ALPACA Owners Association Inc
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Lincoln, NE 68512
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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 the2014 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 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
Dianna Jordan, Vice President
Julie Delaney, Treasurer
Laurel Shouvlin, Secretary
John Ferrante
Steve Hull
Wayne Jarvis
Andy Merriwether
Scott Miller
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.

**Appendix B1**

## ARI Revenue vs. Expenses

*Lowered cost of registrations in 2007

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | $ 1,048,905 | $ 820,228 | $ 1,724,722 | $ 1,909,121 | $ 1,846,816 | $ 1,816,304 | $ 1,914,798 | $ 1,753,234 | $ 1,666,925 | $ 1,416,571 | $ 1,293,202 |
| **Expenses** | $ 1,089,707 | $ 1,162,388 | $ 1,531,313 | $ 1,528,305 | $ 1,648,303 | $ 1,761,982 | $ 1,676,552 | $ 1,731,506 | $ 1,832,967 | $ 1,445,368 | $ 1,361,273 |

## AOBA Revenue vs. Expenses

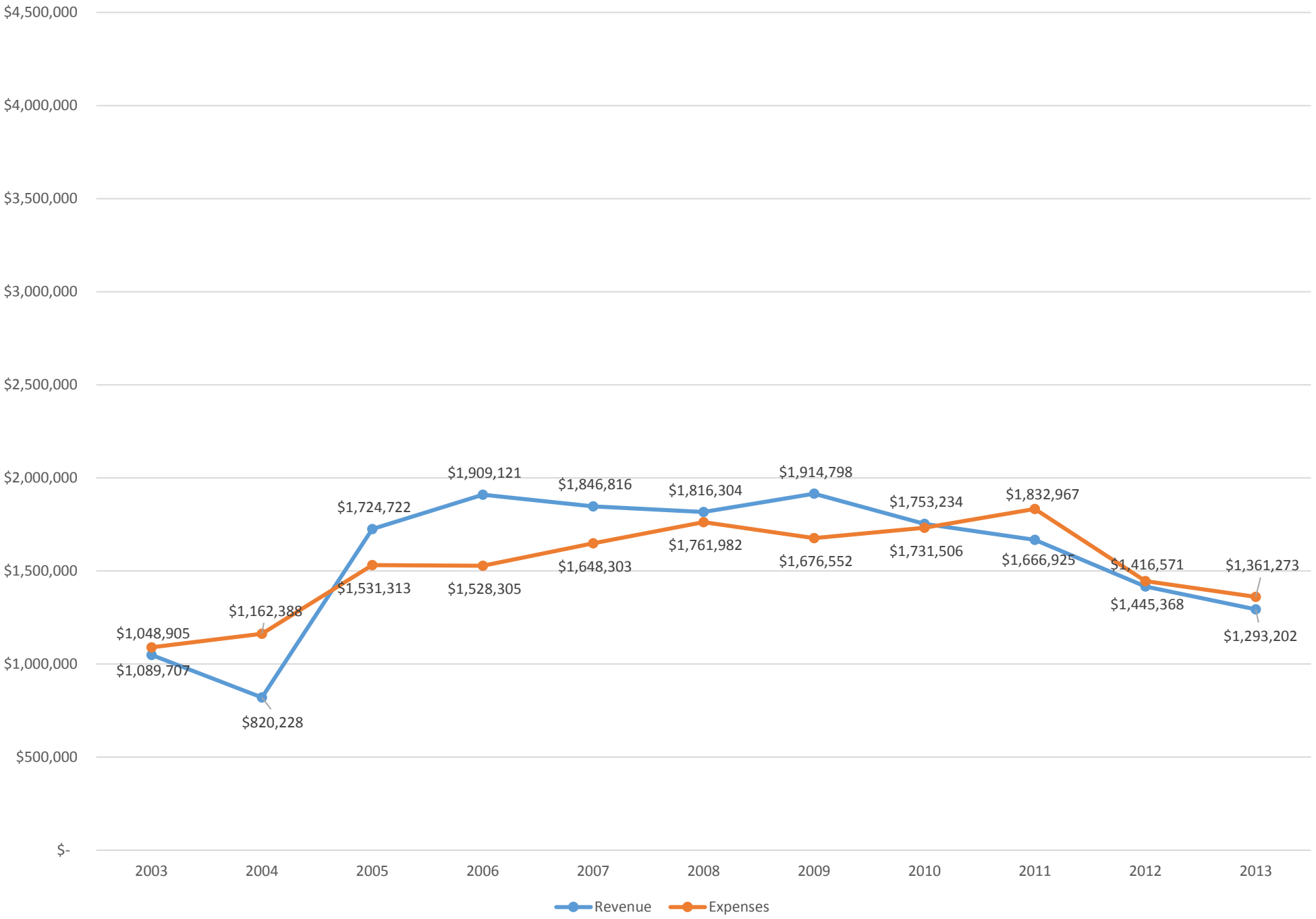
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | $ 3,552,217 | $ 3,124,401 | $ 3,419,345 | $ 4,185,318 | $ 3,638,212 | $ 3,446,351 | $ 2,678,742 | $ 1,871,203 | $ 1,707,752 | $ 1,472,544 | $ 1,233,474 |
| **Expenses** | $ 3,793,875 | $ 3,188,475 | $ 3,361,046 | $ 4,004,902 | $ 3,764,728 | $ 3,585,786 | $ 2,820,132 | $ 1,802,842 | $ 1,536,064 | $ 1,446,878 | $ 1,430,991 |

