2014

ALPACA™ Owners Association Inc

Annual Report








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ALPACA™ Owners Association Inc



President's Message



Dear AOA Members,

Wow! 2014 was quite a year. A lot happened at both the board level and the staff level. We started off the year trying to complete the steps necessary to ensure a quick effective date of merger, which happened on January 14, 2014. From a board perspective, we had several procedural things that needed to take place immediately, not the least of which was selection of officers. Once that was completed, we held a face-to-face meeting in Denver, Colorado, to bring together two previously separate boards into one and to start planning the merger transition process. While most of the transition was an operational task, managed by our Executive Director, the board needed to review, update, and establish the policies in order for operations to implement our plan. Most of that face-to-face meeting in January was spent educating ourselves on the functions of both ARI and AOBA, updating the urgent policy matters that needed changes in order to proceed, forming the committees that needed to continue their work in order to help the organization continue running, and discussing the transition plan for the coming months.

After that meeting, the board placed incredible pressure on the staff to quickly move through the transition items, and to begin to make changes, implement strategies, and evaluate processes as requested by the board. Under the management of our Executive Director, the staff did as we requested and exceeded our expectations, all while continuing to ensure great customer service, support the day-to-day functions of ARI and AOBA, and plan and execute a national show occurring only 6 weeks after our face-to-face meeting. It was truly extraordinary.

In addition to the things highlighted above and those mentioned in the Executive Director's message elsewhere in this report, we also made significant changes to the distribution of *Alpacas Magazine*. The board ended our distribution agreements with Barnes and Noble and Tractor Supply, which were costing us money. Instead, we began sending the extra copies to leads, which provides a better marketing benefit for the industry.

Speaking of marketing; we evaluated member marketing programs and realigned the focus of our national marketing with increased emphasis on alpaca products. We completed several national marketing efforts including national print advertising, online advertising, National Alpaca Farm Days, and a hugely successful marketing and promotion surrounding the AOA National Show. Last, but not least, we began development of a new Industry Promotional Video, which was released in early 2015.

The biggest and most complex project was the design, development, testing, and implementation of a consolidated software system. While working through the merger steps and the development and testing of the new software system, our office staff managed to keep all of the registry, show system, marketing, and other functions running smoothly on the two separate ARI and AOBA software systems throughout 2014. It was like changing a fan belt with the engine running. Darby and the staff put in many extra hours, including working through Thanksgiving, Christmas, and New Year's to meet a nearly impossible software development timetable that was necessary because of the need to open 2015 membership renewal. I cannot

continued page 2

2015 Budget

	TOTAL Jan – Dec 15
Ordinary Income/Expense	
Income	
Registry Income	$790,548
National Show Income (including fleece conference)	$259,236
Show System Income	$181,601
Advertising Income	$136,150
Product Income	$46,956
Benefactor Income	$30,850
Student Design Income	$4,300
Membership Income	$261,566
Other Income	$71,693
Total Income	$1,782,900
Expense	
Registry Expense	$222,695
National Show Expense	$227,167
Judges Clinic Expenses	$14,000
Other Conference Expense	$12,000
Board Expense	$26,000
Awards & Gifts Expense	$4,800
Dues & Subscriptions	$1,200
Insurance Expense	$13,395
Corporate Fees Expense	$300
Alpacas Magazine Expense	$96,600
Accounting Fees	$12,000
Legal Fees	$48,000
Marketing & PR Expense	$46,008
Member Products	$2,500
Affiliate Grants Expense	$3,000
Student Design Expense	$11,000
Printing	$48,000
Mailing & Shipping	$37,900
Technology Services	$144,000
Employee Expense	$635,207
Misc. Office	$15,600
Office Supplies Expense	$6,000
Building Expense	$81,800
Bank Service Fees	$44,193
Consultant Expense	$17,000
Equipment Expense	$12,000
Total Expense	$1,782,365
Net Ordinary Income	$535
Depreciation & Amortization Expense	$129,660
Net Income	$(129,125)

President's Message, continued

thank them enough for their dedication to AOA, our members, and the alpaca industry.

By merging into a single organization we expected to eliminate duplication in office staff, technology, insurance, elections, financial audits, and office space. I am pleased to report that the merger of AOBA and ARI did just that, resulting in significant cost savings as anticipated. While many of the cost savings were realized in 2014, since the merger transition was completed throughout the year, the majority of the cost savings are being realized in 2015.

