quenemo, Kan.



PERFECTING THE SCIENCE

Genetic evaluation is the engine that powers the American Angus Association and herd improvement among its members. The organization's early adoption of genetic evaluation tools and its progressive lead in their development are entwined in Angus culture — a data-driven, science-backed emphasis that continues to thrive today.

To accommodate the growth in performance analysis and improve genetic evaluation measures, the Association established its subsidiary Angus Genetics Inc. (AGI).

characterize and advance their registered Angus herds. AGI completed its fourth genomic recalibration in September 2014 on a group of more than 57,000 animals, representing a 47% increase over the previous recalibration, completed in December 2013.

With the largest database of DNA tests in the beef industry, Angus GE-EPDs offer greater accuracy, especially for young animals, allowing producers to optimize their selection decisions across 17 traits and seven dollar-value indexes.

“AGI is committed to advancing science and technology. We want to provide the most objective, most accurate and most consistent genetic evaluations possible.” — Dan Moser, AGI president & Association director of performance programs

A team of genetic researchers and customer service representatives work each day to incorporate genomics and performance records into the Association's vast suite of genomic-enhanced expected progeny differences (GE-EPDs) and \$Value indexes. This information is derived on a weekly basis, a capability unavailable elsewhere, and released to members through the National Cattle Evaluation (NCE).

In fiscal year 2014, Dr. Dan Moser was named president of AGI and director of performance programs for the American Angus Association. A unanimous selection by the AGI board of directors, Moser brings more than 15 years experience in genetic research and education to the Association's members and their commercial partners.

“AGI is committed to advancing science and technology,” Moser says. “We want to provide the most objective, most accurate and most consistent genetic evaluations possible. We want to continue to move the science forward to better serve our membership and their customers.”

AGI conducts genomic recalibration and works with industry collaborators to advance and refine the selection accuracy and the way breeders

The company processes hundreds of thousands of DNA samples each year for high-density genomic tests, genetic condition testing and parentage verification. During fiscal year 2014, the number of registered Angus cattle genomically tested for GE-EPDs increased 32%.

In an ongoing effort to advance the science of genetic prediction in beef cattle, AGI staff are working with scientists at the University of Georgia to implement new analysis techniques in Angus genetic evaluation programs. Ongoing research with Angus data at the university will lead to enhanced utilization of genomic test information in Angus GE-EPDs.

Throughout fiscal year 2014, AGI continues to build on the success of the original GeneMax® genomic test for commercial Angus-influenced cattle. A new product, GeneMax Advantage™, was developed and released in collaboration with Certified Angus Beef LLC and Zoetis. GeneMax Advantage, distributed exclusively by AGI, is a state-of-the-art tool for selecting commercial Angus heifers.

GeneMax Advantage allows commercial producers to select on genetic differences for production traits affecting profitability in cow-calf operations,

such as heifer pregnancy, calving ease and weaning weight, as well as post-weaning growth, feed efficiency and carcass merit that are important to cattle feeders. Smart Outlier Reporting, included with GeneMax Advantage results, allows producers to easily identify animals that possess relatively extreme genetics for cow cost, docility, marbling and tenderness.

Throughout fiscal year 2014, the number of GeneMax tests for commercial heifer selection increased 36%.

The original GeneMax product, now known as GeneMax Focus, remains a

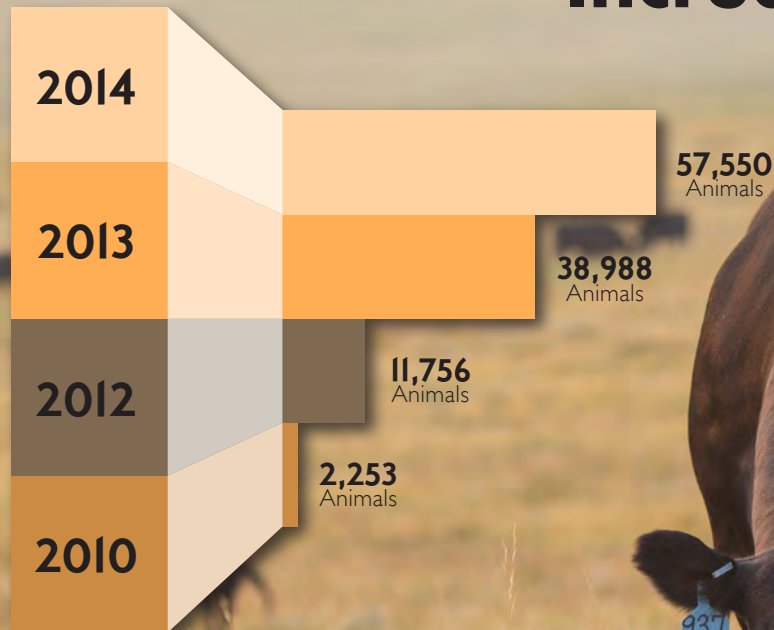
widely-used tool for selecting Angus influenced commercial cattle with superior gain performance and carcass quality. Both GeneMax products allow producers to match paternity of tested females to registered and transferred sires tested with high-density 50K DNA tests.

“Our goal is simple: to describe animals as accurately and as comprehensively as possible so producers can find the right genetics for their particular production situation and marketing system,” Moser says.



Strength in numbers:

Increase in genomic data over the 4 calibrations



FUNDING FOR THE FUTURE

Performing perhaps the noblest of Association-backed efforts, the not-for-profit Angus Foundation works to fund advancements in youth, education and research initiatives to move the breed forward.

The 501(c)3 organization was established in 1980 to provide scholarships to deserving Angus junior members who worked as hard at their academic studies as they did at raising quality Angus seedstock. Since then, the entity's mission has blossomed to also include educational activities, leadership training sessions and research initiatives to keep the breed at the forefront of the beef cattle business.

Today, Angus Foundation initiatives remain unrivaled — reflecting the enthusiasm of its many generous supporters. Highlights from fiscal year 2014 are included in the following paragraphs.

- The Angus Foundation's assets as of September 30, 2014, totaled \$8,170,568.

- Total revenue exceeded \$1 million for the tenth consecutive year, and the Angus Foundation hit a new all-time record of \$2,471,568 this fiscal year.

- Funds invested in education, youth and research activities and programs in fiscal year 2014 totaled \$740,323.

"Every gift makes a difference," says Milford Jenkins, Angus Foundation president. "Every donor, no matter what size their contribution, is equally important in our effort to improve and protect the Angus breed for generations to come."

Thanks to generous supporters of the Angus

Foundation's "Building an Angus Legacy" project, the American Angus Association headquarters was given a new entryway in fiscal year 2014. An attractive display of granite planters and pavers, engraved with Angus ranch names and logos, now welcomes visitors to the Association in Saint Joseph, Mo. The construction is a fitting tribute to the breed's history and heritage, and the people responsible for making Angus success a reality.

YOUTH

The Angus Foundation's scholarship program has also grown considerably in recent years, with more than \$203,000 in undergraduate and graduate scholarships awarded to Angus youth during the 2014 National Junior Angus Show (NJAS) in Indianapolis, Ind., and more than \$254,000 in

total scholarships was awarded through the Angus Foundation this fiscal year.

