Alpaca Owners Association, Inc. and Subsidiary
Lincoln, Nebraska

December 31, 2023 and 2022

Consolidated Financial Statements
and
Independent Auditor's Report

HBE
CPAs & Consultants | Wealth Management

Alpaca Owners Association, Inc. and Subsidiary

Years ended December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Alpaca Owners Association, Inc. and Subsidiary
Lincoln, Nebraska

Opinion

We have audited the consolidated financial statements of Alpaca Owners Association, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Alpaca Owners Association, Inc. and Subsidiary as of December 31, 2023 and 2022, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Alpaca Owners Association, Inc. and Subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note L to the consolidated financial statements, in 2023 the entity adopted new accounting guidance ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326).* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alpaca Owners Association, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Alpaca Owners Association, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alpaca Owners Association, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

HBE LLP

Lincoln, Nebraska
April 5, 2024

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents (note A)	$ 83,917	$ 191,383
Certificates of deposit (note A)	514,084	477,414
Accounts receivable (note A)	26,210	12,371
Prepaid expenses	11,894	23,588
Total current assets	636,105	704,756
PROPERTY AND EQUIPMENT, net (notes A and B)	2,208	2,955
OTHER ASSETS		
Association software costs, less accumulated amortization of $1,530,689 (2023) and $1,515,634 (2022) (notes A and C)	70,085	56,540
Operating lease right-of-use assets, net (notes A and F)	52,665	29,883
Certificates of deposit, long-term (note A)	114,944	160,250
Investments (notes A, D and E)	561,720	507,830
Total other assets	799,414	754,503
Total assets	$ 1,437,727	$ 1,462,214

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 16,532	$ 39,671
Accrued payroll	14,594	15,015
Accrued vacation (note A)	24,983	24,983
Contract liability (notes A and K)	85,308	133,402
Operating lease obligations, current (notes A and F)	35,535	15,117
Total current liabilities	176,952	228,188
NONCURRENT LIABILITIES		
Operating lease obligations, net of current maturities (notes A and F)	19,210	14,668
Total liabilities	196,162	242,856
NET ASSETS (note A)		
Without donor restrictions		
Undesignated	1,241,565	1,219,358
Total liabilities and net assets	$ 1,437,727	$ 1,462,214

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2023	2022
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE		
Registry income	$ 422,262	$ 467,578
National show	325,557	336,869
Show system	100,185	113,803
Member marketing	12,396	12,646
Membership and voting rights	222,395	206,800
Product income	46,457	51,924
Other member services	106,114	100,737
Other business income	46,490	4,461
Advertising income	106,027	110,457
Interest income	16,425	1,442
Investment return (note D)	71,609	(104,302)
Total revenue	1,475,917	1,302,415
EXPENSES		
Program services		
DNA testing and registration services	221,291	192,566
National show	277,850	241,566
Show system	274,181	252,007
Other AOA	364,226	461,985
Total program services	1,137,548	1,148,124
Management and general		
Management and general before depreciation and amortization	313,971	228,642
Depreciation and amortization	2,191	2,512
Total management and general	316,162	231,154
Total expenses	1,453,710	1,379,278
INCREASE (DECREASE) IN NET ASSETS	22,207	(76,863)
Net assets at beginning of year	1,219,358	1,296,221
Net assets at end of year	$ 1,241,565	$ 1,219,358

See accompanying notes to consolidated financial statements.

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Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31, 2023

	Program Services						
	DNA Testing & Registration Services	National Show	Show System	Other AOA	Total Program Services	Management and General	Total
Wages and benefits	$ 69,570	$ 99,117	$ 95,868	$ 67,188	$ 331,743	$ 183,801	$ 515,544
DNA testing	136,394	-	-	-	136,394	-	136,394
Other member services	-	-	-	119,863	119,863	-	119,863
Member products	-	-	-	21,275	21,275	-	21,275
Conferences and fees	-	88,040	162,667	-	250,707	6,784	257,491
Board and lodging	-	48,634	-	-	48,634	-	48,634
Travel	-	15,783	-	-	15,783	-	15,783
Judges clinic and student design	-	-	-	30,390	30,390	-	30,390
Publication services	-	-	-	88,447	88,447	-	88,447
Professional fees	-	-	-	-	-	62,918	62,918
Board of directors	-	-	-	-	-	6,278	6,278
Rent	4,778	8,191	4,877	11,553	29,399	4,730	34,129
Building maintenance	3,141	5,385	3,207	7,596	19,329	3,110	22,439
Utilities	2,072	3,552	2,115	5,010	12,749	2,052	14,801
Insurance	-	-	-	-	-	2,375	2,375
Office expenses	3,124	5,356	3,189	7,555	19,224	3,093	22,317
Bank charges	-	-	-	-	-	31,930	31,930
Depreciation and amortization	2,212	3,792	2,258	5,349	13,611	2,191	15,802
Other	-	-	-	-	-	6,900	6,900
Total expenses	$ 221,291	$ 277,850	$ 274,181	$ 364,226	$ 1,137,548	$ 316,162	$ 1,453,710