In 2014, we expected to see continued decline in revenue from registrations, transfers, and show participation, and budgeted as such. However, revenue fell far more than anticipated, with registrations below budget by 15%, transfers by 20%, and show system income down 32%. Benefactor income also fell 60% below budget. So, although we were able to greatly reduce operating expenses in 2014 compared to 2013, the more significant decline in revenue resulted in a net operating loss for the year.

There is some good news, however. As noted above, most of the cost savings from merger will be realized in 2015, and most of the added expenses related to merger were one-time expenses realized last year, so we are in a much better position in 2015 than we were in 2014. So far this year, expenses are almost 10% below budget and significantly under 2014. In addition, we already have 22 benefactors this year compared to only 7 for all of 2014, marketing income is up, and registrations and transfers are on budget. The 2014 National Show and Auction in Harrisburg and the 2015 National Show & Auction in Grand Island were both very successful, and we have been getting a lot of positive feedback on our decision to separate the National Show into two shows ... a National Halter Show and Auction and a separate Fleece Show and Conference. We also developed a plan for National Supreme Championships to be awarded at the National Show beginning in 2016 and established both a Fiber and Fiber Products Committee, and an Alternative Products Committee based on member feedback. One of the most exciting results of merger has been the increase in interest in the organization as reflected by the increase in number of applications for our committees and candidates for the Board of Directors!

We are proud that we continue to provide the world's largest and most accurate DNA based pedigree registry, the world's largest and most respect show and judge training system, a state-of-the-art online software system that is second to none in the livestock industry, national marketing, wonderful member marketing and educational opportunities, and a growing Expected Progeny Differences (EPD) program that now has nearly 60,000 alpacas with EPDs.

As the board has evaluated, adjusted, and worked through changes, we have tried to remember that AOA is neither AOBA nor ARI ... we are a new organization. The numerous things completed in 2014 make it clear that it was a busy year of transition. Your board, Executive Director and staff had a lot to learn and much to do to complete the merger, but the end result is a strong, efficient organization that is better positioned to serve our members and facilitate their success within the alpaca industry.

We have talented and dedicated volunteers that serve on our committees and board, and I thank every one of them for the dedicated work they do in support of AOA, our members and the alpaca industry. Last, but not least, we also have very hard working, dedicated, and caring staff led by our outstanding Executive Director, Darby Vannier and I truly appreciate the teamwork and the many extra hours they spent helping to ensure a successful merger transition.

The board and staff remain committed to finding ways to provide the highest level of service at the lowest cost possible for the benefit of our members. We want AOA to help you be successful in your alpaca business, and I hope you will give us your support and your feedback to ensure we are able to do just that!

Sincerely,



Bonnie B Potter
President

Number of Active AOA Accounts per State and Province throughout the US and Canada

State	# of Accounts
Alabama	81
Alaska	52
Arizona	252
Arkansas	49
California	1012
Colorado	928
Connecticut	144
Delaware	29
District of Columbia	2
Florida	356
Georgia	218
Hawaii	12
Idaho	178
Illinois	341
Indiana	349
Iowa	140
Kansas	153
Kentucky	225

State	# of Accounts
Louisiana	22
Maine	183
Maryland	234
Massachusetts	179
Michigan	571
Minnesota	247
Mississippi	36
Missouri	285
Montana	118
Nebraska	93
Nevada	88
New Hampshire	128
New Jersey	234
New Mexico	180
New York	679
North Carolina	301
North Dakota	15
Ohio	1053

State	# of Accounts
Oklahoma	123
Oregon	578
Pennsylvania	719
Rhode Island	31
South Carolina	113
South Dakota	23
Tennessee	211
Texas	480
Utah	124
Vermont	154
Virginia	507
Washington	751
West Virginia	97
Wisconsin	412
Wyoming	73
Unknown	117

Province	# of Accounts
Alberta	185
British Columbia	113
Manitoba	31
New Brunswick	8
Newfoundland	3
Nova Scotia	22
Ontario	150
Prince Edward Island	4
Quebec	129
Saskatchewan	75
Yukon	2
Unknown	19

Executive Director's Message



Dear AOA Members,

From an operational standpoint, 2014 was a whirlwind year. While continuing to provide the regular services that both ARI and AOBA had previously provided, the staff also had to complete numerous merger transition items.