In fiscal year 2014, the Angus Foundation also announced a brand-new initiative to support youth who use Angus genetics in their seedstock or commercial herds. The Allied Angus Breeders Scholarship will be awarded in July 2015, and three students will each receive \$1,000 from this scholarship fund. In addition, three new permanent scholarship endowments were established with major outright cash gifts to the Angus Foundation:



\$2.1 MILLION
awarded to 1,100 Angus
youth since 1998

- Ed and Wilma Minix/Black Witch Farm Angus Scholarship
- Bill and Betty Werner — Jim Baldrige Outstanding Leadership Award Scholarship
- Texas Angus Auxiliary Scholarship

The Angus Foundation supports junior members by contributing to the Leaders Engaged in Angus Development (LEAD) Conference, “Raising the Bar” conferences hosted by the NJAA, and various other events throughout the year. Because of commitment by Angus Foundation donors and supporters, more than 3,350 National Junior Angus Association (NJAA) members have attended the LEAD Conference since 1994.

EDUCATION

The Angus Foundation supports adult Association members in their continued education as well. In fiscal year 2014, the Foundation supported Julie Ellingson of Saint Anthony, N.D., as the Angus representative for the 2014 National Cattlemen’s Beef Association’s Young Cattlemen’s Conference — a premier leadership program where participants travel through the complete beef production chain.

With financial assistance from the Angus Foundation, the Association’s events and education department hosted nearly 50 purebred Angus and commercial breeders during a Cattlemen’s Boot Camp at the University of Missouri. These popular day-long events are held at different universities each year, and since 2005, more than 1,050 cattle

producers have attended Cattlemen’s Boot Camps.

The Beef Leaders Institute (BLI) is a highly anticipated leadership experience each year. In June 2014, the Angus Foundation and the Association welcomed 20 young Angus producers, aged 25-45, from across the United States and Canada, as they gained knowledge and enhanced their leadership skills during the seventh-annual BLI.

The American Angus Auxiliary hosted 27 Angus cattlemen, Auxiliary members and others involved in the cattle business for the second Women Connected conference in Saint Joseph, Mo., with financial support from the Angus Foundation.

RESEARCH

The Angus Foundation is committed to improving the future of the beef industry by supporting a variety of research endeavors. Since 2005, more than \$1 million has been invested in genetic evaluation, genomic sequencing, marbling development, hair shedding, beef cow biological efficiency, single-nucleotide polymorphism (SNP) characterization and other research for the benefit of the thousands of members and the beef cattle industry.

Since 2008, the University of Georgia and Angus Genetics Inc. (AGI) have collaborated on research to advance the field of genetic evaluation in cattle. Use of the university-developed software has allowed AGI to efficiently run the industry-leading National Cattle Evaluation (NCE), published weekly by the Association. Thanks to the support of its generous donors, the Angus Foundation allocated \$300,000 to the five-year project that further develops genetic evaluation methodology

for economically important traits and strengthens producers’ selection capabilities.

Efforts continue in a multi-year beef cow efficiency study being conducted jointly by the University of Illinois and North Carolina State University. This study will evaluate feed intake of females at various points in the production cycle, from heifer development through maturity, to quantify differences in efficiency in each stage. Data from this study will have implications for how lifetime efficiency of beef cattle is evaluated and improved through selection.

Additionally, the Angus Foundation:

- Implemented the Lifetime Giving Supporter Recognition program.
- Conducted Angus Foundation 2020 long-range strategic planning retreat.
- Honored new inductees into the Honorary Angus Foundation during the 2014 NJAS: Charles W. and Judy Herbster; Murl and Lucian Richardson; and Bill and Betty Werner.
- Celebrated Kris Sticken, Angus Foundation administrative assistant, as she was awarded the 2014 Front Line Award from the National Agricultural Alumni and Development Association.
- Through the Angus Foundation’s planned giving program “Angus Legacy Society” the Thomas A. and Catherine Chambers Estate provided nearly \$350,000 for support of Angus youth activities and programs.

INDISPENSABLE PARTNERSHIPS

Fiscal year 2014 was a year of great transition for Angus Productions Inc. (API). By uniting the Association's public relations team and API, the organization transitioned into one of the largest media companies in agriculture – home to a complete suite of media channels, from print publications to television, radio to online communications.

The newly aligned firm offers a more cohesive and coordinated communications effort, and a significant marketing advantage for Angus breeders. To lead that effort, the Board of Directors named Eric Grant as API president and general manager. A veteran ag communicator and the Association's director of public relations, Grant now oversees the many elements of API to ensure it succeeds in its mission to increase demand for registered Angus cattle by serving as an indispensable partner to the beef industry, providing leading-edge information and marketing strategies.

With its expanded focus, Grant's management team includes former API general manager Terry Cotton, who initiated the unification effort and transitioned to vice president of sales and serves breeders in the West.

Together, the talented team at API works each day to provide Angus breeders with the most expansive communications and marketing platform available in the livestock business, consisting, in part, of the following fiscal year 2014 highlights.

COMMUNICATIONS AND PUBLIC RELATIONS

The Angus message is delivered to more people, in more ways, than ever before. Daily newsletters and social media posts, weekly television and radio programs, and award-winning print publications allow the Association to engage with an ever-growing audience. The Angus Media team works diligently to ensure timely information that cattlemen of all types have come to trust. Leading API's communications team is Director Crystal Albers, who has served the Angus breed for 11 years, as part of the *Angus Journal* editorial department and as the Association's assistant director of communications. She produces and hosts *The Angus Report* television program each week, and will guide a cohesive approach to reporting for API's media platforms.

ANGUS JOURNAL® August 2014 marked 35 years since the Association purchased the *Angus Journal*, the breed's flagship publication and communications center. Since 1979, the magazine has been a highly anticipated

source of information for Angus breeders and their families. During that time period, the *Angus Journal* has adapted to meet sweeping changes in the media – launching a digital version, establishing industry-leading eNewsletters and growing content on API websites.

To celebrate its 35th anniversary of being owned by the Association, the *Angus Journal* started a "35 keys to success" editorial series, presenting stories that will make a difference on ranch profitability in the coming years, and includes everything from herd health to customer service, grazing strategies to recordkeeping, consumer relations and more.

ANGUS BEEF BULLETIN Interest in the *Angus Beef Bulletin* also continues to grow each year. The breed's publication aimed toward commercial cattlemen and with 65,000 readers, the *Angus Beef Bulletin* is a key source for information about management, production and issues of importance to the industry. It's also the fourth-largest publication in the industry by circulation.

ANGUS TV Bringing the public relations team under the API umbrella allows the organization to reach audiences in new and innovative ways. The department's weekly television program, *The Angus Report*, is viewed by 58,000 people, and the special documentary series, *I Am Angus®*, is an event more than 100,000 people enjoy on RFD-TV — both rank among the network's most-watched ag programs.

RADIO Angus Talk — a 30-minute radio program on Sirius XM's RURAL RADIO, Channel 80 — celebrated a year on the airwaves in September 2014, and provides a unique channel for sharing the latest news in the cattle industry.

