Alpaca Owners Association, Inc. and Subsidiary
Lincoln, Nebraska

December 31, 2017 and 2016

Consolidated Financial Statements
and
Reports of Independent Certified Public Accountants

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Alpaca Owners Association, Inc. and Subsidiary

TABLE OF CONTENTS

Years ended December 31, 2017 and 2016

	Page No.
Report of Independent Certified Public Accountants	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-10
Supplemental Information	
Consolidating Statements of Financial Position	13-14
Consolidating Statements of Activities	15-16

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Alpaca Owners Association, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

7140 Stephanie Lane | P.O. Box 23110 | Lincoln, NE | 68542-3110 | p: 402.423.4343 | f: 402.423.4346
1314 Andrews Drive | P.O. Box 1167 | Norfolk, NE | 68702-1167 | p: 402.379.9294 | f: 402.379.2338
www.hbecpa.com

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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, 2017 and 2016, and the changes 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental 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

February 27, 2018

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents (note A)	$ 385,726	$ 363,870
Certificates of deposit	822,050	800,107
Accounts receivable (note A)	26,721	38,453
Prepaid expenses	23,673	3,464
Total current assets	1,258,170	1,205,894
PROPERTY AND EQUIPMENT, net (notes A and B)	13,577	19,968
OTHER ASSETS		
Association software costs, less accumulated amortization of $1,270,702 (2017) and $1,188,486 (2016) (notes A and C)	232,678	298,335
Deposits	3,490	3,490
Total other assets	236,168	301,825
Total assets	$ 1,507,915	$ 1,527,687

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 23,793	$ 28,685
Accrued payroll	4,226	3,393
Accrued vacation (note A)	32,345	32,345
Deferred revenue (note A)	75,892	89,097
Total current liabilities	136,256	153,520
NET ASSETS (note A)		
Unrestricted	1,371,659	1,374,167
Total liabilities and net assets	$ 1,507,915	$ 1,527,687

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
Registry income	$ 619,995	$ 686,955
National show	280,924	296,078
Show system	165,671	172,866
Member marketing	25,465	25,195
Membership and voting rights	147,410	184,090
Product income	55,913	57,582
Other member services	110,022	93,917
Other business income	15	-
Advertising income	141,564	130,583
Interest	6,672	10,663
Total revenue	1,553,651	1,657,929
EXPENSES (note D)		
Program services		
DNA testing and registration services	279,351	334,434
National show	246,326	228,418
Show system	139,723	169,750
Products	12,696	12,465
Other member services	203,306	241,211
Other AOA	14,101	50,574
Publication service	98,693	108,419
Total program services	994,196	1,145,271
Management and general		
Management and general before depreciation and amortization	473,356	456,260
Depreciation and amortization	88,607	98,287
Total management and general	561,963	554,547
Total expenses	1,556,159	1,699,818
DECREASE IN NET ASSETS	(2,508)	(41,889)
Net assets at beginning of year	1,374,167	1,416,056
Net assets at end of year	$ 1,371,659	$ 1,374,167

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2017	2016
Cash flows from operating activities		
Cash received from members	$ 1,448,689	$ 1,543,658
Cash paid to suppliers and employees	(1,505,025)	(1,653,152)
Miscellaneous services income	110,022	93,917
Investment income	6,672	9,696
Net cash provided (used) by operating activities	60,358	(5,881)
Cash flows from investing activities		
Purchases of certificates of deposit	(671,943)	(450,000)
Proceeds from maturity or sale of certificates of deposit	650,000	600,000
Purchase of equipment	-	(8,897)
Purchase of association software	(16,559)	(29,473)
Net cash provided (used) by investing activities	(38,502)	111,630
Net increase in cash and cash equivalents	21,856	105,749
Cash and cash equivalents at beginning of year	363,870	258,121
Cash and cash equivalents at end of year	$ 385,726	$ 363,870
Reconciliation of decrease in net assets to net cash provided (used) by operating activities		
Decrease in net assets	$ (2,508)	$ (41,889)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation	6,391	5,501
Amortization	82,216	92,786
Reinvested interest	-	(967)
(Increase) decrease in assets		
Receivables	11,732	(9,691)
Prepaid expenses	(20,209)	3,536
Increase (decrease) in liabilities		
Accounts payable	(4,892)	(18,077)
Accrued payroll	833	(3,200)
Deferred revenue	(13,205)	(33,880)
Total adjustments to decrease in net assets	62,866	36,008
Net cash provided (used) by operating activities	$ 60,358	$ (5,881)

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 unrestricted 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 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.

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.