The merger was approved in December 2013, and the transition work began immediately. The transition steps required consolidation of financial systems, human resources, phone systems, servers, online software systems, merchant providers, mailing providers, and every other possible area of duplication that you could think of. It also meant completion of legal filings and the updating of all vendors with the new information. At the same time, we had to begin developing a brand, putting on a national show just 3 months into being a merged organization, and cross training the staff. In the summer, when AOBA's office lease expired, we relocated stored items and products to the Lincoln office and downsized the Nashville office from more than 5,000 square feet to just over 500 square feet. At the same time, we said goodbye to two team members, in addition to the previous staff who left and were not replaced.

We also spent a good deal of time evaluating how things had been done in the past. This evaluation included things such as the planning and execution of nationals, the execution of judge clinics, staff interaction, and the various legal agreements required to complete AOA business. Smart changes were made to ensure efficient operations moving forward.

The other major project for the office was the new AOA online system. This project began in January, 2014 and culminated with the release of the new site in December. This required thousands of staff hours to complete, including work on weekends and even holidays. Completing a full system such as this on such a short schedule is unheard of. While it sounds like a simple website, it is not. Think of all the information you have access to; registry information, alpaca information, DNA tests, BVDV tests, EPD results, show results, photos of alpacas, the ability to list alpacas for sale and stud, and so on. All of that information has to be accessible and linked to multiple points throughout the system. Additionally, the system manages your memberships (which itself is incredibly complex), including renewal, benefactor programs, member marketing programs, the farm and ranch locator, automatic discounts based on your membership level, Alpacas Magazine subscriptions, online Alpacas Magazine access, and much more. Combining all of these functions into one system, and adding in external marketing elements and educational information, took a tremendous amount of time to complete.

If you are curious about the merger process, I encourage you to read the article entitled 'Merger: The Process & Transition' in the Autumn 2014 edition of Alpacas Magazine. While this article was completed before many of the items above were accomplished, it does provide a good overview of what was involved.

This merger transition process consumed all of 2014 and required numerous staff hours to complete. Because the organization's primary functions also had to continue, this meant much of the staff stepped up and put in numerous extra hours throughout the year to ensure the organization's success. I'm truly in awe of everyone's accomplishments and wish to thank all of the AOA staff for their hard work and dedication to the success of AOA and its members.

I am extremely fortunate to be able to work with such committed individuals.

The cost savings achieved and the operational changes made have truly helped position AOA for success in our changing industry. I am looking forward to continuing to make improvements where they make sense and working to help make each of you successful in the alpaca industry.

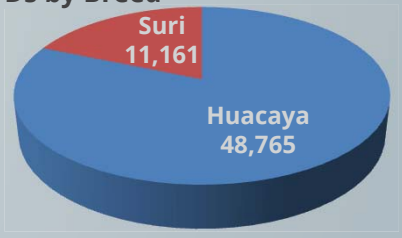
Sincerely,

Darby A. Vannier, MBA
Executive Director

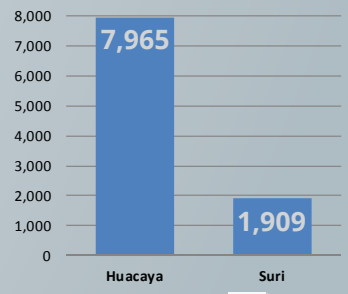
Number of Data Points (Observations) by Trait, by Breed Type

	Huacaya		Suri	
Trait Name	Observations	Average	Observations	Average
Average Fiber Diameter (microns-µ)	18,948	23.6	3,320	26.6
Standard Deviation (AFD; µ)	18,946	5.0	3,314	6.2
Spin Fineness (µ)	18,947	23.0	3,319	26.5
Percent of Fibers larger than 30 microns	18,948	13.4	3,283	25.5
Fleece Weight	18,557	6.1	3,408	5.4
Mean Curvature (deg/mm)	17,959	37.9	3,226	10.9
Standard Deviation of Curvature	17,957	23.2	3,226	13.9
Percent Medullation	8,369	17.2	1,448	16.5
Mean Staple Length (mm)	17,056	91.6	3,125	150.1
Birth Weight	9,352	16.6	2,325	17.4

Number of Alpacas with EPDs by Breed



Number of Accounts Participating in EPDs by Breed



Letter from the Board

April 12, 2015

Dear AOA Members:

Attached for your review you will find the AOA audited financial statements for calendar year 2014. In summary, the Board is very much aware of the fact that the 2014 financials are not a reflection of where we need to be and the purpose of this letter is to provide the Membership with some context about the realized benefits of the merger and the Board's plan for moving forward.