PUBLIC RELATIONS Additional public relations efforts, now performed by API employees, include the national print advertising campaign, news releases, video and audio releases, photos, trade shows and events, and a comprehensive social media presence.

ADVERTISING, WEB SERVICES AND SPECIAL SERVICES

In addition to creating award-winning editorial content, API offers custom marketing services for cattle farms and ranches of all types. Creative artists, web developers and others work one-on-one with breeders every day to help them efficiently and successfully market their cattle — all while providing a tight turnaround, consistent accuracy and unfaltering dependability.

The **Special Services** department produces sale books, brochures,

postcards, show programs and a wide variety of pieces, while offering a customized mailing list and access to Association performance data. In fiscal year 2014, the department produced and inserted 41 sale books into API publications, 326 sale books for separate mailings, and six show programs. The department also produced 181 total brochures and postcards.

The **Web Services** department continued to see growth as breeders realized the importance of online communications.

CREATIVE MEDIA

API's Creative Media department is under new leadership, as well. Becky Weishaar joined the team in June 2014 to build brand cohesion through the unification process and cultivate new business for the for-profit entity. Weishaar possesses nearly two decades of experience in ag communications, marketing and advertising.

She is also the lead contact for the Angus Means Business National Convention and Trade Show, working with Association staff to execute a successful and engaging event for cattlemen of all types. Carrie Heitman was named Creative Media manager, playing an important role in convention planning, as well as traveling the country on video and photography projects.

ANGUSAUCTIONS.COM

A collaborative partnership between API and DV Auction, AngusAuctions.com combines two of the most recognized and dependable names in the livestock marketing world. Together, they have established the largest collection of online buyers in the industry.

For sellers of Angus genetics, the opportunities are endless. By promoting an event through both API and DV Auction, their breeding program will be recognized by thousands of users all across the country. For buyers, AngusAuctions.com is a one-stop-shop for high quality Angus genetics. They have an opportunity to buy cattle each day of the year through nearly 400 live auctions, online bid-offs and private treaty listings.

Early successes for the website, launched in fiscal year 2014, include more than 68,000 page views, and a 60% sale completion rate for online bidoffs.

13,000

ANGUS JOURNAL SUBSCRIBERS

65,000

ANGUS BEEF BULLETIN CIRCULATION

100,000

I AM ANGUS VIEWERS PER EPISODE

58,000

THE ANGUS REPORT WEEKLY VIEWERS



ANGUS MEDIA

STEADFAST DEMAND

When change and uncertainty are everywhere, that which stays true to its mission stands out. Perhaps that's why, with the highest beef prices the world has ever seen, the 17,000 *Certified Angus Beef*® (CAB®) brand partners in 47 countries celebrated eight straight years of record sales and the tenth consecutive year of growth.

Fiscal year 2014 saw a 400,000-head decline in the number of Angus-influenced cattle available at the brand's 30 licensed packing plants across North America. But a greater share of those featured Angus influence and a record proportion met the 10 CAB carcass specifications, resulting in a net gain of more than 80,000 additional cattle accepted.

Translated to beef sales volume, that meant the new annual mark to beat is 882 million pounds, 2% higher than last year's 865 million. More cattlemen followed market signals that pay \$50 million in yearly brand premiums according to research this year, while partners in the beef trade provided more consumers dependable value for the higher price tag.

Consumer sales could be seen as 4.7 billion three-ounce servings that boosted \$6.8 billion into the beef industry in the last year.

"Without a doubt the brand is defined in part by the quality of the product – but it is impactful because of people and relationships that connect each and every one of us," CAB President John Stika says.

Six of the brand's 10 best sales months in its 36-year history were in fiscal year 2014, exceeding 70 million pounds in nine of those months. Sales were especially strong through the summer, when partners promoted the brand as a focal point of grilling season. August was only the second time since 1978 that monthly brand sales exceeded 80 million pounds.

FEWER BUT BETTER

Angus cattle have never been worth more money than they are now. Working with a tighter supply, CAB's market share has rapidly expanded, comprising nearly 15% of all fed cattle harvested through licensed packers that harvest 85% of the total supply.

Boxed beef cutout values for the brand moved up 55% in the past five years, even as consumers purchased more each year. Similarly, many Angus breeders have been able to sell more and better bulls at higher prices.

Focused genetics and coordinated management paired with a slight increase (.8%) in the percentage of Angus-type cattle led to a record overall acceptance rate of 25.6%, up from last year's record of 24.2%. Ten years ago the acceptance rate was 15.6%.

This year, those acceptance rates hit a record weekly high of 29.5% and exceeded 27% during 12 weeks. Packers certified an average of 67,800 carcasses each week this year, totaling 3.52 million for the year.

"Overall fed cattle numbers are down, but between the growth of Angus influence and the improvement in grade, we continue to grow acceptance rates and hold our own with availability of CAB carcasses," says Mark McCully, CAB vice president of production.

Not only did consumers pay more to enjoy more of the brand around the world last year, but they also demanded significantly more CAB brand Prime. Those sales reached a record 11.9 million pounds, up 29.3% in just one year for the brand extension that has been on the market since 1999.

"This is a very creative industry," Stika said. "It's not just through technology. It's about focus, it's about discipline, it's being intentional with the choices and decisions we make in the breeding and management of our cattle."

A SHARED VISION

Stika said look no further than the people behind this brand to explain current success. The hundreds of thousands who work within those 17,000 licensed partners or work to produce the best calves on the ranch all share the common goal of providing quality beef to the consumer.

CAB's Foodservice Division achieved the most in growth, exceeding 300 million pounds for the first time with an increase of 9.4% over last year. While retail sales saw a slight decline of 4.5%, international growth continued its steady rise with 121 million pounds sold, a 9.1% increase. Canada, Mexico and Japan were the largest markets.

The summer season brought with it demand for ground beef and ribeye steaks, while bone-in ribs took their turn during the holiday months. With domestic foodservice distributors leading the charge, middle meats sales grew, setting the stage for growth in end meats, ground beef, and CAB Prime and Natural extensions as well.

ACTION WITH INTENTION

Value, loyalty and trust in the brand are as high as they've ever been, Stika said, noting the brand aligns passions and ultimately connects people to people. "None of us are in this by ourselves," he said.

Since its establishment in February 2012, the CAB Education & Culinary Center (ECC) has served as a unique gathering place for partners in and outside the beef industry to gain insight into the brand and the quality beef that defines it. From cattlemen to media guests and scientists to chefs, more than 175 groups have visited the Wooster, Ohio, venue from all parts of the world.

Recent educational endeavors include CAB Meat Labs, a fun way for foodservice distributors' sales teams to learn the details about the brand and how to market it. With longtime partner Smashburger, August found CAB featured in a national commercial on NBC.

Recipe Rehab, an award-winning cooking show on CBS, featured Chef Keoni Chang of Hawaii's Foodland Super Market and CAB Brand Ambassador, along with the Nelson family of Five Star Land & Livestock, Wilton, Calif. Viewers saw the product quality and versatility and learned the ranching story through the eyes of a fourth-generation Angus family.