## ARI-AOBA Combined (AOA in 2014) Revenue vs. Expenses

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 - AOA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | $ 4,601,122 | $ 3,944,629 | $ 5,144,067 | $ 6,094,439 | $ 5,485,028 | $ 5,262,655 | $ 4,593,540 | $ 3,624,437 | $ 3,374,677 | $ 2,889,115 | $ 2,526,676 | $ 1,961,327 |
| **Expenses** | $ 4,883,582 | $ 4,350,863 | $ 4,892,359 | $ 5,533,207 | $ 5,413,031 | $ 5,347,768 | $ 4,496,684 | $ 3,534,348 | $ 3,369,031 | $ 2,892,246 | $ 2,792,264 | $ 2,438,253 |

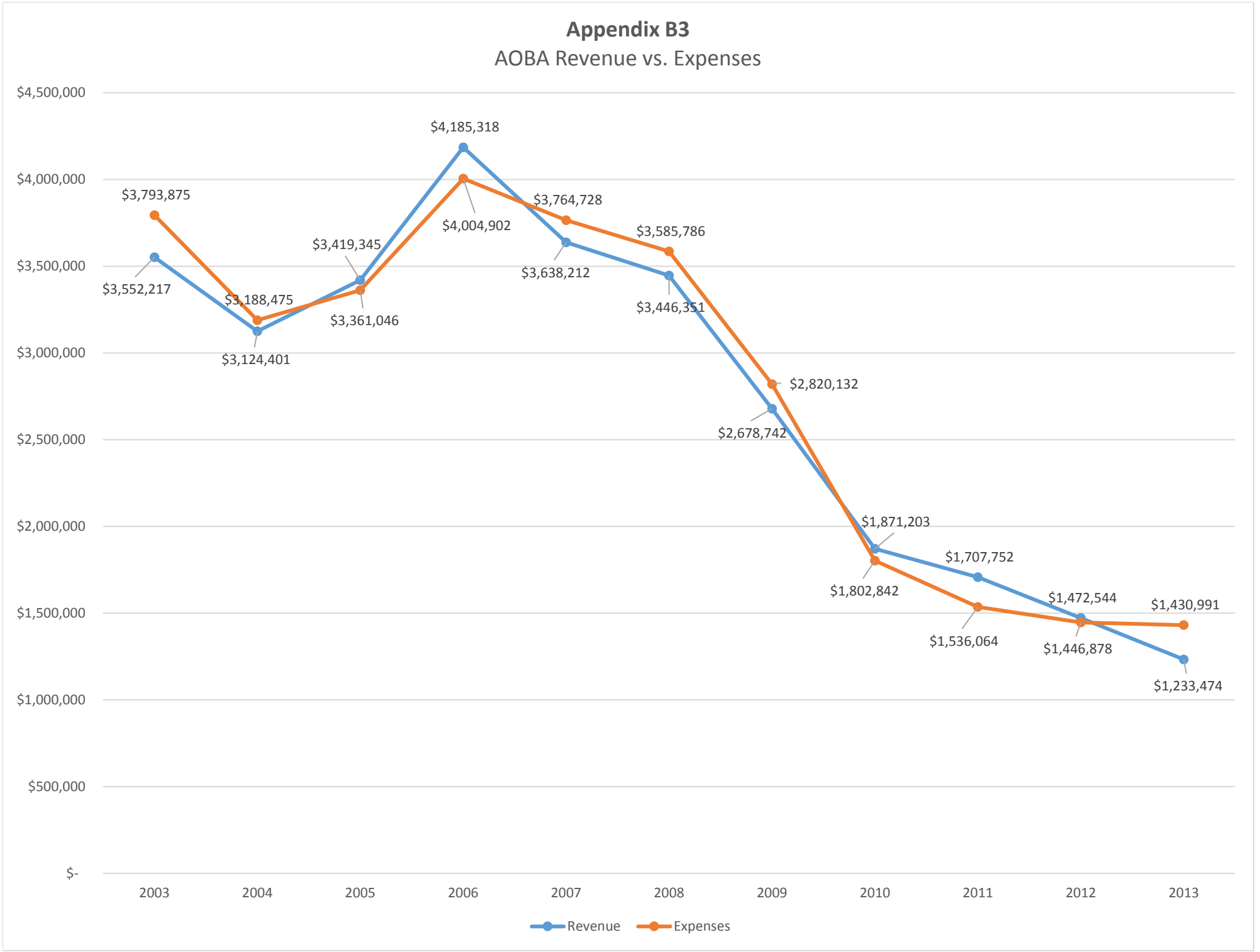
**Appendix B2**

ARI Revenue vs. Expenses



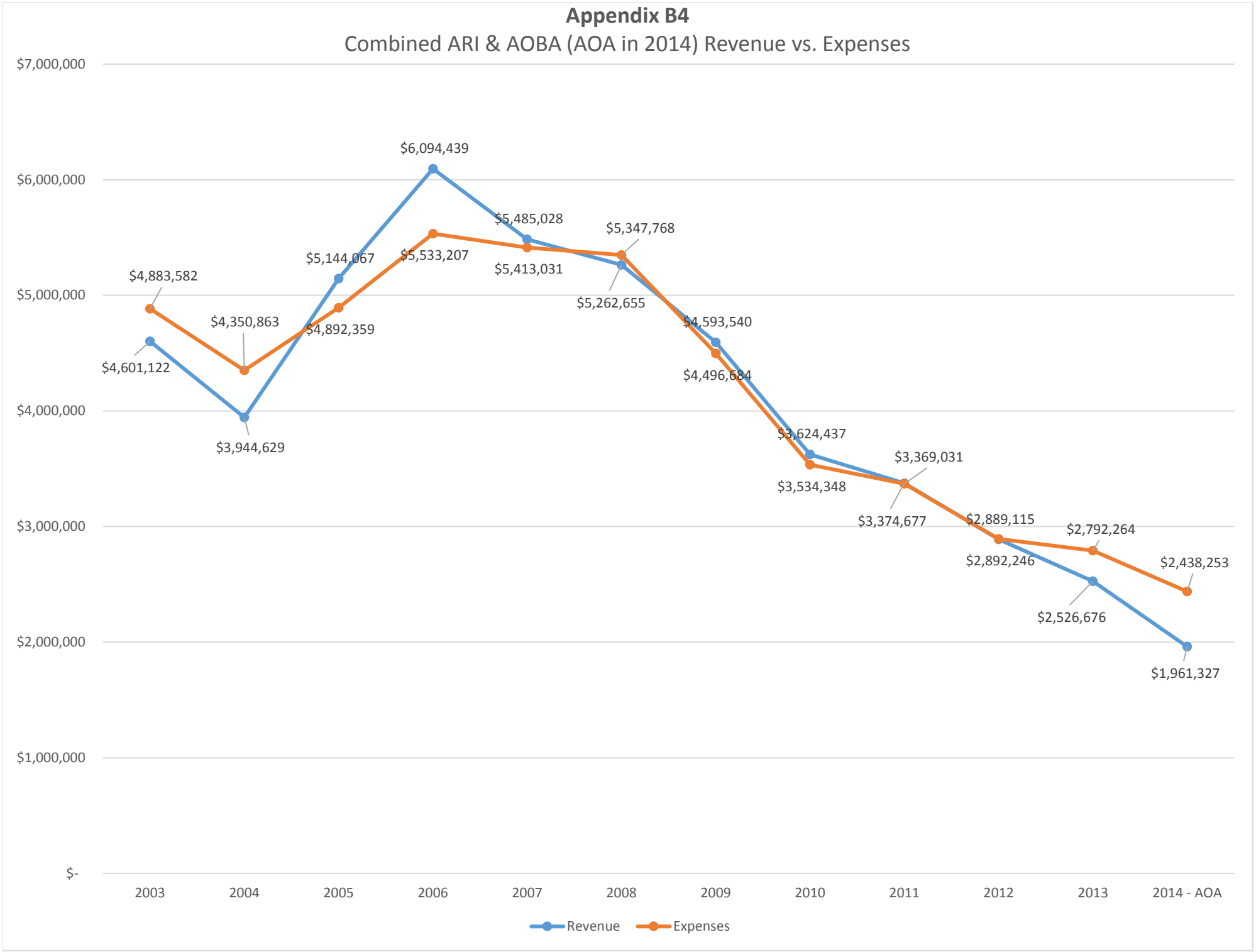
**Appendix B3**

AOBA Revenue vs. Expenses



**Appendix B4**

Combined ARI & AOBA (AOA in 2014) Revenue vs. Expenses



# *Alpaca Owners Association, Inc. and Subsidiary*
# *Lincoln, Nebraska*

***December 31, 2014 and 2013***

*Financial Statements*