Where We Were — 2014

As you know AOBA and ARI merged into a new company, AOA, effective January 14, 2014. The merger plan projected a 12 month operating expense reduction after the transition year of approximately $290,000 and we have achieved annual cost savings of over $330,000. The majority of these cost savings were expected to be realized for the 2015 financial year, but over $110,000 in cost savings also occurred in 2014 as a direct result of merger. With additional cost cutting measures, we were able to decrease total expenses by more than $350,000 in 2014 as compared to 2013. However, the decline in revenue of over $565,000 far exceeded our budget projection, yielding an operating loss of $476,926. Contributing to the operating loss was $226,500 in onetime expenses and final depreciation/amortization associated with the merger. See Appendix A for a summary of the net impact of savings, decline in revenue and onetime expenses. See Appendix B, online, for a table and graphs depicting revenue and expenses since 2003 for AOBA, ARI and combined ARI and AOBA.

Where We Are — 2015

We have onetime expenses behind us, new business processes in place and a firm understanding of the expense structure required to support the services required of the Membership. We are particularly pleased with the support provided by the new website (www.alpacainfo.com), the tripling of Benefactors as compared to 2014 and the success of the 2015 National Halter Show and Auction. The 2015 budget includes the ongoing proven economic benefits of the merger and given recent history, our best estimate of the revenues associated with registrations/transfers/show system/advertising/membership and other areas. Absent upward adjustment in the fees charged for these services, the driver for this revenue is member participation.

Where We Are Going — 2016+

As a NEW organization, AOA reached out to the Membership to obtain input on the preferred path moving forward. The membership was asked to complete a survey to assist us in understanding what areas are most important to our members. In February, a two day planning retreat was held to discuss the survey results and help position us in the development of a strategic plan. The meeting included 32 members and board members, representing a cross section of interests from all farm sizes, length of time in the industry, and geographical areas. These members spent their own money to participate, a clear indication of their commitment to the industry. Their work product yielded numerous ideas and strategies which were focused on attracting more people into the industry, improving the show system, increasing membership, marketing fleece/fiber and other products and increasing alpaca registrations. The AOA Board and staff are utilizing the input to develop the Strategic Plan which will be shared with the Membership when completed.

Sincerely,

Alpaca Owners Association, Inc.
Board of Directors

Bonn Potter, President	Steve Hull
Dianna Jordan, Vice President	Wayne Jarvis
Julie Delaney, Treasurer	Andy Merriwether
Laurel Shouvlin, Secretary	Scott Miller
John Ferrante	Tom Petersen

Appendix A

Below are some items relevant to the audit and merger transition. Please take a moment to review this information in conjunction with the attached annual audit. While the many steps of merger transition could not occur all at once, they did occur throughout the year. While some cost savings were realized in 2014 as the merger transition progressed, the majority of the cost savings will not be realized until 2015. Here is an overview with some of the estimated cost savings in 2014 and annualized cost savings for 2015 and beyond:

Savings realized in 2014 as compared to 2013 ARI/AOBA combined (savings realized as merger transition progressed)

- $150,000—Non-Replacement/Elimination of Staff
- $35,000—Elimination of contract labor
- $22,000—No elections in 2014 (applies to 2014 only)
- $27,000—Downsizing of office space
- $10,000—Deduplication of membership renewal
- $3,500—Downsizing office equipment
- $12,000—Deduplication of phone systems
- $4,250—Deduplication of payroll systems/companies
- $2,500—Deduplication of file servers

Annual savings realized for 2015 & beyond as compared with pre-merger ARI/AOBA combined.