A FUTURE BRIGHT

Since 2009, demand for the brand has increased by 78.7% according to a Kansas State University study. Those who purchase registered Angus bulls for their commercial herds are like consumers who insist on CAB for their family and friends. Together, they see the price-value advantage that has always come through, one that ensures loyalty to Angus and the brand. Together, they strive for the best and together they celebrate that achievement.

Recipe Rehab, an award-winning cooking show on CBS, featured CAB Brand Ambassador Chef Keoni Chang of Hawaii's Foodland Super Market, along with the Nelson family of Five Star Land & Livestock, Wilton, Calif.



Developed to educate foodservice distributors' sales teams, Certified Angus Beef® Meat Labs are a fun, interactive way to demonstrate product specifications, individual cuts and merchandising methods. From California to Florida, with 10 in the books so far, the "traveling roadshow" offers attendees the chance to see an entire carcass broken down to retail and menu cuts.



LOYAL BREED SUPPORTERS

The American Angus Auxiliary is a network of like-minded women with shared enthusiasm for the Angus breed and its future generations. Members are scattered across the country and reflect nearly every demographic in the cattle business. Together, the Auxiliary raises funds for youth scholarships, provides educational and social events for women in agriculture, and serves as a loyal promoter of the *Certified Angus Beef*® (CAB) brand.

For 62 years, Auxiliary members have invested an endless amount of time and effort into supporting and encouraging those involved in raising Angus cattle. In fiscal year 2014, the volunteer organization reports the following highlights.

- Crowned the 2014 Miss American Angus Catherine Harward, Richfield, N.C.
- Held the second Women Connected Conference sponsored by the Angus Foundation, which allowed a diverse group of women from across the country to engage in industry-related discussions and leadership development while networking with each other.
- Marketed a special “Holiday Gifts that Sizzle” package with CAB brand partners, including four 8-ounce filet of sirloins, four twice-baked potatoes and a delicious chocolate-caramel brownie torte.



- Enjoyed record sales of merchandise through the Angus Gift Barn online store and displays at the Atlantic National Angus Show, Eastern Regional Junior Angus Show and the National Junior Angus Show (NJAS).

- Sold an embryo package donated by Prairie View Farms, Gridley, Ill., during the 2014 All-American Angus Breeders’ Futurity in Louisville, Ky., for \$5,200 to buyer Joe Horstman of Horstman Cattle Company, West Lafayette, Ind. Proceeds benefited the Auxiliary’s scholarship endowment.

- Reached 2,000 “likes” on the American Angus Auxiliary Facebook page used to promote activities, membership and merchandise.

- Launched a grassroots campaign to recruit new members by offering incentives during the mid-year meeting at NJAS, where the group hosted 100-plus for a meeting, social and educational workshop.

- Hosted the 31st annual All-American CAB Cook-Off during the 2014 NJAS in Indianapolis, Ind., with a solid turnout of 32 teams consisting of 150 participants and three Chef’s Challenge entries.

- Celebrated 61 years of the Silver Pitcher award, which recognizes outstanding showing achievements, by honoring Ryan Callahan, Yukon, Okla., and Sydney Schnoor, Chowchilla, Calif.

- Presented \$13,000 in scholarships during the 2014 NJAS Awards Ceremony — recipients in the boys division were: Kyle Livingston, Pennsylvania, first; Reed McCormick, Iowa, second; Dylan Kennedy, Michigan, third; Randall Frye, Montana, fourth; and Carter Ward, Missouri, fifth. Winners in the girls division were: Madison Butler, Indiana, first; Michaela Clowser, Nebraska, second; Karisa Pfeiffer, Oklahoma, third; Destiny McCauley, Florida, fourth; and Katie Friedrichs, Iowa, fifth.





CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

Board of Directors
American Angus Association
St. Joseph, Missouri

Report on Financial Statements

We have audited the accompanying consolidated financial statements of American Angus Association and its subsidiaries (the Association), which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

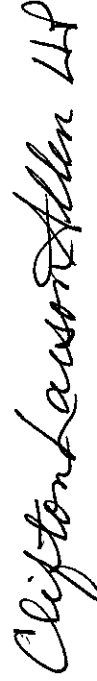
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



St. Joseph, Missouri
October 15, 2014

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Financial Statements

American Angus Association and Its Subsidiaries Consolidated Statements of Financial Position

September 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,212,416	\$ 6,270,183
Accounts receivable	2,905,289	3,006,458
Pledges receivable, net - current portion	64,058	98,888
Income tax receivable	19,250	24,402
Interest receivable	2,126	5,917
Inventories	955,044	934,815
Prepaid expenses	620,677	583,928
Deferred income taxes	89,271	92,228
Total current assets	<u>8,868,131</u>	<u>11,016,819</u>
Investments		
Unrestricted - Association	11,176,348	9,961,740
Unrestricted - Subsidiaries	5,632,148	5,183,220
Board designated	13,164,357	11,064,605
Temporarily restricted	1,131,865	896,478
Permanently restricted	1,741,787	886,744
Total investments	<u>32,846,505</u>	<u>27,992,787</u>
Property and Equipment		
Buildings and land improvements	5,710,044	5,597,521
Furniture, fixtures and equipment	3,164,512	3,064,861
Electronic data processing equipment	4,052,921	3,997,039
Total, at cost	<u>12,927,477</u>	<u>12,659,421</u>
Less accumulated depreciation	<u>8,052,721</u>	<u>7,483,261</u>
Total property and equipment	<u>4,874,756</u>	<u>5,176,160</u>
Other Assets		
Deferred income taxes	166,123	123,456
Long-term pledged receivable-net	9,080	13,300
Total other assets	<u>175,203</u>	<u>136,756</u>
Total Assets	<u>\$46,764,595</u>	<u>\$ 44,322,522</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable - trade	\$ 2,237,484	\$ 2,471,759
Capital lease payable	8,085	8,085
Accrued liabilities	2,371,111	2,074,647
Accrued awards	3,000	-
Taxes payable	-	40,228
Deferred income	1,267,252	978,872
Total current liabilities	<u>5,886,932</u>	<u>5,573,591</u>
Long-term Liabilities		
Accrued awards	-	2,000
Deferred compensation	389,511	303,460
Accrued post retirement benefits	1,220,020	1,234,960
Capital lease payable - long-term	14,015	22,366
Total long-term liabilities	<u>1,623,546</u>	<u>1,562,786</u>
Total liabilities	<u>7,510,478</u>	<u>7,136,377</u>
Net Assets		
Unrestricted:		
Operating	23,487,150	24,410,209
Board designated	12,834,506	10,619,872
Temporarily restricted	1,159,244	930,002
Permanently restricted	1,773,217	1,226,062
Total net assets	<u>39,254,117</u>	<u>37,186,145</u>
Total Liabilities and Net Assets	<u>\$ 46,764,595</u>	<u>\$ 44,322,522</u>