*and*
*Report of Independent Certified Public Accountants*

HBE
Becker Meyer Love LLP
Certified Public Accountants & Consultants

Alpaca Owners Association, Inc. and Subsidiary

TABLE OF CONTENTS

Years ended December 31, 2014 and 2013


| | Page No. |
|---|---|
| **Report of Independent Certified Public Accountants** | 1-2 |
| **Financial Statements** | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6-11 |
| **Supplementary Information** | |
| Consolidating Statement of Financial Position | 15 |
| Consolidating Statement of Activities | 16 |

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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**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.

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SUPPLEMENTARY INFORMATION

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Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2014

ASSETS

| | Alpaca Owners Association, Inc. | Alpaca Livestock Company, Inc. | Consolidated |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 322,908 | $ 127,886 | $ 450,794 |
| Certificates of deposit | 848,757 | - | 848,757 |
| Accounts receivable | 2,685 | - | 2,685 |
| Prepaid expenses | 29,983 | - | 29,983 |
| Total current assets | 1,204,333 | 127,886 | 1,332,219 |
| PROPERTY AND EQUIPMENT | 12,748 | - | 12,748 |
| OTHER ASSETS | | | |
| Association software costs, less accumulated amortization of $976,301 (2014) and $1,041,959 (2013) (note A) | 399,844 | - | 399,844 |
| Deposits | 3,490 | - | 3,490 |
| Total other assets | 403,334 | - | 403,334 |
| Total assets | $ 1,620,415 | $ 127,886 | $ 1,748,301 |