- $180,000—Non-Replacement/Elimination of Staff
- $50,000—Elimination of contract labor
- $51,000—Downsizing of office space
- $11,000—Single Election versus one for each organization
- $10,000—Deduplication of membership renewal
- $7,000—Downsizing office equipment
- $12,000—Deduplication of phone systems
- $8,500—Deduplication of payroll systems/companies
- $2,500—Deduplication of file servers

In 2014 there were some one-time expenses related to the merger transition. Some of these include:

- $12,000—Cost of moving items from Nashville to Lincoln
- $2,500—Cost of downsizing Nashville office
- $25,000—Additional Board expenses
- $30,000—Additional accounting and legal expenses
- $10,000—Purchase of 'tail coverage' insurance

Also, because of the merger of AOBA into ARI, there were some necessary one-time accounting tasks that had to be completed, which also resulted in an expense on the books for 2014. These included:

- $70,000—Final depreciation of AOBA office furniture and fixtures which were sold
- $45,000—Final amortization of ariLIST as it was eliminated with the release of the new system
- $32,000—Fully expensing cost of AOBA Art & Science of Alpaca Judging books

While merger was effective in late January, we were not able to complete the 2014 budget until the ARI and AOBA accounting systems and account were combined. We completed and approved the budget in March, knowing that it was going to be difficult to accurately budget for this new company because so many changes were going to occur. Although we budgeted to see declining revenue in most areas, we did not anticipate the more than $565,000 total decline in revenue, as compared with the combined ARI and AOBA revenues from the previous year. Looking at the combined revenues of ARI and AOBA in 2013 as compared with the merged AOA revenue in 2014, here are some things you need to be aware of:

- Alpaca Registration income declined more than $160,000
- Alpaca Transfer income declined more than $65,000
- Show System Income declined $100,000
- Membership income declined almost $100,000
- Other Member Services declined over $100,000

We were able to decrease expenses by more than $350,000 as compared to 2013, but there was no way to make up the entire $550,000+ decline in revenue from the previous year. This fact combined with the added expenses noted above means we have a substantial operating loss on the books for 2014.

Many of the added expenses for 2014, including accounting entries were one-time expenses, and will not affect us moving forward and we are still in a strong position financially with more than $1.3 million dollars in reserves.

HBE
Becker Meyer Love LLP
Certified Public Accountants & Consultants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated financial statements of Alpaca Owners Association, Inc. and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying financial statements of Alpaca Registry, Inc., which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

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People and results you can count on.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpaca Owners Association, Inc. and Subsidiary as of December 31, 2014 and the financial statements of Alpaca Registry, Inc. as of December 31, 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting standards generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental consolidating information of Alpaca Owners Association, Inc. and Subsidiary is presented for purposes of additional analysis and is not a required part of the 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 of Alpaca Owners Association, Inc. and Subsidiary. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements of Alpaca Owners Association, Inc. and Subsidiary 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 of Alpaca Owners Association, Inc. and Subsidiary 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 Becker Meyer Love LLP

March 31, 2015

Alpaca Owners Association, Inc. and Subsidiary

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2014 (Consolidated)	2013 (the Registry)
CURRENT ASSETS		
Cash and cash equivalents (note A)	$ 450,794	$ 340,773
Certificates of deposit	848,757	749,515
Accounts receivable (note A)	2,685	3,141
Prepaid expenses	29,983	2,425
Total current assets	1,332,219	1,095,854
PROPERTY AND EQUIPMENT (notes A and B)	12,748	24,187
OTHER ASSETS		
Association software costs, less accumulated amortization of $976,301 (2014) and $1,041,959 (2013) (note A)	399,844	348,751
Deposits	3,490	-
Total other assets	403,334	348,751
Total assets	$ 1,748,301	$ 1,468,792

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 42,669	$ 63,716
Accrued payroll	3,800	-
Accrued vacation (note A)	32,345	20,896
Accrued expenses	-	16,399
Deferred revenue (note A)	119,647	25,717
Total current liabilities	198,461	126,728
NET ASSETS (note A)		
Unrestricted	1,549,840	1,342,064
Total liabilities and net assets	$ 1,748,301	$ 1,468,792

See accompanying notes to financial statements.