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

Years Ended September 30, 2014 and 2013

	2014	2013
Revenues, gains, and other support		
Royalties	\$19,905,982	\$19,477,517
Advertising income	5,688,132	5,634,736
Registrations	4,068,198	3,910,590
Transfers	996,261	959,004
Artificial insemination certificates	1,407,199	1,353,710
Memberships	1,435,512	1,462,450
Performance programs	1,106,115	1,126,369
AngusSource®	298,940	353,835
DNA tests	6,658,480	4,660,066
Web services revenue	355,025	291,414
Subscriptions	645,631	671,188
Contributions	1,109,904	1,329,073
Account and merchandise sales	498,476	632,394
Software sales	49,392	45,923
Creative Media services	553,276	34,021
Support fees	1,202,504	1,270,878
Other income	124,907	107,650
Net investment income	2,882,813	2,190,597
Total revenues, gains, and other support	<u>48,986,747</u>	<u>45,511,415</u>
Expenses		
Certified Angus Beef	20,712,745	18,323,281
Angus Productions	7,205,425	6,475,848
Angus Genetics	6,745,326	4,780,159
Member services	4,525,780	4,019,120
Commercial programs	1,032,932	867,922
Industry and member communications	1,971,657	1,882,280
Field services	2,008,657	1,877,795
Activities	2,004,198	1,962,369
Angus Foundation	1,120,695	1,045,183
Total expenses	<u>47,327,415</u>	<u>41,233,957</u>
Changes in net assets before other provisions and net unrealized gain on investments	1,659,332	4,277,458
Credit for Taxes	7,074	5,351
Provision for Post Retirement Benefits	(33,753)	(145,457)
Net Unrealized Gain on Investments	462,214	754,812
Changes in net assets before income taxes	2,094,867	4,892,164
Provision for Income Taxes	(26,895)	(50,411)
Changes in Net Assets	<u>\$ 2,067,972</u>	<u>\$ 4,841,753</u>
Changes in:		
Unrestricted Net Assets	\$ 1,291,575	\$ 4,044,249
Temporarily Restricted Net Assets	229,242	351,514
Permanently Restricted Net Assets	547,155	445,990
Changes in Net Assets	<u>2,067,972</u>	<u>4,841,753</u>
Net Assets, beginning of year	<u>37,186,145</u>	<u>32,344,392</u>
Net Assets, end of year	<u>\$ 39,254,117</u>	<u>\$ 37,186,145</u>

The accompanying notes are an integral part of the consolidated financial statements.

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

Years Ended September 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Changes in net assets	\$ 2,067,972	\$ 4,841,753
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	953,599	962,918
(Gain) loss on sale of equipment	2,361	(7,779)
Net realized gains on investments	(2,399,928)	(1,795,627)
Net unrealized gains on investments	(462,214)	(754,812)
Deferred income taxes	(39,710)	(11,137)
Contributions restricted for long-term purposes	(559,168)	(451,735)
Effect of changes in operating assets and liabilities:		
Accounts and interest receivable	104,960	(345,865)
Pledges receivable - net	39,050	(165)
Income taxes receivable	5,152	(24,402)
Inventories	(20,229)	58,745
Prepaid expenses	(36,749)	(99,417)
Accounts payable - trade	(205,080)	463,786
Accrued liabilities, deferred income, deferred compensation, post retirement benefits, and awards	570,904	310,852
Taxes payable	(40,228)	19,999
Net cash provided by (used in) operating activities	<u>(19,308)</u>	<u>3,167,114</u>
Cash Flows From Investing Activities		
Proceeds from sale of equipment	55,372	19,205
Proceeds from sale of investments	10,015,279	5,638,208
Purchases of property and equipment	(739,123)	(937,782)
Purchases of investments	(11,920,804)	(6,323,666)
Net cash used in investing activities	<u>(2,589,276)</u>	<u>(1,604,035)</u>
Cash Flows From Financing Activities		
Proceeds from contributions for investment in permanent endowment	559,168	451,735
Principal payments on capital lease payable	(8,351)	(8,086)
Net cash provided by financing activities	<u>550,817</u>	<u>443,649</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,057,767)</u>	<u>2,006,728</u>
Cash and Cash Equivalents, beginning of year	<u>6,270,183</u>	<u>4,263,455</u>
Cash and Cash Equivalents, end of year	<u>\$ 4,212,416</u>	<u>\$ 6,270,183</u>
Non Cash Investing and Financing Activities		
Property and equipment purchased with accounts payable	\$ -	\$ 29,195

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 1—Summary of Significant Accounting Policies

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 subsidiaries, Angus Productions, Inc., a for-profit corporation incorporated on May 11, 1979, in the State of Illinois, and Angus Genetics, Inc., a for-profit corporation incorporated in the State of Missouri in 2007. Angus Productions, Inc.'s principal activities are publishing the *Angus Journal*[®], a magazine for the Angus industry, and other related business activities. Angus Genetics, Inc.'s principal activity is genetic research and technology development for the beef industry.

The consolidated financial statements also include the Angus Foundation (the Foundation) and Certified Angus Beef, LLC. The Association has a controlling financial interest in both 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 secure, manage, and steward charitable gifts for the purpose of cultivating and fostering the advancement of education, youth and research activities related to the Angus breed and the agricultural industry. Certified Angus Beef, LLC was incorporated as a not-for-profit organization in the State of Delaware in 2000, and its principal business activity is to operate the Certified Angus Beef Program, and thereby promote the Angus breed of 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.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements include: the royalty income due from meat packers; the allocation factors used to allocate costs among the various programs and supporting services of the Association; the estimated timing and collectability applicable to pledges receivable and accounts receivable; the potential for state and local tax liabilities; and the required liability for post retirement benefits. Actual results could differ from those estimates.

Net Assets

Financial statement presentation follows the recommendations of Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, 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 which are neither temporarily nor permanently restricted. This category includes board designated assets.

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. Excess realized and unrealized investment income is added to temporarily restricted net assets, if these amounts have not yet been utilized for their designated purposes, to the extent required by the individual donor agreements. If not required by the donor, these earnings are recorded as unrestricted income.

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

Cash and cash equivalents include cash on hand and liquid investments with banks, mutual funds, certificates of deposits, and money market accounts with an initial maturity date of three months or less. Certain cash equivalents are considered to be an integral part of the Association's investment program and are, accordingly, recognized as a component of investments in the consolidated statement of financial position.

Accounts Receivable

A portion of the receivables represents royalty income to be paid by meat packers for the sale of Certified Angus Beef product. The receivable is calculated using royalty estimates derived from unreported sales, estimated from historical sales information.

All other accounts receivable 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, but is not recognized until collected.

Account balances with invoices over 30 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 through maintenance of an allowance for uncollectible accounts. 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 Association could be adversely affected. No provision for doubtful accounts has been provided as management believes that any such amount would not be significant to the consolidated financial statements.

Pledges receivable represent unconditional promises to give that are due within one to three years. Pledges receivable are stated at the pledged amount, with the exception of long-term promises to give which are discounted to reflect their present value. Management has also established a valuation allowance that reflects management's best estimate of amounts that may not be collected.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 1—Summary of Significant Accounting Policies (Continued)

Inventories

Inventories consist primarily of promotional, educational, and support items, including genetic testing supplies. 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 fixed income and equity security mutual funds, certificates of deposit, and money market accounts. Investments in fixed income and equity mutual funds are carried at fair value, with unrealized and realized gains and losses reported as an increase or decrease in the appropriate category of net assets. Certificates of deposits and money market accounts are carried at cost, which approximates fair value.