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31, 2022

	Program Services						
	DNA Testing & Registration Services	National Show	Show System	Other AOA	Total Program Services	Management and General	Total
Wages and benefits	$ 50,897	$ 109,937	$ 90,413	$ 160,682	$ 411,929	$ 92,024	$ 503,953
DNA testing	125,782	-	-	-	125,782	-	125,782
Other member services	-	-	-	120,911	120,911	-	120,911
Member products	-	-	-	17,599	17,599	-	17,599
Conferences and fees	-	64,928	145,378	-	210,306	3,588	213,894
Board and lodging	-	18,579	-	-	18,579	-	18,579
Travel	-	20,889	-	-	20,889	-	20,889
Judges clinic and student design	-	-	-	33,838	33,838	-	33,838
Publication services	-	-	-	90,544	90,544	-	90,544
Professional fees	-	-	-	-	-	58,685	58,685
Board of directors	-	-	-	-	-	7,715	7,715
Rent	3,772	6,466	3,850	9,119	23,207	3,733	26,940
Building maintenance	2,388	4,093	2,437	5,773	14,691	2,364	17,055
Utilities	1,897	3,252	1,937	4,587	11,673	1,879	13,552
Insurance	-	-	-	-	-	16,637	16,637
Office expenses	5,293	9,073	5,402	12,798	32,566	5,240	37,806
Bank charges	-	-	-	-	-	34,773	34,773
Depreciation and amortization	2,537	4,349	2,590	6,134	15,610	2,512	18,122
Other	-	-	-	-	-	2,004	2,004
Total expenses	$ 192,566	$ 241,566	$ 252,007	$ 461,985	$ 1,148,124	$ 231,154	$ 1,379,278

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2023	2022
Cash flows from operating activities		
Cash received from members	$ 1,219,836	$ 1,325,804
Cash paid to suppliers and employees	(1,447,596)	(1,335,255)
Miscellaneous services income	106,114	100,737
Interest income	88,507	25,019
Net cash provided (used) by operating activities	(33,139)	116,305
Cash flows from investing activities		
Purchases of certificates of deposit	(629,000)	(800,000)
Proceeds from maturity or sale of certificates of deposit	590,000	160,000
Proceeds from sale of investments	81,177	40,226
Purchases of investments	(87,904)	(64,469)
Purchase of equipment	-	(1,933)
Purchase of association software	(28,600)	(9,850)
Net cash used by investing activities	(74,327)	(676,026)
Net decrease in cash and cash equivalents	(107,466)	(559,721)
Cash and cash equivalents at beginning of year	191,383	751,104
Cash and cash equivalents at end of year	$ 83,917	$ 191,383
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities		
Increase (decrease) in net assets	$ 22,207	$ (76,863)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	747	508
Amortization	15,055	17,614
Reduction in the carrying amount of right-of-use assets	32,478	31,305
Reinvested interest and dividends	47,636	2,336
Realized and unrealized gain (loss) on investments	(47,163)	125,543
(Increase) decrease in assets		
Receivables	(13,839)	1,416
Prepaid expenses	11,694	11,398
Increase (decrease) in liabilities		
Accounts payable	(23,139)	14,344
Accrued payroll	(421)	257
Operating lease liabilities	(30,300)	(31,403)
Contract liability	(48,094)	19,850
Total adjusment to increase (decrease) in net assets	(55,346)	193,168
Net cash provided (used) by operating activities	$ (33,139)	$ 116,305
Supplemental disclosure of cash flow information:		
Right-of-use assets obtained in exchange for lease obligations upon ASC 842 implementation	$ -	$ 61,188
Right-of-use assets obtained in exchange for lease obligations upon ASC 842 implementation	$ 85,142	$ -

See accompanying notes to consolidated financial statements.