Alpaca Owners Association, Inc. and Subsidiary

STATEMENTS OF ACTIVITIES

Years ended December 31,

	2014 (Consolidated)	2013 (the Registry)
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
Alpaca registration	$ 477,680	$ 641,510
Alpaca transfer	233,520	301,991
Alpaca scientific testing and comparison	120,953	139,736
National show	332,193	-
Show system	186,462	-
Member marketing	65,604	-
Membership and voting rights	242,470	61,046
Product income	59,341	50,367
Other member services	73,378	96,407
Other business income	7,777	-
Alpacas magazine	157,972	-
Interest	3,977	2,145
Total revenue	1,961,327	1,293,202
EXPENSES (note C)		
Program services		
DNA testing and registration services	441,425	497,386
Other member services	242,556	176,004
Products	5,715	48,609
National show	276,991	-
Show system	204,886	-
Other AOA	83,081	-
Marketing service	48,802	-
Publication service	147,708	-
Total program services	1,451,164	721,999
Management and general	987,089	639,274
Total expenses	2,438,253	1,361,273
Change in net assets before change related to acquisition	(476,926)	(68,071)
Contribution received in acquisition (note H)	684,702	-
INCREASE (DECREASE) IN NET ASSETS	207,776	(68,071)
Net assets as beginning of year	1,342,064	1,410,135
Net assets at end of year	$ 1,549,840	$ 1,342,064

See accompanying notes to financial statements.

Alpaca Owners Association, Inc. and Subsidiary

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2014 (Consolidated)	2013 (the Registry)
Cash flows from operating activities		
Cash received from members	$ 1,951,056	$ 1,204,233
Cash paid to suppliers and employees	(2,222,657)	(1,164,699)
Miscellaneous services income	73,378	84,126
Investment income	72	436
Net cash provided (used) by operating activities	(198,151)	124,096
Cash flows from investing activities		
Purchases of certificates of deposit	(650,000)	(850,000)
Proceeds from maturity or sale of certificates of deposit	554,664	752,808
Contribution received in acquisition	684,702	-
Purchase of equipment	(41,318)	(15,443)
Purchase of Association software	(247,380)	(33,653)
Proceeds from sale of equipment	7,504	-
Net cash provided (used) by investing activities	308,172	(146,288)
Cash flows from financing activities		
Payment on long-term obligation	-	(65,410)
Net increase (decrease) in cash and cash equivalents	110,021	(87,602)
Cash and cash equivalents at beginning of year	340,773	428,375
Cash and cash equivalents at end of year	$ 450,794	$ 340,773
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities		
Increase (decrease) in net assets	$ 207,776	$ (68,071)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	22,282	14,247
Amortization	152,629	152,668
Forgiveness of debt	-	(9,015)
Loss on sale of assets	66,628	5,077
Reinvested interest	(3,905)	(1,709)
Contribution received in acquisition	(684,702)	-
(Increase) decrease in assets		
Receivables	456	1,240
Prepaid expenses	(27,558)	-
Deposits	(3,490)	-
Increase (decrease) in liabilities		
Accounts payable	(21,047)	22,412
Accrued payroll	3,800	-
Accrued vacation	11,449	2,673
Accrued expenses	(16,399)	4,339
Deferred revenue	93,930	235
Total adjusment to increase (decrease) in net assets	(405,927)	192,167
Net cash provided (used) by operating activities	$ (198,151)	$ 124,096

See accompanying notes to financial statements.

As mentioned in Note H of the 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 financial statements follows.

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

Principles of Consolidation. The accompanying 2014 consolidated financial statements of the Association include the accounts of Alpaca Owners Association, Inc. and Subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Association and the Registry considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

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.

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, furniture and fixtures, and software are depreciated over estimated useful lives from 3 to 10 years. It is the Association's and the Registry's policy to capitalize property and equipment over $2,500. Lesser amounts are expensed.

Association Software Costs. Registry software costs are amortized over five to seven years using the straight-line method. Amortization expense for the years ended December 31, 2014 and 2013 were $152,629 and $152,668, respectively.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Net Asset Classification. The Association and the Registry reports 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 net assets. Net assets that are not subject to outside restrictions.

Temporarily restricted net assets. Net assets on which grantors or donors have placed restrictions regarding the use of the funds or the time period in which the funds can be used. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions." The Association and the Registry have not received any funds that would be classified as temporarily restricted net assets.

Permanently restricted net assets. Net assets whose funds must be held indefinitely. The Association and the Registry have not received any funds that would be classified as permanently restricted net assets.

Deferred Revenue. Unearned income consists of membership dues, registration and DNA testing fees paid in advance of the period in which they are earned.

Income Taxes. The Association and the Registry are 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.

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.

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 and the Registry's policy is to pay this liability in the event of voluntary or involuntary termination.