LIABILITIES AND NET ASSETS

| | | | |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Accounts payable | $ 42,669 | $ - | $ 42,669 |
| Accrued payroll | 3,800 | - | 3,800 |
| Accrued vacation | 32,345 | - | 32,345 |
| Deferred revenue | 119,647 | - | 119,647 |
| Total current liabilities | 198,461 | - | 198,461 |
| NET ASSETS, UNRESTRICTED | 1,421,954 | 127,886 | 1,549,840 |
| Total liabilities and net assets | $ 1,620,415 | $ 127,886 | $ 1,748,301 |

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2014

| | Alpaca Owners Association, Inc. | Alpaca Livestock Company, Inc. | Eliminations | Consolidated |
|---|---|---|---|---|
| CHANGES IN UNRESTRICTED NET ASSETS | | | | |
| Revenue and support | | | | |
| Alpaca registration | $ 477,680 | $ - | $ - | $ 477,680 |
| Alpaca transfer | 233,520 | - | - | 233,520 |
| Alpaca scientific testing and comparison | 120,953 | - | - | 120,953 |
| National show | 332,193 | - | - | 332,193 |
| Show system | 186,462 | - | - | 186,462 |
| Member marketing | 11,656 | 53,948 | - | 65,604 |
| Membership and voting rights | 242,470 | - | - | 242,470 |
| Product income | 59,341 | - | - | 59,341 |
| Other member services | 73,378 | - | - | 73,378 |
| Other business income | 7,777 | - | - | 7,777 |
| Alpacas magazine | - | 157,972 | - | 157,972 |
| Management fee income | 60,765 | - | (60,765) | - |
| Interest | 3,977 | - | - | 3,977 |
| Total revenue and support | 1,810,172 | 211,920 | (60,765) | 1,961,327 |
| Expenses | | | | |
| Program services | | | | |
| DNA testing and registration services | 441,425 | - | - | 441,425 |
| Other member services | 242,556 | - | - | 242,556 |
| Products | 5,715 | - | - | 5,715 |
| National show | 276,991 | - | - | 276,991 |
| Show system | 204,886 | - | - | 204,886 |
| Other AOA | 83,081 | - | - | 83,081 |
| Marketing service | 34,127 | 14,675 | - | 48,802 |
| Publication service | 29,807 | 117,901 | - | 147,708 |
| Total program services | 1,318,588 | 132,576 | - | 1,451,164 |
| Management and general | | | | |
| Wages and benefits | 180,578 | - | - | 180,578 |
| Professional fees | 199,115 | - | - | 199,115 |
| Board of directors | 38,177 | - | - | 38,177 |
| Conference | 17,923 | - | - | 17,923 |
| Rent (note D) | 59,854 | - | - | 59,854 |
| Building maintenance | 26,201 | - | - | 26,201 |
| Utilities | 34,641 | - | - | 34,641 |
| Insurance | 22,657 | - | - | 22,657 |
| Office expenses | 112,192 | - | - | 112,192 |
| Bank charges | 45,662 | - | - | 45,662 |
| Depreciation and amortization | 174,911 | - | - | 174,911 |
| Loss on sale of assets | 62,788 | - | - | 62,788 |
| Bad debt expense | 714 | - | - | 714 |
| Management fee expense | - | 60,765 | (60,765) | - |
| Other | 7,280 | 4,396 | - | 11,676 |
| Total management and general | 982,693 | 65,161 | (60,765) | 987,089 |
| Total expenses | 2,301,281 | 197,737 | (60,765) | 2,438,253 |
| Change in net assets before change related to acquisition | (491,109) | 14,183 | - | (476,926) |
| Contribution received in acquisition | 570,999 | - | 113,703 | 684,702 |
| INCREASE (DECREASE) IN NET ASSETS | 79,890 | 14,183 | 113,703 | 207,776 |
| Net assets at beginning of year | 1,342,064 | 113,703 | (113,703) | 1,342,064 |
| Net assets at end of year | $ 1,421,954 | $ 127,886 | $ - | $ 1,549,840 |