On January 14, 2014, Alpaca Owners and Breeders Association, Inc. merged with the Alpaca Registry, Inc., who then changed their name to Alpaca Owners Association Inc. (the Association).

The Association was incorporated in the State of Colorado. The Association exists to track the genealogy, blood testing, and ownership records of alpacas in North America.

The Association, as a result of the merger, also provides an internationally recognized pedigree registry, judge training program, and magazine (Alpaca Magazine). The Association also provides the industry's largest Expected Progeny Difference (EDP) program, national show system, and national marketing program for alpacas and alpaca fiber products. The Association's main source of revenue from these activities is derived from registration fees, national shows, and membership dues.

In January 2014, the Association also acquired Alpaca Owners and Breeders Association, Inc.'s wholly owned subsidiary, Alpaca Livestock Company, Inc. ("ALCI"). ALCI is a for-profit corporation who is now a wholly owned subsidiary of the Association. ALCI primarily provides advertising to individual and small business customers in the Association's various publications.

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting. The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Alpaca Owners Association, Inc. and its wholly owned subsidiary, Alpaca Livestock Company, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. For purposes of the consolidated statements of cash flows, the Association considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are measured at amortized cost, thus, evaluated for expected credit losses. Based on management's review of historical data in addition to current conditions and forecasts, the Association has not recognized an expected credit loss.

Certificates of Deposit. Certificates of deposit are measured at amortized cost, thus, evaluated for expected credit losses. Based on management's review of historical data in addition to current conditions and forecasts, the Association has not recognized an expected credit loss.

Accounts Receivables. Receivables are stated at the amount management expects to collect from outstanding balances at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has been concluded that realized losses on balances outstanding at year-end will be immaterial.

Allowances for credit losses is based on management's review of historical losses based on aging receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant. The Association believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Association's customers have remained consistent since the Association's inception. Based on management's review, the Association has not recognized an expected credit loss.

At December 31, 2023, 2022, and 2021, the accounts receivable balance was $26,210, $12,371, and $13,787, respectively.

NOTE A - SUMMARY OF ACCOUNTING POLICIES – CONTINUED

Property and Equipment and Depreciation. Property and equipment are carried at cost, if purchased and at fair market value at the date of contribution, if received by donation, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed on the straight-line method. Equipment and furniture and fixtures are depreciated over estimated useful lives from five to seven years. It is the Association's policy to capitalize property and equipment over $2,500. Lesser amounts are expensed.

Association Software Costs. The Association's software costs are amortized over five to ten years using the straight-line method.

Investments. Investments in marketable securities, including equity and debt securities, with readily determinable fair values are reported at their fair values in the statement of financial position. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting in observable price changes in orderly transactions for identical or similar investments. Unrealized gains and losses are included in the statement of activities. Donated securities are recorded as contributions equal to the fair market value of the securities at the date of gift.

Fair Value Measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. The Association utilizes a framework to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.
Level 2	Inputs to the valuation methodology include: • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance are not required to be categorized in the fair value hierarchy.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Paid Time Off Policy. During the first year of employment, a salaried employee earns 120 hours of paid time off, and an hourly employee earns 80 hours of paid time off. The second through the fourth years of employment, a salaried and hourly employee earns 160 hours and 120 hours of paid time off per year, respectively. Beginning with the fifth year, a salaried employee earns 200 hours of paid time off per year, and an hourly employee earns 160 hours of paid time off per year. Employees may accumulate paid time off up to 240 hours for a salaried employee and up to 200 hours for an hourly employee. The Association's policy is to pay this liability in the event of voluntary or involuntary termination.

Contract Balances. Contract liabilities include consideration due or paid by a customer prior to when the Association transfers goods or services and represent the Association's obligation to the customer.

Leases. At inception, the Association determines if a contract is or includes a lease arrangement. The Association's lease commitments include office space and office equipment. The following describes the Association's accounting policies related to its leasing arrangements:

As lessee

Leased assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. The Association recognizes a right-of-use asset and related liability at the commencement date, generally based on the present value of lease payments over the lease term using the Association's risk-free rate. Leases with an initial term of 12 months or less, including month to month leases, are not recorded on the statement of financial position and are expensed on a straight-line basis. Leases between entities under common control use written terms and conditions instead of determining whether terms and conditions are legally enforceable.

