Alpaca Owners Association, Inc. and Subsidiary
Lincoln, Nebraska

December 31, 2022 and 2021

Consolidated Financial Statements
and
Independent Auditor's Report

HBE

CPAs & Consultants | Wealth Management

Alpaca Owners Association, Inc. and Subsidiary

Years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Alpaca Owners Association, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Alpaca Owners Association, Inc. and Subsidiary as of December 31, 2022 and 2021, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note L to the consolidated financial statements, in 2022 the entity adopted new accounting guidance regarding ASU 2016-02 *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Alpaca Owners Association, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alpaca Owners Association, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

HBE LLP

Lincoln, Nebraska
March 27, 2023

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents (note A)	$ 191,383	$ 751,104
Certificates of deposit	637,664	-
Accounts receivable (note A)	12,371	13,787
Prepaid expenses	23,588	34,986
Total current assets	865,006	799,877
PROPERTY AND EQUIPMENT, net (notes A and B)	2,955	1,530
OTHER ASSETS		
Association software costs, less accumulated amortization of $1,515,634 (2022) and $1,498,020 (2021) (notes A and C)	56,540	64,304
Operating lease right-of-use assets (notes A, F and L)	29,883	-
Investments (notes A, D and E)	507,830	609,130
Total other assets	594,253	673,434
Total assets	$ 1,462,214	$ 1,474,841

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 39,671	$ 25,327
Accrued payroll	15,015	14,758
Accrued vacation (note A)	24,983	24,983
Contract liability (note A)	133,402	113,552
Operating lease liabilites, current (notes A, F and L)	15,117	-
Total current liabilities	213,071	178,620
NONCURRENT LIABILITIES		
Operating lease liabilites, net of current maturities (notes A, F and L)	14,668	-
Total liabilities	242,856	-
NET ASSETS (note A)		
Without donor restrictions		
Undesignated	1,219,358	1,296,221
Total liabilities and net assets	$ 1,462,214	$ 1,474,841

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE		
Registry income	$ 467,578	$ 498,361
National show	336,869	253,013
Show system	113,803	101,497
Member marketing	12,646	16,365
Membership and voting rights	206,800	137,860
Product income	51,924	51,018
Other member services	100,737	110,480
Other business income	4,461	3,784
Advertising income	110,457	164,746
Interest income	1,442	4,999
Investment income (loss) (note D)	(104,302)	44,238
Total revenue	1,302,415	1,386,361
EXPENSES		
Program services		
DNA testing and registration services	192,566	205,061
National show	241,566	250,193
Show system	252,007	199,612
Other AOA	461,985	559,323
Total program services	1,148,124	1,214,189
Management and general		
Management and general before depreciation and amortization	228,642	273,408
Depreciation and amortization	2,512	8,560
Total management and general	231,154	281,968
Total expenses	1,379,278	1,496,157
DECREASE IN NET ASSETS	(76,863)	(109,796)
Net assets at beginning of year	1,296,221	1,406,017
Net assets at end of year	$ 1,219,358	$ 1,296,221

See accompanying notes to consolidated financial statements.

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Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31, 2022

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

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31, 2021

	Program Services						
	DNA Testing & Registration Services	National Show	Show System	Other AOA	Total Program Services	Management and General	Total
Wages and benefits	$ 50,465	$ 89,442	$ 80,630	$ 183,590	$ 404,127	$ 113,739	$ 517,866
DNA testing	133,551	-	-	-	133,551	-	133,551
Other member services	-	-	-	118,907	118,907	-	118,907
Member products	-	-	-	4,523	4,523	-	4,523
Conferences and fees	-	54,910	99,397	-	154,307	2,897	157,204
Board and lodging	-	62,850	-	-	62,850	-	62,850
Travel	-	11,526	-	-	11,526	-	11,526
Judges clinic and student design	-	-	-	15,389	15,389	-	15,389
Publication services	-	-	-	167,735	167,735	-	167,735
Professional fees	-	-	-	-	-	76,253	76,253
Board of directors	-	-	-	-	-	11,060	11,060
Rent	3,515	5,255	3,271	11,554	23,595	4,245	27,840
Building maintenance	2,848	4,258	2,650	9,361	19,117	3,440	22,557
Utilities	1,627	2,433	1,514	5,349	10,923	1,965	12,888
Insurance	-	-	-	-	-	13,906	13,906
Office expenses	5,969	8,924	5,555	19,621	40,069	7,210	47,279
Bank charges	-	-	-	-	-	32,500	32,500
Depreciation and amortization	7,086	10,595	6,595	23,294	47,570	8,560	56,130
Other	-	-	-	-	-	6,193	6,193
Total expenses	$ 205,061	$ 250,193	$ 199,612	$ 559,323	$ 1,214,189	$ 281,968	$ 1,496,157