Impairment of Long-Lived Assets

The Association reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Property and Equipment

The Association’s property is carried at cost if purchased, or fair value if contributed. The cost of property in excess of \$500 is capitalized. 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
 - Furniture, fixtures and equipment, 5-10 years
 - Electronic data processing equipment, 5-10 years
- Included in furniture, fixtures and equipment are vehicles used by regional managers. These vehicles are depreciated using an estimated cost per mile driven for each vehicle.

Deferred Income

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.

Contributions

Contributions, including promises to give, are recorded when they become unconditional.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Conditional contributions are recorded when the donor’s conditions are met. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted and increase those net assets classes.

Advertising Costs

The Association expenses advertising costs as incurred.

Post Retirement Benefits

The Association provides certain health care benefits for retired employees who meet eligibility requirements. The value for post retirement benefits is determined based on employee census information and estimates of the actuarial lifespan of potentially eligible individuals, the current year cost of supplemental health insurance, and certain assumptions related to discount rates and expected return on investments.

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 (IRC). Angus Foundation is exempt from income taxes under section 501(c)(3) of the IRC, and is not considered to be a private foundation. These entities are subject to income taxes on unrelated business income. Angus Productions, Inc. and Angus Genetics, Inc. are not tax-exempt organizations.

Deferred income taxes are provided on temporary differences between financial statements and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases.

Deferred tax assets are recognized for temporary differences that will be deductible in future years’ tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are recognized only if it is more likely than not that a tax position will be realized or sustained upon examination by the relevant taxing authority. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years’ tax returns.

The Association follows the provisions for uncertain tax positions as addressed in Financial Accounting Standards Board ASC 740. The Association recognized no liability for unrecognized tax benefits at September 30, 2014. The Association has no material tax positions at September 30, 2014 for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. The Association had no accruals for interest and penalties at September 30, 2014 and 2013.

Description of Programs

The Association operates the following programs:

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

Angus Productions Angus Productions publishes the *Angus Journal*[®], the official publication of the American Angus Association, the *Angus Beef Bulletin* and other materials; and provides services in support of the Angus industry.

Angus Genetics Angus Genetics provides services to the beef industry including the genetic evaluation of cattle traits, the development and implementation of technology, such as DNA data, along with conducting research on new science to benefit all beef producers.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

Member services The member services department maintains membership records, registered Angus cattle pedigree information and services other membership needs.

AIMS The Angus Information Management Software (AIMS) department develops, maintains and distributes AIMS computer 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 development of new programs to assist commercial beef cattle producers using Angus genetics.

AngusSource® AngusSource® is a USDA Process Verified Program developed for commercial cow-calf producers wishing to increase the value of their Angus-sired feeder cattle and replacement females by documenting source, group age and genetic information.

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

Field services The field services department reaches all corners of Association membership through its team of regional managers who attend Angus events, and work with members and commercial cattle producers.

Activities The activities department coordinates and assists with Association events, shows and other activities, and provides show premiums and attendance at Angus shows and events.

Junior Activities The junior activities department oversees and conducts all development and activities regarding Angus youth and the National Junior Angus Association.

Angus Foundation The Angus Foundation (the Foundation) develops, assists and sponsors educational programs, supports youth programs, and supports scientific research on related beef industry topics.

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 or activity.

Note 2 – Accounts Receivable

Accounts receivable consist of the following:

	2014	2013
Trade receivables	\$ 2,296,672	\$ 2,552,604
Royalty receivables	608,617	453,854
Total	<u>\$ 2,905,289</u>	<u>\$ 3,006,458</u>

Note 3 – Fair Value of Financial Instruments

In determining fair value, the Association uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs, by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1—Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets; and
- Level 2—Valuations based on quoted prices for similar assets or liabilities, or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs, or significant value drivers, are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classifications in the valuation hierarchy.

Investments

Securities listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within level 1 of the valuation hierarchy.

American Angus Association and Its Subsidiaries
Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Consolidated Financial Statements

Note 3—Fair Value of Financial Instruments (Continued)

Fair values of other assets and liabilities measured on a recurring basis, as of September 30, 2014 and 2013, are as follows:

	September 30, 2014			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments:				
Equity securities:				
Mutual funds:				
Large cap equity	\$ 16,129,680	\$ 16,129,680	-	-
Mid cap equity	1,189,205	1,189,205	-	-
Small cap equity	556,814	556,814	-	-
International	942,842	942,842	-	-
World	1,237,690	1,237,690	-	-
Fixed income:				
Mutual funds:				
Short-term	1,563,870	1,563,870	-	-
Government	194,926	194,926	-	-
Corporate	8,731,276	8,731,276	-	-
High yield	113,844	113,844	-	-
World Bond	240,161	240,161	-	-
Bank loan	168,488	168,488	-	-
Total assets and liabilities	\$ 31,068,796	\$ 31,068,796	\$ -	\$ -
	September 30, 2013			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments:				
Equity securities:				
Mutual funds:				
Large cap equity	\$ 14,356,920	\$ 14,356,920	-	-
Mid cap equity	882,566	882,566	-	-
Small cap equity	510,293	510,293	-	-
International	1,101,285	1,101,285	-	-
World	1,035,098	1,035,098	-	-
Fixed income:				
Mutual funds:				
Short-term	1,410,670	1,410,670	-	-
Government	153,410	153,410	-	-
Corporate	6,043,153	6,043,153	-	-
High yield	100,241	100,241	-	-
World Bond	133,699	133,699	-	-
Total assets and liabilities	\$ 25,727,335	\$ 25,727,335	\$ -	\$ -

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 4—Investments

The value of investments at September 30, 2014 consists of the following:

Held at cost:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$ 1,358,358	\$ -	\$ -	\$ 1,358,358
Money market accounts	419,351	-	-	419,351
Held at fair value:				
Equity security mutual funds	17,006,543	3,049,688	-	20,056,231
Fixed income mutual funds	10,738,101	274,464	-	11,012,565
Total investments	<u>\$ 29,522,353</u>	<u>\$ 3,324,152</u>	<u>\$ -</u>	<u>\$ 32,846,505</u>

Investment returns for the year ended September 30, 2014 consist of the following:

Interest income	\$ 516,896
Net realized gains	2,399,928
Investment fees	<u>(34,011)</u>
Net investment income	2,882,813
Net unrealized gains	462,214
Net unrealized gains - Deferred compensation investment	<u>47,969</u>
Total investment returns	<u>\$ 3,345,027</u>

The value of investments at September 30, 2013 consist of the following:

Held at cost:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	\$ 1,322,477	\$ -	\$ -	\$ 1,322,477
Money market accounts	942,975	-	-	942,975
Held at fair value:				
Equity security mutual funds	15,227,561	2,658,601	-	17,886,162
Fixed income mutual funds	7,685,805	155,368	-	7,841,173
Total investments	<u>\$ 25,178,818</u>	<u>\$ 2,813,969</u>	<u>\$ -</u>	<u>\$ 27,992,787</u>