Operating Leases

Operating lease assets and liabilities are recognized separately on the Association's statement of financial position. The Association recognizes a single lease expense on a straight-line basis over the lease term. Nonlease components including expenses for trash, common area maintenance, insurance and real estate taxes are expenses as incurred. The Association classifies all of its office space and office equipment leases as operating.

Net Asset Classification. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions. Net assets available for use in general operations and not subject to donor or grantor restrictions.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Net Asset Classification – Continued.

With donor restrictions. Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, and are reported in the statements of activities as net assets released from restrictions. The Association has not received any funds subject to donor-imposed restrictions.

Revenue Recognition. Revenue is measured based on consideration specified in contracts with customers. The Association recognizes revenue when it satisfies performance obligations by transferring control over products or services to customers.

The following is a description of principal activities from which the Association generates its revenue:

Registry Income

Registry income is generated from the registry of alpacas with the Association. The registration includes DNA testing services that tests for parentage and purity of the breed. The Association also keeps lifetime records of each registered alpaca. Revenue from registration is recognized when the alpaca registration is complete.

National Show

The Association facilitates national alpaca shows. Fees received from the shows include show registration, stall purchases, vendor booth fees, and sponsorship fees. Revenue from the performance obligations related to these shows is recognized at the show's completion.

Show System

The Association provides organizational and promotional assistance to show organizers for a set fee paid by the management of the show organizers. Revenue is recognized upon completion of the show.

Member Marketing

Members of the Association can elect to purchase various marketing packages offered to promote their farm. The marketing package fees vary based on the level of service provided. Members can choose when to use their benefits throughout the year they were purchased. Revenue is recognized over time, within the year the Member receives the marketing benefits.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - Continued.

Membership and Voting Rights

Membership fees are recognized over time as the Association satisfies its performance obligations by transferring member benefits or services to its members. The Association's primary member benefits include alpaca registration on the member directory, access to the Association's database and educational materials, advertising and marketing relationships, an annual subscription to *Alpacas Magazine*, and voting rights. The benefits are simultaneously received and consumed by the members. Any membership fees prepaid by members are accounted for as unearned revenue (contract liability) until the Association satisfies its obligations to provide the related membership benefits and services.

Product Income

The Association offers a limited number of educational products and apparel for members. The price of products range and are based on the value of the product. Products are shipped upon receipt of payment. Revenue is recognized when products are shipped. Revenues are presented net of sales taxes. Sales tax collected is included in other accrued expenses until the taxes are remitted to the appropriate taxing authorities.

Costs related to shipping of product are recorded as incurred and classified in other AOA expenses in the statement of activities.

Other Member Services

The Association provides other member services by providing educational clinics for judges. Participants are charged a participation fee. Revenue is recognized upon completion of the clinic.

Advertising Income

Advertisers pay to run advertisements in the Association's magazine, *Alpaca Magazine,* for set prices based on the size of the advertisements. Revenue from advertisements are recognized when the magazine is published. Any advertisement fees prepaid by advertisers are accounted for as unearned revenue (contract liability) until the Association satisfies its obligations to publish the magazine advertisement.

Income Taxes. The Association is exempt from Federal income taxes under Section 501(c)(5) of the Internal Revenue Code. As such, income earned in the performance of their exempt purpose is not subject to income tax. Any income earned through activities not related to their exempt purpose is subject to income tax at normal corporate rates. The Association has advertising income, which is subject to tax on unrelated business income. For the years ended December 31, 2023 and 2022, the Association had no tax liability on unrelated business activity. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

The Association's Federal Exempt Organization Business Income Tax Returns (990) and ALCI's U.S. Federal and State of Tennessee income tax returns for December 31, 2023, 2022 and 2021 are subject to examination by the IRS generally for three years after they were filed.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Income Taxes – Continued.

ALCI accounts for income taxes using the "balance sheet method" of accounting for income taxes. Accordingly, deferred assets and liabilities are determined based on the difference between the financial statement and income tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Functional Allocation of Expenses. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, as well as wages and benefits which are allocated on the basis of estimates of time and effort.

