

**BROWN SWISS CATTLE BREEDERS ASSOCIATION OF THE U.S.A. AND SUBSIDIARY**  
Beloit, Wisconsin

**Notes to Consolidated Financial Statements**  
December 31, 2006

**1. Nature of Activities**

The Brown Swiss Cattle Breeders Association of the U.S.A. ("Association") is a nonprofit organization engaged in providing services to breeders of Brown Swiss cattle throughout the United States. Some of these services include: registration, production testing, classification, and blood typing.

Brown Swiss Enterprises, Inc. ("Enterprises"), a wholly owned subsidiary of Brown Swiss Cattle Breeders Association of the U.S.A., is engaged in worldwide marketing activities dealing with Brown Swiss cattle.

The organizations grant trade credit to domestic and foreign customers engaged in cattle business.

**2. Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Association and its wholly owned subsidiary, Enterprises. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

**Basis of Accounting**

The consolidated financial statements have been prepared under the accrual basis of accounting.

**Basis of Presentation**

Consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards SFAS No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Association is required to report information regarding the financial position and activities according to three classes of net assets, defined as follows:

**Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association and/or the passage of time

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Association

**Cash and Equivalents**

For purposes of the consolidated statement of cash flows, cash and equivalents include all highly liquid debt instruments with original maturities of three months or less.

**Investments**

Investments are carried at market value. Investments include certificates of deposit and other securities with original maturities of over three months.

**Accounts Receivable**

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for uncollectible accounts receivable was established to account for those account balances that have limited collectibility. The allowance for doubtful accounts for the Association and Enterprises were \$3,400 and \$3,000, respectively.

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**2. Significant Accounting Policies (Continued)**

**Property and Equipment**

Property, vehicles, and equipment are stated at cost. Depreciation is computed on the straight line method over estimated useful lives of 3 to 10 years for vehicles and equipment. Building improvements are being depreciated on the straight line method over estimated useful lives of 10 to 31 years.

Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation expense for the year ended December 31, 2006 was \$7,427.

**Use of Estimates**

The presentation 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 and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense was \$2,369 for Enterprises for the year ended December 31, 2006.

**Compensated Absences**

The amount of accrued compensated absences cannot be reasonably estimated. Therefore, an accrual has not been made.

**3. Investments**

Investments consist primarily of common bonds and equity mutual funds. Investments as of December 31, 2006 are summarized as follows:

	<u>Cost</u>		<u>Fair Market Value</u>		<u>Unrealized Appreciation (Depreciation)</u>
Cash equivalents	\$ 9,530	\$	9,530	\$	-
Equities	32,078		36,845		4,767
Fixed income	<u>126,552</u>		<u>124,360</u>		<u>(2,192)</u>
<b>Total investments</b>	\$ <u>168,160</u>	\$	\$ <u>170,735</u>	\$	<u>2,575</u>

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**3. Investments (Continued)**

The following schedule summarizes the investment return and its classification in the Consolidated Statement of Activities for the year ended:

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>		<u>Total</u>
Interest income	\$ 272	\$	69	\$	341
Dividend income	4,952		1,107		6,059
Net realized and unrealized gains	<u>2,895</u>		<u>511</u>		<u>3,406</u>
<b>Total</b>	\$ <u>8,119</u>	\$	\$ <u>1,687</u>	\$	\$ <u>9,806</u>

**4. Income Taxes**

The Association is a nonprofit corporation under Section 501(c)(5) of the Internal Revenue Service Code and, therefore, is exempt from income taxes.

Enterprises is a for-profit entity that is subject to federal and Wisconsin corporate income taxes.

Enterprises accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 requires companies to record deferred tax liabilities or assets for the deferred tax consequences of all temporary differences between tax and book income. The company recognized deferred income taxes on timing differences due to the use of accelerated depreciation for income tax purposes and for net operating losses (NOL).

Enterprises has recognized the following deferred tax assets and deferred tax liabilities as of December 31, 2006:

Federal deferred tax asset - net operating loss (NOL)	\$ 15,217
State deferred tax asset - net operating loss (NOL)	<u>11,869</u>
<b>Total deferred tax assets</b>	\$ <u>27,086</u>

Enterprises generated federal and state NOL's which can be carried forward to offset future taxable income. These losses will expire as follows:

<u>Year</u>		<u>Federal</u>		<u>State</u>	<u>Expiration</u>
2000	\$	-	\$	8,236	2015
2001		-		34,095	2016
2002		1,691		6,279	2017
2003		19,243		19,243	2018
2005		31,294		31,294	2020
2006		49,217		49,217	2021

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**4. Income Taxes (Continued)**

Income tax provisions charged to expense (income) for the year ended December 31, 2006 are summarized below:

<b>Federal income taxes:</b>	
Deferred tax liability	\$ (8,008)
Benefits of NOL carryforward	15,217
<b>Total federal income taxes</b>	<u>7,209</u>
<b>State income taxes:</b>	
Deferred tax liability	(8,024)
Benefits of NOL carryforward	11,869
<b>Total state income taxes</b>	<u>3,845</u>
<b>Total income tax benefit</b>	\$ <u><u>11,054</u></u>

**5. Note Payable - Line of Credit**

As of December 31, 2006, the Association has a \$80,000 line of credit with a bank with an interest rate of 1.00% above the prime rate. The interest rate was 9.25% at December 31, 2006. As of December 31, 2006, the Association had an outstanding balance of \$48,954 on the line of credit. The line of credit is secured by the trust investment account.

**6. Restrictions on Net Assets**

Temporarily restricted net assets as of December 31, 2006 consist of the following:

Milk Marketing	\$ 4,310
Pension	8,287
National Youth Foundation	32,771
Junior Activities	1,461
Vernon Hull/Paaske Memorial	4,739
Palmer/Hoffman Fund	6,512
Voegeli Memorial	7,018
Computer Fund	5,809
Building Fund	19,956
<b>Total</b>	\$ <u><u>90,863</u></u>

**7. Pension Plan**

The Association sponsors a defined contribution pension plan that covers full-time employees. Pension expense was \$1,220 for the year ended December 31, 2006.

**8. Concentrations**

As disclosed in Note 1, the purpose of the Association and Enterprises is to provide services to breeders of Brown Swiss cattle. As a result, changes in the dairy industry directly affect the programs, revenue, and expenses of the Association. A significant decline in Brown Swiss dairy herds would result in a corresponding decline in the program service revenue of the Association.

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**9. Accounts Receivable - Credit Balances**

Numerous old accounts receivable had credit balances totaling \$13,003 as of December 31, 2006. The overpayments are reflected as a current liability in the consolidated financial statements. In July 2002, the board of directors established a new policy regarding outstanding credit balances. Members with credit balances are sent notification of credit and are requested to apply credit toward services, apply for a refund in writing, or donate the credit to the Association. If no response is received, all credits over a year old will be considered donations to the Association. During 2006, credit balances of approximately \$190 were transferred to donation income.