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

Net Asset Classification. The Association 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 consolidated statements of activities as "net assets released from restrictions." The Association has 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 has not received any funds that would be classified as permanently restricted net assets.

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 Organization has advertising income, which is subject to tax on unrelated business income. For the years ended December 31, 2017 and 2016, 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.

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

Advertising and Promotion. The Association expenses advertising costs when incurred. The accompanying consolidated financial statements include advertising expense of $69,623 and $40,336 for the years ended December 31, 2017 and 2016, 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 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:

	2017	2016
Equipment	$ 77,787	$ 77,787
Furniture and fixtures	57,440	57,440
	135,227	135,227
Less accumulated depreciation	(121,650)	(115,259)
	$ 13,577	$ 19,968

Depreciation expense for the years ended December 31, 2017 and 2016 was $6,391 and $5,501, respectively.

NOTE C - ASSOCIATION SOFTWARE COSTS

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, 2017 and 2016 were $82,216 and $92,786, respectively.

Minimum amortization expense for the years following December 31, 2017 is as follows:

Year ending December 31,	
2018	$ 59,686
2019	53,516
2020	53,516
2021	50,571
2022	8,959
Thereafter	6,430
	$ 232,678

NOTE D - FUNCTIONAL EXPENSES

The cost of providing program and supporting services for the years ended December 31, 2017 and 2016 has been summarized below on a functional basis.

	2017		
	Direct Expenses	Wages and employee expenses	Total
Programs			
DNA testing and registration services	$ 162,027	$ 117,324	$ 279,351
National show	167,209	79,117	246,326
Show system	62,736	76,987	139,723
Products	12,696	-	12,696
Other member services	149,767	53,539	203,306
Other AOA	14,101	-	14,101
Publication service	89,380	9,313	98,693
Management and general	385,389	176,574	561,963
	$ 1,043,305	$ 512,854	$ 1,556,159

	2016		
	Direct Expenses	Wages and employee expenses	Total
Programs			
DNA testing and registration services	$ 187,708	$ 146,726	$ 334,434
National show	125,506	102,912	228,418
Show system	88,722	81,028	169,750
Products	12,465	-	12,465
Other member services	149,716	91,495	241,211
Other AOA	50,574	-	50,574
Publication service	99,085	9,334	108,419
Management and general	391,040	163,507	554,547
	$ 1,104,816	$ 595,002	$ 1,699,818

NOTE E - LEASES

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. 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 November 8, 2016, the Association entered into a 63-month lease for a postage meter. The lease requires quarterly payments of $1,242 plus applicable taxes.

On October 23, 2017, the Association entered into a 63-month lease for a copier. The lease requires monthly payments of $389 plus applicable taxes.

NOTE E - LEASES - CONTINUED

Minimum lease payments for the years following December 31, 2017 are as follows:

Year ending December 31,	
2018	$ 18,278
2019	9,636
2020	9,636
2021	9,636
2022	5,082
Thereafter	778
	$ 53,046

Rent expense for the years ended December 31, 2017 and 2016 was $35,562 and $44,060, respectively.

NOTE F - 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, 2017 and 2016 were $16,140 and $17,146, respectively.

NOTE G - INCOME TAXES

At December 31, 2017, ALCI has a net operating loss carry forward of $689,722 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, 2017 and 2016 has been provided for a timing difference for a Federal net operating loss carryforward of $186,225 and $144,809, net of a valuation allowance of $186,225 and $144,809 for the years ended December 31, 2017 and 2016, respectively.

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.

The Association’s Federal Exempt Organization Business Income Tax Returns (990 and 990-T) and ALCI’s U.S. Federal and State of Tennessee income tax returns for December 31, 2017, 2016 and 2015 are subject to examination by the IRS generally for three years after they were filed.

NOTE H - 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

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Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CURRENT ASSETS			
Cash and cash equivalents	$ 381,221	$ 4,505	$ 385,726
Certificates of deposit	822,050	-	822,050
Accounts receivable	26,721	-	26,721
Prepaid expenses	23,673	-	23,673
Total current assets	1,253,665	4,505	1,258,170
PROPERTY AND EQUIPMENT, net	13,577	-	13,577
OTHER ASSETS			
Association software costs, less accumulated amortization of $1,270,702	232,678	-	232,678
Deposits	3,490	-	3,490
Total other assets	236,168	-	236,168
Total assets	$ 1,503,410	$ 4,505	$ 1,507,915

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	$ 23,793	$ -	$ 23,793
Accrued payroll	4,226	-	4,226
Accrued vacation	32,345	-	32,345
Deferred revenue	75,892	-	75,892
Total current liabilities	136,256	-	136,256
NET ASSETS, UNRESTRICTED	1,367,154	4,505	1,371,659
Total liabilities and net assets	$ 1,503,410	$ 4,505	$ 1,507,915