Investment returns for the year ended September 30, 2013 consist of the following:

Interest income	\$ 465,603
Net realized gains	1,795,627
Investment fees	<u>(70,633)</u>
Net investment income	2,190,597
Net unrealized gains	<u>754,812</u>
Total investment returns	<u>\$ 2,945,409</u>

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 5—Pledges Receivable

Pledges receivable contain the following:

	2014	2013
Total pledges receivable	\$ 146,347	\$ 185,887
Less: allowance for uncollectible pledges	72,289	71,999
Less: unamortized discount	920	1,700
Net pledges receivable	73,138	112,188
Less: pledges receivable, net-current portion	64,058	98,888
Long-term pledges receivable, net	\$ 9,080	\$ 13,300

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

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

The Foundation was notified prior to fiscal year end that it is the beneficiary of a significant estate; however, the value and ultimate settlement of that estate cannot be accurately measured at September 30, 2014. Due to the conditional nature at September 30, 2014, this is not reflected in the financial statements.

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Note 6—Pension and Post Retirement Benefit Plans

The Association sponsors a qualified noncontributory defined contribution plan (the Plan), which covers substantially all full-time eligible employees. Contributions are established by the Board of Directors and are discretionary. Contributions to the Plan are based upon eligible employee salaries and years of service. During the fiscal years ended 2014 and 2013, the Association contributed \$997,173 and \$989,458, respectively, to this Plan.

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 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 for each participant are subject to the claims of the general creditors of the Association. The net annual amount recorded as deferred compensation expense was \$38,907 in 2014 and \$58,166 in 2013. Amounts are recorded on the Association's records as an investment and a matching long-term liability in the amounts of \$389,511 in 2014 and \$303,460 in 2013.

The Association provides supplemental post retirement health care benefits to employees who meet certain years of service requirements. This plan is not available 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:

	2014	2013
Accrued benefit obligation:		
Current liability	\$ 49,980	\$ 47,040
Long-term liability	1,220,020	1,234,960
Total	\$ 1,270,000	\$ 1,282,000

Benefit expense (includes benefits paid of \$45,753 and \$43,457 for the years ending September 30, 2014 and 2013, respectively)

	\$ 33,753	\$ 145,457
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Weighted average assumptions:

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

Benefit obligation, beginning of year

	\$ (1,282,000)	\$ (1,180,000)
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Benefits paid

	45,753	43,457
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Change in fair value

	(33,753)	(145,457)
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Benefit obligation, end of year

	\$ (1,270,000)	\$ (1,282,000)
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Note 7—(Provision) Credit for Taxes

The sources of deferred tax assets and liabilities, and the tax effect of each, are as follows:

	2014	2013
Deferred tax assets:		
Depreciation differences	\$ (40,959)	\$ (33,558)
Unrealized gains on investments	-	(24,677)
Difference in revenue and expense recognition	296,353	273,919
Net deferred tax asset	\$ 255,394	\$ 215,684

The net deferred tax assets are presented in the accompanying consolidated statements of financial condition as follows:

	2014	2013
Current deferred tax asset	\$ 89,271	\$ 92,228
Long-term deferred tax asset	166,123	123,456
Net deferred tax asset	\$ 255,394	\$ 215,684

The current deferred tax asset results from an allowance for sales and use tax liability recognized for financial accounting purposes. The long-term deferred tax asset results primarily from using different depreciation methods and useful lives for financial accounting and income tax purposes, difference in revenue recognition for deferred compensation and differences for post retirement benefits.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 7—(Provision) Credit for Taxes (Continued)

A reconciliation of the provision for income taxes at the Federal statutory tax rates, to the Association's actual provision for income taxes, is as follows:

	<u>2014</u>	<u>2013</u>
Computed at federal statutory rates	\$ 33,919	\$ 36,641
Increase (decrease) in income taxes resulting from:		
State income taxes, net of federal benefit	3,095	5,651
Nontaxable income and nondeductible expenses	3,584	1,893
Prior year under (over) accrual	-	5,445
Miscellaneous other adjustments	<u>(13,703)</u>	<u>781</u>
Total provision for income taxes	<u>\$ 26,895</u>	<u>\$ 50,411</u>

The Association files income tax returns in the U.S. federal jurisdiction and various states. The Association is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended before September 30, 2011.

The Association's operations and activities occur, depending upon the specific year, in a variety of states. A credit of \$7,074 and \$5,351 has been established for sales and use taxes that may potentially be due to these taxing jurisdictions for the years ended September 30, 2014 and 2013, respectively. The total liability booked is \$275,756 and \$282,830 and is reflected as a component of accrued liabilities at September 30, 2014 and 2013, respectively. The Association is not, as of the date of these consolidated financial statements, under examination by any taxing authority.

Note 8—Net Assets

Board designated net assets were available for the following purposes:

	<u>2014</u>	<u>2013</u>
Research for breed improvements	\$ 1,261,857	\$ 1,124,778
Marketing	743,853	-
Information systems	2,512,672	2,239,526
Technology innovations	1,052,668	842,669
Supplemental health benefits	1,517,565	1,356,875
Capital replacement	1,806,872	1,516,286
Youth, research, and education programs	1,671,721	1,465,756
Donor relations and general administration	<u>2,267,298</u>	<u>2,073,982</u>
Total board designations	<u>\$12,834,506</u>	<u>\$10,619,872</u>

Temporarily restricted net assets were available for the following purposes:

	<u>2014</u>	<u>2013</u>
Research	\$ 12,942	\$ 13,200
Youth programs	795,939	582,256
Education	350,363	331,546
Future operations and donor relations	<u>-</u>	<u>3,000</u>

Total temporarily restricted

Permanently restricted net assets consist of endowments totaling \$1,773,217 and \$1,226,062 at September 30, 2014 and 2013, respectively, which are invested in perpetuity and the income from which is temporarily restricted support for Foundation programs. Investment losses relative to donor restricted funds are born by the individual funds.

The changes in temporarily restricted net assets for the years ended September 30 are as follows:

	<u>2014</u>	<u>2013</u>
Contributions	\$ 167,745	\$ 335,323
Net investment income	160,912	114,476
Net unrealized gain (loss) on investments	69,101	28,272
Satisfaction of purpose restrictions	<u>(178,246)</u>	<u>(132,302)</u>
Change of donor restrictions	<u>9,730</u>	<u>5,745</u>
Net change in temporarily restricted net assets	<u>\$ 229,242</u>	<u>\$ 351,514</u>

The changes in permanently restricted net assets for the years ended September 30 are as follows:

	<u>2014</u>	<u>2013</u>
Contributions	\$ 559,168	\$ 451,735
Change of donor restrictions	<u>(12,013)</u>	<u>(5,745)</u>
Net change in permanently restricted net assets	<u>\$ 547,155</u>	<u>\$ 445,990</u>

Note 9—Endowments

The Association's endowments consist of 42 funds established within the Foundation to support a variety of scholarships and programs. Its endowments consist of both donor-restricted endowment funds and funds designated by the Foundation's Board of Directors (the Board) to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has interpreted Missouri's enactment of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Foundation classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of the subsequent gifts to the permanent endowment.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 9—Endowments (Continued)

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in a manner that is intended to produce results similar to the S&P 500 index while assuming a moderate level of investment risk.