Advertising and Promotion. The Association expenses advertising costs when incurred. The accompanying consolidated financial statements include advertising expense of $26,413 and $24,561 for the years ended December 31, 2023 and 2022, respectively.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2023	2022
Equipment	$ 82,242	$ 82,242
Furniture and fixtures	57,440	57,440
	139,682	139,682
Less accumulated depreciation	(137,474)	(136,727)
	$ 2,208	$ 2,955

Depreciation expense for years ended December 31, 2023 and 2022 was $747 and $508, respectively.

NOTE C - ASSOCIATION SOFTWARE COSTS

Software as of December 31, 2023 and 2022 consists of :

	2023	2022
Technology development	$ 28,600	$ -
Registry Database	1,572,174	1,572,174
	1,600,774	1,572,174
Less accumulated amortization	(1,530,689)	(1,515,634)
	$ 70,085	$ 56,540

The Association's software costs are amortized over five to ten years using the straight-line method. Amortization expense for the years ended December 31, 2023 and 2022 was $15,055 and $17,614, respectively.

Amortization expense for the years following December 31, 2023 is as follows:

Year ending December 31,	
2024	$ 10,970
2025	9,467
2026	7,336
2027	6,959
	$ 34,732

NOTE D - INVESTMENTS

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Investments consist of:				
Mutual funds	$ 587,575	$ 561,720	$ 590,208	$ 507,830
Unrealized loss		$ (25,855)		$ (82,378)

Investment income consists of:	2023	2022
Interest and dividend income	$ 16,424	$ 1,442
Investment fees	(3,414)	(3,549)
Realized loss on investments	(9,365)	(869)
Unrealized gain (loss) on investments	67,964	(101,326)
	$ 71,609	$ (104,302)

NOTE E - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodology used for assets and liabilities measured at fair value. There has been no change in the method used during the year ended December 31, 2023.

Mutual funds: Valued at the observable net asset value (NAV) of shares held by the Association at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022.

	2023			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 561,720	$ 561,720	$ -	$ -

	2022			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 507,830	$ 507,830	$ -	$ -

NOTE F – LEASES

As Lessee – Operating Lease

On January 16, 2013, the Association entered into a 60-month lease effective April 25, 2013 with payments to begin on May 1, 2013 for its operating premises. On May 1, 2023, the lease was renewed for an additional 24-month period. The renewed lease requires monthly payments of $2,502.

On February 21, 2022, the Association entered into a 36-month lease for a postage meter. The lease requires quarterly payments of $590 plus applicable taxes.

On January 20, 2022, the Association entered into a 63-month lease for a copier. The lease requires monthly payments of $312 plus applicable taxes.

NOTE F – LEASES – CONTINUED

Operating lease expenses for the year ended December 31, 2023 and 2022 are as follows:

	2023	2022
Operating lease expense	$ 27,615	$ 32,027

Average operating lease terms and discount rate at December 31, 2023 and 2022 were as follows:

Weighted average remaining lease term (years):	1.79	2.77
Weighted average discount rate:	1.66%	1.95%

The following summarizes cash paid for operating lease liabilities and other non-cash information for the year ended December 31, 2023 and 2022:

Cash paid for amounts included in the measurement of operating lease obligations - operating cash flows	$ 26,128	$ 32,027
Right of use assets obtained in exchange for operating lease obligations	$ 85,142	-

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating leases as of December 31, 2023, and a reconciliation to operating lease liabilities reported on the balance sheet:

Year ending December 31,	
2024	$ 36,138
2025	14,148
2026	3,744
2027	1,560
Total minimum lease payments	55,590
Less: Present value discount	(845)
Operating lease obligations	$ 54,745

NOTE G - RETIREMENT PLAN

Effective May 1, 2006, the Association provided a 401(k) deferred compensation plan for the benefit of eligible employees. The plan allows eligible employees to defer a portion of their annual compensation, not to exceed Internal Revenue Code limits. The Association matches 100% of employee contributions to the 401(k) plan up to a maximum of 5% of the employee's salary. Contributions expense to the 401(k) plan for the years ended December 31, 2023 and 2022 were $19,280 and $18,823, respectively.

NOTE H - INCOME TAXES

At December 31, 2023, ALCI has a net operating loss carry forward of $689,824 to offset future taxable income. This net operating loss will begin to expire for Federal income tax purposes in 2027 and for Tennessee income tax purposes in 2023.