See accompanying notes to consolidated financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2022	2021
Cash flows from operating activities		
Cash received from members	$ 1,325,804	$ 1,263,421
Cash paid to suppliers and employees	(1,335,255)	(1,433,666)
Miscellaneous services income	100,737	110,480
Interest income	25,019	30,050
Net cash provided (used) by operating activities	116,305	(29,715)
Cash flows from investing activities		
Purchases of certificates of deposit	(800,000)	-
Proceeds from maturity or sale of certificates of deposit	160,000	275,000
Proceeds from sale of investments	40,226	221,168
Purchases of investments	(64,469)	(194,291)
Purchase of equipment	(1,933)	-
Purchase of association software	(9,850)	(31,415)
Net cash provided (used) by investing activities	(676,026)	270,462
Net increase (decrease) in cash and cash equivalents	(559,721)	240,747
Cash and cash equivalents at beginning of year	751,104	510,357
Cash and cash equivalents at end of year	$ 191,383	$ 751,104
Reconciliation of decrease in net assets to net cash provided (used) by operating activities		
Decrease in net assets	$ (76,863)	$ (109,796)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation	508	1,252
Amortization	17,614	54,878
Reduction in the carrying amount of right-of-use assets	31,305	-
Reinvested interest and dividends	2,336	4,193
Realized and unrealized gain (loss) on investments	125,543	(23,380)
(Increase) decrease in assets		
Receivables	1,416	7,427
Prepaid expenses	11,398	(14,197)
Increase (decrease) in liabilities		
Accounts payable	14,344	17,648
Accrued payroll	257	2,910
Operating lease liabilities	(31,403)	-
Contract liability	19,850	29,350
Total adjustments to decrease in net assets	193,168	80,081
Net cash provided (used) by operating activities	$ 116,305	$ (29,715)
Supplemental disclosure of cash flow information:		
Right-of-use assets obtained in exchange for lease liabilities upon ASC 842 implementation	$ 61,188	$ -

See accompanying notes to consolidated financial statements.

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

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

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Contract Balances. Contract assets represent the Association's right to consideration in exchange for goods or services that have been transferred to the customer before payment is due. Contract liabilities include consideration due or paid by a customer prior to when the Association transfers goods or services and represent the Association's obligation to the customer. The Association does not have any contract assets.

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

As lessee

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

Operating Leases

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

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

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

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - Continued.

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

Registry Income

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

National Show

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

Show System

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

Member Marketing

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

Membership and Voting Rights

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

Product Income

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Revenue Recognition – Continued.

Other Member Services

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

Advertising Income

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

Income Taxes. The Association is exempt from Federal income taxes under Section 501(c)(5) of the Internal Revenue Code. As such, income earned in the performance of their exempt purpose is not subject to income tax. Any income earned through activities not related to their exempt purpose is subject to income tax at normal corporate rates. The Association has advertising income, which is subject to tax on unrelated business income. For the years ended December 31, 2022 and 2021, 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 consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, as well as wages and benefits which are allocated on the basis of estimates of time and effort.

Advertising and Promotion. The Association expenses advertising costs when incurred. The accompanying consolidated financial statements include advertising expense of $24,561 and $29,241 for the years ended December 31, 2022 and 2021, respectively.

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

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2022	2021
Equipment	$ 82,242	$ 80,311
Furniture and fixtures	57,440	57,440
	139,682	137,751
Less accumulated depreciation	(136,727)	(136,221)
	$ 2,955	$ 1,530

Depreciation expense for the years ended December 31, 2022 and 2021 was $508 and $1,250, 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, 2022 and 2021 was $17,614 and $54,878, respectively.

Minimum amortization expense for the years following December 31, 2022 is as follows:

Year ending December 31,	
2023	$ 15,056
2024	10,970
2025	9,467
2026	7,336
2027	6,959
Thereafter	6,752
	$ 56,540

NOTE D - INVESTMENTS

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Investments consist of:				
Mutual funds	$ 590,208	$ 507,830	$ 566,760	$ 609,130
Unrealized gain (loss)		$ (82,378)		$ 42,370

Investment income consists of:	2022	2021
Dividend income	$ 21,242	$ 20,859
Realized gain (loss) on investments	(869)	46,499
Unrealized losses on investments	(124,675)	(23,120)
	$ (104,302)	$ 44,238

NOTE E - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodology used for assets and liabilities measured at fair value. There has been no change in the method used during the year ended December 31, 2022.

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

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

The following table sets forth the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021.

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

	2021			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 609,130	$ 609,130	$ -	$ -

NOTE F – LEASES

As Lessee – Operating Lease

On January 16, 2013, the Association entered into a 60-month lease effective April 25, 2013 with payments to begin on May 1, 2013 for its operating premises. The lease includes an option to renew for two terms of three years. On May 8, 2018 and April 22, 2020, the lease was renewed for an additional 36-month period. The renewed lease requires monthly payments of $2,253.