Endowment Net Asset Composition by Type of Fund as of September 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ —	\$ 358,255	\$ 1,741,787	\$ 2,100,042
Board designated endowment funds	1,612,058	—	—	1,612,058
Total funds	<u>\$ 1,612,058</u>	<u>\$ 358,255</u>	<u>\$ 1,741,787</u>	<u>\$ 3,712,100</u>

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 1,379,162	\$ 202,679	\$ 886,744	\$ 2,468,585
Investment return:				
Investment income	115,567	126,478	—	242,045
Net appreciation:				
Board designated	46,958	—	—	46,958
Donor restricted	—	55,336	—	55,336
Total	162,525	181,814	—	344,339
Contributions	119,871	7,500	559,168	686,539
Transfer of assets to investments	—	—	295,875	295,875
Appropriation of endowment assets for expenditure	(49,500)	(33,738)	—	(83,238)
Net assets, end of year	<u>\$ 1,612,058</u>	<u>\$ 358,255</u>	<u>\$ 1,741,787</u>	<u>\$ 3,712,100</u>

Spending Policy

The Foundation has a policy of appropriating a distribution percentage each year of its endowment fund's average balance over the prior three years preceding the fiscal year in which the distribution is budgeted (5% for 2014 and 2013). Because this amount is calculated for a future year, any amount appropriated for the following fiscal years is added to temporarily restricted net assets in the current year.

In establishing this policy, the Foundation considered the long-term expected returns on its endowment investments. Accordingly, over the long term, the Foundation expects the current spending policy will allow its endowment to retain the original corpus of the gift.

Strategies Employed for Achieving Objectives

The Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends). The Foundation targets a diversified asset allocation that emphasizes fixed income securities to achieve its long-term objectives within prudent risk constraints.

**American Angus Association and Its Subsidiaries
Notes to Consolidated Financial Statements**

September 30, 2014 and 2013

Note 9—Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of September 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 202,679	\$ 886,744	\$ 1,089,423
Board designated endowment funds	1,379,162	-	-	1,379,162
Total funds	<u>\$ 1,379,162</u>	<u>\$ 202,679</u>	<u>\$ 886,744</u>	<u>\$ 2,468,585</u>

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 1,188,387	\$ 117,085	\$ 749,839	\$ 2,055,311
Investment return:				
Investment income	116,266	85,242	-	201,508
Net appreciation:				
Board designated	46,924	-	-	46,924
Donor restricted	-	33,294	-	33,294
Total	<u>163,190</u>	<u>118,536</u>	<u>-</u>	<u>281,726</u>
Contributions	<u>82,385</u>	<u>12,049</u>	<u>136,905</u>	<u>231,339</u>
Appropriation of endowment assets for expenditure	<u>(54,800)</u>	<u>(44,991)</u>	<u>-</u>	<u>(99,791)</u>
Net assets, end of year	<u>\$ 1,379,162</u>	<u>\$ 202,679</u>	<u>\$ 886,744</u>	<u>\$ 2,468,585</u>

Note 10—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 33% of the Association's total revenues, gains, and other support and 32% of the Association's receivables for the year ending September 30, 2014. Royalties from four customers represented 35% of the Association's total revenues, gains, and other support and 31% of the Association's receivables for the year ending September 30, 2013.

Note 11—General and Administrative and Fundraising Expenditures

The Association conducts activities that include requests for contributions, as well as program, management and general components. General and administrative and fundraising expenses are 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:

	2014	2013
General and administrative	\$ 3,985,505	\$ 3,266,983
Fundraising	379,279	320,477

Note 12—Allocation of Joint Costs

The costs associated with fundraising have been specifically identified by function for the above calculation. The costs of conducting these activities include a total of \$125,644 and \$161,383 of joint costs for the years ending September 30, 2014 and 2013, respectively, which were not specifically attributable to particular components. The joint costs were allocated as follows:

	2014	2013
Program services	\$ 33,410	\$ 38,016
Marketing and promotions	83,572	116,670
Operations and general expenses	8,662	6,697
Total	<u>\$ 125,644</u>	<u>\$ 161,383</u>

Note 13—Advertising

Advertising expense for the years ending September 30, 2014 and 2013 totaled \$4,879,989 and \$3,370,340, respectively.

Note 14—Supplemental Cash Flow Disclosures

Cash paid for income taxes was \$75,626 and \$65,946 in 2014 and 2013, respectively.

Cash paid for interest was \$889 and \$1,155 in 2014 and 2013, respectively.

American Angus Association and Its Subsidiaries Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 15—Capital Lease

The Association leases equipment under an agreement that is classified as a capital lease. The leased asset acquired during the year ended September 30, 2012 had a cost of \$48,635 and accumulated depreciation of \$25,128 and \$9,727 at September 30, 2014 and 2013, respectively. The total balance due on this lease was \$22,100 and \$30,451 at September 30, 2014 and 2013, respectively, with quarterly payments of \$2,310. The interest on this lease is imputed at 3.25%. Interest paid on this lease was \$889 and \$1,155 at September 30, 2014 and 2013, respectively.

Minimum future lease payments under the capital lease, at September 30, 2014, are as follows:

2015	\$ 9,240
2016	9,240
2017	4,620
	<u>23,100</u>

Less: Amount representing interest	<u>1,000</u>
Present value of lease payments	<u>\$ 22,100</u>

Note 16—Fluctuation in Investment Values

The Association's investment portfolio is subject to significant fluctuations in value. Because the values of individual investments fluctuate with market conditions, the amount of investment gains or losses that the Association may recognize in its future consolidated financial statements, if any, cannot be determined.

Note 17—Contingencies

The Foundation has approved various grants for specific research projects. The grants are contingent upon the researchers accepting final agreements and meeting other requirements established by the Foundation. Due to their conditional nature, the consolidated financial statements do not reflect a commitment for these grants. There are various legal actions that have arisen in the ordinary course of business and are now pending against the Association. The outcome of any lawsuit or claim which is pending or threatened is unknown as of the date of these statements.

The Association commenced a construction project prior to September 30, 2014 to expand the headquarter facilities for Certified Angus Beef. The project is expected to be completed by January 2015 at a cost of approximately \$1,000,000.

Note 18—Concentrations of Risk

The Association maintains cash in commercial banks located in the United States. The balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. There were approximately \$4,000,000 of collected balances in excess of FDIC limits at September 30, 2014.

Note 19—Subsequent Events

Management evaluated subsequent events through October 15, 2014, the date the consolidated financial statements were available to be issued. Events or transactions occurring after September 30, 2014, but prior to October 15, 2014, that provided additional evidence about conditions that existed at September 30, 2014, have been recognized in the 2014 consolidated financial statements.

Note 20—Reclassification

Certain reclassifications of prior year's amounts have been made to conform to the presentation adopted for 2014. These reclassifications had no effect on previously reported earnings or net assets.

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

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