A deferred tax asset for the years ended December 31, 2023 and 2022 has been provided for a timing difference for a Federal net operating loss carryforward of $189,702, net of a valuation allowance of $189,702 for the years ended December 31, 2023 and 2022.

ALCI believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

NOTE I - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

	2023	2022
Cash and cash equivalents	$ 83,917	$ 191,383
Certificates of deposit	514,084	477,414
Accounts receivable	26,210	12,371
Total financial assets available to meet general expenditures over the next year	$ 624,211	$ 681,168

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Association strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, mutual funds, and money market funds.

NOTE J - DISAGGREGATION OF REVENUE

The following presents the Association's revenues from contracts with customers disaggregated by the timing of recognition when goods or services are transferred to customers:

Transferred over time	$ 234,791	$ 219,446
Transferred at a point in time	1,106,602	1,181,368
	$ 1,341,393	$ 1,400,814

NOTE K - CONTRACT BALANCES

The following tables provide information about the changes in the contract liabilities for the years ended December 31, 2023 and 2022.

	2023	2022
Contract liabilities, beginning of year	$ 133,402	$ 113,552
Recognition of revenue included in beginning balance	(126,354)	(111,580)
Collection of customer prepayments	78,260	131,430
Contract liabilities, end of year	$ 85,308	$ 133,402

NOTE L – NEW ACCOUNTING STANDARD

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. The FASB has subsequently issued additional, clarifying standards to address issues arising from implementation of the new current expected credit loss standard. ASU 2016-13 and all subsequently issued amendments, collectively "ASC 326," is effective for annual reporting periods beginning after December 15, 2022. Financial assets held by the Association that are subject to the guidance in FASB ASC 326 were cash and cash equivalents, certificates of deposits, and accounts receivable.

On January 1, 2023, the Association adopted ASC 326. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in enhanced disclosures only. The Association's accounting policies in note A have been updated to reflect the impact of the standard.

NOTE M - RELATED ORGANIZATION

The Association is associated with a separate not-for-profit corporation, National Alpaca Foundation (the Foundation). The Foundation was incorporated in 2023. The Foundation received $2,020 and $0 from the Association for the years ended December 31, 2023 and 2022, respectively.

NOTE N – RECLASSIFICATIONS

Certain amounts in the year ended December 31, 2022 consolidated financial statements have been reclassified to conform with current year presentation. These reclassifications had no effect on the 2022 decrease in net assets.

NOTE O - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the audit report date, the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2023

ASSETS

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CURRENT ASSETS			
Cash and cash equivalents	$ 79,494	$ 4,423	$ 83,917
Certificates of deposit	514,084	-	514,084
Accounts receivable	26,210	-	26,210
Prepaid expenses	11,894	-	11,894
Total current assets	631,682	4,423	636,105
PROPERTY AND EQUIPMENT, net	2,208	-	2,208
OTHER ASSETS			
Association software costs, less accumulated amortization of $1,530,690	70,085	-	70,085
Operating lease right-of-use assets, net	52,665	-	52,665
Certificates of deposit, long-term	114,944		114,944
Investments	561,720	-	561,720
Total other assets	799,414	-	799,414
Total assets	$ 1,433,304	$ 4,423	$ 1,437,727

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	$ 16,532	$ -	$ 16,532
Accrued payroll	14,594	-	14,594
Accrued vacation	24,983	-	24,983
Contract liability	85,308	-	85,308
Operating lease obligations, current	35,535	-	35,535
Total current liabilities	176,952	-	176,952
NONCURRENT LIABILITIES			
Operating lease obligations, net of current maturities	19,210	-	19,210
Total liabilities	196,162	-	196,162
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,237,142	4,423	1,241,565
Total liabilities and net assets	$ 1,433,304	$ 4,423	$ 1,437,727

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CURRENT ASSETS			
Cash and cash equivalents	$ 186,960	$ 4,423	$ 191,383
Certificates of deposit	477,414	-	477,414
Accounts receivable	12,371	-	12,371
Prepaid expenses	23,588	-	23,588
Total current assets	700,333	4,423	704,756
PROPERTY AND EQUIPMENT, net	2,955	-	2,955
OTHER ASSETS			
Association software costs, less accumulated amortization of $1,515,634	56,540	-	56,540
Operating lease right-of-use assets, net	29,883	-	29,883
Certificates of deposit, long-term	160,250	-	160,250
Investments	507,830	-	507,830
Total other assets	754,503	-	754,503
Total assets	$ 1,457,791	$ 4,423	$ 1,462,214