Functional Allocation of Expenses. The cost of providing the various programs and other services have been summarized on a functional basis in the statements of activities.

Advertising and Promotion. The Association expenses advertising costs when incurred. The accompanying consolidated financial statements include advertising expense of $109,340 and $- for the years ended December 31, 2014 and 2013, respectively.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Shipping and Handling Costs. Freight billed to customers is considered sales revenue and the related freight costs as a cost of sales.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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

	2014 (Consolidated)	2013 (the Registry)
Property and equipment consists of the following:		
Equipment	$ 60,293	$ 70,614
Furniture and fixtures	57,440	57,440
	117,733	128,054
Less accumulated depreciation	(104,985)	(103,867)
	$ 12,748	$ 24,187

Depreciation expense for the years ended December 31, 2014 and 2013 was $22,282 and $14,247, respectively.

NOTE C - FUNCTIONAL EXPENSES

The cost of providing program and supporting services for the years ended December 31, 2014 and 2013 has been summarized below on a functional basis.

	2014 (Consolidated)		
	Direct Expenses	Wages and employee expenses	Total
Programs			
DNA testing and registration services	$ 234,874	$ 206,551	$ 441,425
Other member services	187,619	54,937	242,556
Product charts	5,715	-	5,715
National expense	166,170	110,821	276,991
Show division	118,032	86,854	204,886
Other AOA	83,081	-	83,081
Marketing service	14,675	34,127	48,802
Publication service	117,901	29,807	147,708
Management and general	806,511	180,578	987,089
	$ 1,734,578	$ 703,675	$ 2,438,253

NOTE C - FUNCTIONAL EXPENSES - CONTINUED

	2013 (the Registry)		
	Direct Expenses	Wages and employee expenses	Total
Programs			
DNA testing and registration services	$ 308,448	$ 188,938	$ 497,386
Other member services	154,864	21,140	176,004
Product charts	48,609	-	48,609
Management and general	451,318	187,956	639,274
	$ 963,239	$ 398,034	$ 1,361,273

NOTE D - LEASES

On January 16, 2013, the Registry entered into a 60-month lease effective April 25, 2013 with payments to begin on May 1, 2013 for its operating premises. The lease requires monthly payments of $2,160. Monthly rent will be adjusted by the Consumer Price Index at the end of year three.

On March 11, 2013, the Registry entered into a 48-month lease effective May 1, 2013 with payments due quarterly for its postage meter. The lease requires quarterly payments of $1,197 plus applicable taxes.

On October 29, 2013, the Association entered into a 6-month operating lease for office space. Under the terms of the lease, monthly rent payments were $3,990. The Association is also obligated for payment of the Association's proportionate share of common area and facilities maintenance and real estate taxes.

Minimum lease payments for years following December 31, 2014 are as follows:

Year ended December 31,	
2015	$ 52,964
2016	30,713
2017	27,521
2018	8,642
	$ 119,840

Rent expense for the years ended December 31, 2014 and 2013 was $59,854 and $31,528, respectively.

NOTE E - RETIREMENT PLAN

Effective May 1, 2006, the Association and the Registry 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, 2014 and 2013 were $20,125 and $11,781, respectively.

NOTE F - INCOME TAXES

The Association and the Registry are exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code, except on net income derived from unrelated business activities. For the years ended December 31, 2014 and 2013, the Association and the Registry had no tax liability on unrelated business activity. The Association and the Registry believe that they have appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Association's federal Returns of Organization Exempt from Income Tax (Form 990) for December 31, 2014, 2013, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

At December 31, 2014, ALCI has a net operating loss carry forward of $694,647 to offset future taxable income. This net operating loss will begin to expire for Federal income tax purposes in 2027.

A deferred tax asset for the years ended December 31, 2014 and 2013 has been provided for a timing difference for a Federal net operating loss carryforward of $145,876 and $148,855, net of a valuation allowance of $145,876 and $148,555 for the years ended December 31, 2014 and 2013, respectively.

NOTE G - RECLASSIFICATIONS

Certain amounts in the year ended December 31, 2013 financial statements have been reclassified to conform with current year presentation. These reclassifications had no effect on the 2013 decrease in net assets.