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CURRENT ASSETS			
Cash and cash equivalents	$ 359,345	$ 4,525	$ 363,870
Certificates of deposit	800,107	-	800,107
Accounts receivable	38,453	-	38,453
Prepaid expenses	3,464	-	3,464
Total current assets	1,201,369	4,525	1,205,894
PROPERTY AND EQUIPMENT, net	19,968	-	19,968
OTHER ASSETS			
Association software costs, less accumulated amortization of $1,188,486	298,335	-	298,335
Deposits	3,490	-	3,490
Total other assets	301,825	-	301,825
Total assets	$ 1,523,162	$ 4,525	$ 1,527,687

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	$ 28,685	$ -	$ 28,685
Accrued payroll	3,393	-	3,393
Accrued vacation	32,345	-	32,345
Deferred revenue	89,097	-	89,097
Total current liabilities	153,520	-	153,520
NET ASSETS, UNRESTRICTED	1,369,642	4,525	1,374,167
Total liabilities and net assets	$ 1,523,162	$ 4,525	$ 1,527,687

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2017

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS			
Revenue and support			
Registry income	$ 619,995	$ -	$ 619,995
National show	280,924	-	280,924
Show system	165,671	-	165,671
Member marketing	25,465	-	25,465
Membership and voting rights	147,410	-	147,410
Product income	55,913	-	55,913
Other member services	110,022	-	110,022
Other business income	15	-	15
Advertising income	141,564	-	141,564
Interest	6,672	-	6,672
Total revenue and support	1,553,651	-	1,553,651
Expenses			
Program services			
DNA testing and registration services	279,351	-	279,351
National show	246,326	-	246,326
Show system	139,723	-	139,723
Products	12,696	-	12,696
Other member services	203,306	-	203,306
Other AOA	14,101	-	14,101
Publication service	98,693	-	98,693
Total program services	994,196	-	994,196
Management and general			
Management and general before depreciation and amortization			
Wages and benefits	176,574	-	176,574
Professional fees	116,534	-	116,534
Board of directors	12,682	-	12,682
Conference	704	-	704
Rent	35,562	-	35,562
Building maintenance	9,167	-	9,167
Utilities	16,603	-	16,603
Insurance	11,232	-	11,232
Office expenses	51,690	-	51,690
Bank charges	37,474	-	37,474
Other	5,114	20	5,134
Total management and general before depreciation and amortization	473,336	20	473,356
Depreciation and amortization	88,607	-	88,607
Total management and general	561,943	20	561,963
Total expenses	1,556,139	20	1,556,159
DECREASE IN NET ASSETS	(2,488)	(20)	(2,508)
Net assets at beginning of year	1,369,642	4,525	1,374,167
Net assets at end of year	$ 1,367,154	$ 4,505	$ 1,371,659

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS			
Revenue and support			
Registry income	$ 686,955	$ -	$ 686,955
National show	296,078	-	296,078
Show system	172,866	-	172,866
Member marketing	25,195	-	25,195
Membership and voting rights	184,090	-	184,090
Product income	57,582	-	57,582
Other member services	93,917	-	93,917
Advertising income	130,583	-	130,583
Interest	10,663	-	10,663
Total revenue and support	1,657,929	-	1,657,929
Expenses			
Program services			
DNA testing and registration services	334,434	-	334,434
National show	228,418	-	228,418
Show system	169,750	-	169,750
Products	12,465	-	12,465
Other member services	241,211	-	241,211
Other AOA	50,574	-	50,574
Publication service	108,419	-	108,419
Total program services	1,145,271	-	1,145,271
Management and general			
Management and general before depreciation and amortization			
Wages and benefits	163,507	-	163,507
Professional fees	79,732	-	79,732
Board of directors	26,918	-	26,918
Conference	5,669	-	5,669
Rent	44,060	-	44,060
Building maintenance	13,845	-	13,845
Utilities	19,109	-	19,109
Insurance	11,759	-	11,759
Office expenses	57,494	-	57,494
Bank charges	28,996	-	28,996
Other	5,016	155	5,171
Total management and general before depreciation and amortization	456,105	155	456,260
Depreciation and amortization	98,287	-	98,287
Total management and general	554,392	155	554,547
Total expenses	1,699,663	155	1,699,818
DECREASE IN NET ASSETS	(41,734)	(155)	(41,889)
Net assets at beginning of year	1,411,376	4,680	1,416,056
Net assets at end of year	$ 1,369,642	$ 4,525	$ 1,374,167