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	$ 39,671	$ -	$ 39,671
Accrued payroll	15,015	-	15,015
Accrued vacation	24,983	-	24,983
Contract liability	133,402	-	133,402
Operating lease liabilities, current	15,117	-	15,117
Total current liabilities	228,188	-	228,188
NONCURRENT LIABILITIES			
Operating lease liabilities, net of current maturities	14,668	-	14,668
Total liabilities	242,856	-	242,856
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,214,935	4,423	1,219,358
Total liabilities and net assets	$ 1,457,791	$ 4,423	$ 1,462,214

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2023

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS			
Revenue and support			
Registry income	$ 422,262	$ -	$ 422,262
National show	325,557	-	325,557
Show system	100,185	-	100,185
Member marketing	12,396	-	12,396
Membership and voting rights	222,395	-	222,395
Product income	46,457	-	46,457
Other member services	106,114	-	106,114
Other business income	46,490	-	46,490
Advertising income	106,027	-	106,027
Interest income	16,425	-	16,425
Investment return	71,609	-	71,609
Total revenue and support	1,475,917	-	1,475,917
Expenses			
Program services			
DNA testing and registration services	221,291	-	221,291
National show	277,850	-	277,850
Show system	274,181	-	274,181
Other AOA	364,226	-	364,226
Total program services	1,137,548	-	1,137,548
Management and general			
Management and general before depreciation and amortization			
Wages and benefits	183,801	-	183,801
Conferences and fees	6,784	-	6,784
Professional fees	62,918	-	62,918
Board of directors	6,278	-	6,278
Rent	4,730	-	4,730
Building maintenance	3,110	-	3,110
Utilities	2,052	-	2,052
Insurance	2,375	-	2,375
Office expenses	3,093	-	3,093
Bank charges	31,930	-	31,930
Other	6,900	-	6,900
Total management and general before depreciation and amortization	313,971	-	313,971
Depreciation and amortization	2,191	-	2,191
Total management and general	316,162	-	316,162
Total expenses	1,453,710	-	1,453,710
INCREASE IN NET ASSETS	22,207	-	22,207
Net assets at beginning of year	1,214,935	4,423	1,219,358
Net assets at end of year	$ 1,237,142	$ 4,423	$ 1,241,565

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2022

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS			
Revenue and support			
Registry income	$ 467,578	$ -	$ 467,578
National show	336,869	-	336,869
Show system	113,803	-	113,803
Member marketing	12,646	-	12,646
Membership and voting rights	206,800	-	206,800
Product income	51,924	-	51,924
Other member services	100,737	-	100,737
Other business income	4,461	-	4,461
Advertising income	110,457	-	110,457
Interest income	1,442	-	1,442
Investment return	(104,302)	-	(104,302)
Total revenue and support	1,302,415	-	1,302,415
Expenses			
Program services			
DNA testing and registration services	192,566	-	192,566
National show	241,566	-	241,566
Show system	252,007	-	252,007
Other AOA	461,985	-	461,985
Total program services	1,148,124	-	1,148,124
Management and general			
Management and general before depreciation and amortization			
Wages and benefits	92,024	-	92,024
Conference and fees	3,588	-	3,588
Professional fees	58,685	-	58,685
Board of directors	7,715	-	7,715
Rent	3,733	-	3,733
Building maintenance	2,364	-	2,364
Utilities	1,879	-	1,879
Insurance	16,637	-	16,637
Office expenses	5,240	-	5,240
Bank charges	34,773	-	34,773
Other	2,004	-	2,004
Total management and general before depreciation and amortization	228,642	-	228,642
Depreciation and amortization	2,512	-	2,512
Total management and general	231,154	-	231,154
Total expenses	1,379,278	-	1,379,278
DECREASE IN NET ASSETS	(76,863)	-	(76,863)
Net assets at beginning of year	1,291,798	4,423	1,296,221
Net assets at end of year	$ 1,214,935	$ 4,423	$ 1,219,358