NOTE H - BUSINESS COMBINATION

On January 14, 2014, the Registry announced that pursuant to the terms of a merger agreement entered into on October 28, 2013 (the "Merger Agreement"), Alpaca Owners and Breeders, Inc.("AOBA") merged with and into Alpaca Registry, Inc, with Alpaca Registry, Inc. continuing as the surviving corporation and who also changed their name to Alpaca Owners Association, Inc. The merger created a single organization which represents all facets of the North American alpaca industry.

NOTE H - BUSINESS COMBINATION - CONTINUED

The following table summarizes the identifiable assets acquired and liabilities assumed in the acquisition as of the acquisition date.

	Amount
AOBA	
Inventory	$ 32,323
Property, plant and equipment	37,478
Other current assets and current liabilities	501,197
	570,998
ALCI	
Property, plant and equipment	3,840
Other current assets and current liabilities	109,864
	113,704
Total contribution received in acquisition	$ 684,702

NOTE I - SUBSEQUENT EVENTS

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

AOA Staff and Contact Information

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Darby Vannier
Executive Director



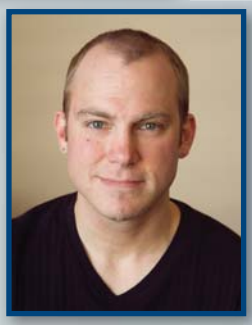
Margie Ault
Show & Marketing Division Administrator



Andrea
Conference Manager



Becky
Member Marketing Coordinator



Dan
Customer Service Manager



De
IT Manager



Holly
Office Assistant



Jo
Registration Specialist



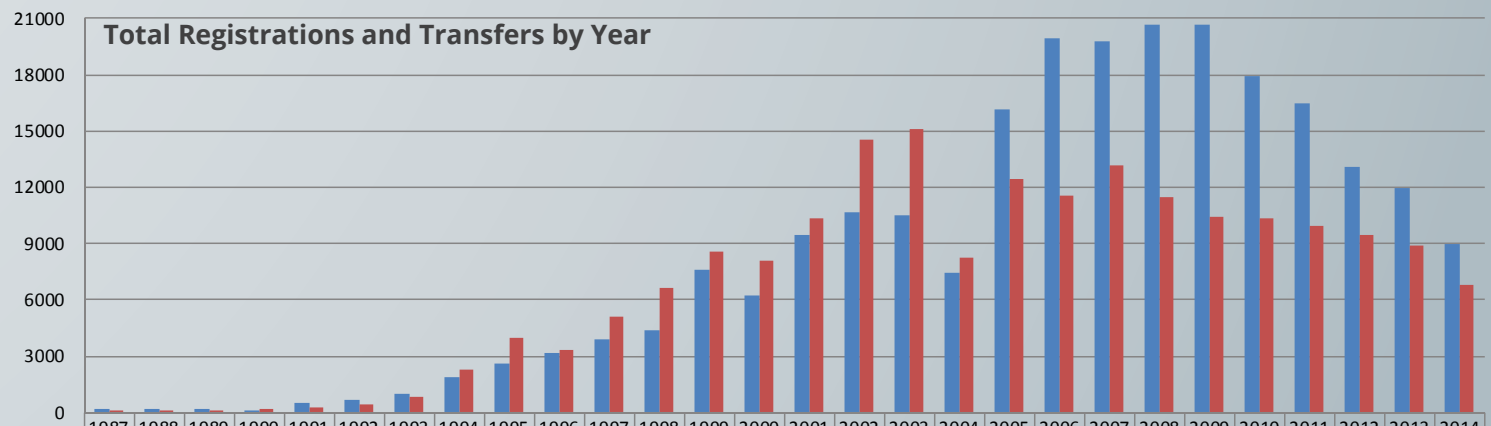
Linda
Transfers Specialist



Lisa
Account Specialist



Marie
External Business and Lab Specialist



	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Registrations	148	181	202	90	543	644	978	1886	2617	3141	3893	4367	7561	6205	9477	10670	10502	7441	16183	19923	19760	20679	20645	17885	16478	13121	11937	8966
Transfers	7	10	109	188	287	420	804	2283	3939	3307	5084	6655	8588	8122	10310	14534	15129	8209	12455	11527	13170	11444	10424	10377	9953	9449	8903	6823

Note: Because there is up to a 4 year lag in transfer submission due to purchasing on time and buyer submissions, the 2014 number is currently 6,823.

ALPACA™
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