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

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

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

Operating lease expense	$ 32,027

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

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

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

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

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating leases as of December 31, 2022, and a reconciliation to operating lease liabilities reported on the balance sheet:

Year ending December 31,	
2023	$ 15,117
2024	6,104
2025	4,137
2026	3,744
2027	1,560
Total minimum lease payments	30,662
Less: Present value discount	(877)
Operating lease liabilities	$ 29,785

NOTE F – LEASES - CONTINUED

For the year ended December 31, 2021, the consolidated financial statements included rent expense of $27,840 under FASB ASC 840 (pre-adoption of the new standards) for operating leases. The future minimum lease payments were as follows:

Year ending December 31,	
2022	$ 13,189
2023	13,453
	$ 26,642

NOTE G - RETIREMENT PLAN

Effective May 1, 2006, the Association provided a 401(k) deferred compensation plan for the benefit of eligible employees. The plan allows eligible employees to defer a portion of their annual compensation, not to exceed Internal Revenue Code limits. The Association matches 100% of employee contributions to the 401(k) plan up to a maximum of 5% of the employee's salary. Contributions expense to the 401(k) plan for the years ended December 31, 2022 and 2021 were $18,823 and $19,533, respectively.

NOTE H - INCOME TAXES

At December 31, 2022, ALCI has a net operating loss carry forward of $689,824 to offset future taxable income. This net operating loss will begin to expire for Federal income tax purposes in 2027 and for Tennessee income tax purposes in 2022.

A deferred tax asset for the years ended December 31, 2022 and 2021 has been provided for a timing difference for a Federal net operating loss carryforward of $189,702, net of a valuation allowance of $189,702 for the years ended December 31, 2022 and 2021.

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, 2022, 2021 and 2020 are subject to examination by the IRS generally for three years after they were filed.

NOTE I - LIQUIDITY AND AVAILABILITY

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

	2022	2021
Cash and cash equivalents	$ 191,383	$ 751,104
Certificates of deposit	637,664	-
Accounts receivable	12,371	13,787
Total financial assets available to meet general expenditures over the next year	$ 841,418	$ 764,891

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

NOTE J - DISAGGREGATION OF REVENUE

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

Transferred over time	$ 219,446	$ 154,225
Transferred at a point in time	1,181,368	1,179,115
	$ 1,400,814	$ 1,333,340

NOTE K - CONTRACT BALANCES

The following tables provide information about the changes in the contract liabilities for the years ended December 31, 2022 and 2021.

Contract liabilities, beginning of year	$ 113,552	$ 84,202
Recognition of revenue included in beginning balance	(111,580)	(82,230)
Collection of customer prepayments	131,430	111,580
Contract liabilities, end of year	$ 133,402	$ 113,552

NOTE L – NEW ACCOUNTING STANDARD

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 affects any entity that enters into a lease and is intended to increase the transparency and comparability of financial statements among organizations. ASU 2016-02 requires, among other changes, a lessee to recognize on its statement of financial position a lease asset and a lease liability for those leases previously classified as operating leases. The lease asset represents the right to use the underlying asset for the lease term and the lease liability represents the discounted value of the required lease payments to the lessor. ASU 2016-02 also requires entities to disclose key information about leasing arrangements.

The Association elected to adopt the standard during the year ended December 31, 2022, using a modified retrospective approach with the effective date option, which allows the Association to apply the standard at the effective date, January 1, 2022, and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. Under this approach, comparative periods presented in the consolidated financial statements will be in accordance with legacy GAAP.

The new standard provides a number of optional practical expedients in transition. On adoption, the Association elected the package of practical expedients permitted under the transition guidance, which allowed the Association to carry forward historical lease classifications for existing leases on the adoption date, allowed the Association not to assess whether an existing contract contains a lease or initial direct costs, and allowed leases between entities under common control to use written terms and conditions instead of determining whether terms and conditions are legally enforceable. In addition, the Association also elected not to apply the lease recognition requirements to its short-term leases, that is, leases with a term of 12 months or less, as allowed under the standard. The Association did not elect the hindsight practical expedient to determine the lease term for existing leases.

The adoption of this standard resulted in recognition of lease assets in the amount of $29,883 and lease liabilities in the amount of $29,785 on the statement of financial position. The adoption of the standard did not result in a cumulative effect adjustment to the opening balance of net assets in the period of adoption based on the initial recognition of the Association's active leases at the effective date. The Association's accounting policies in note A have been updated to reflect the impact of the standard. Additionally, see note F for further disclosure of the Organization's leasing arrangements.

NOTE M - SUBSEQUENT EVENTS

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

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SUPPLEMENTAL INFORMATION

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CURRENT ASSETS			
Cash and cash equivalents	$ 186,960	$ 4,423	$ 191,383
Certificates of deposit	637,664	-	637,664
Accounts receivable	12,371	-	12,371
Prepaid expenses	23,588	-	23,588
Total current assets	860,583	4,423	865,006
PROPERTY AND EQUIPMENT, net	2,955	-	2,955
OTHER ASSETS			
Association software costs, less accumulated amortization of $1,515,634	56,540	-	56,540
Operating lease right-of-use assets	29,883	-	29,883
Investments	507,830	-	507,830
Total other assets	594,253	-	594,253
Total assets	$ 1,457,791	$ 4,423	$ 1,462,214

LIABILITIES AND NET ASSETS

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

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2021

ASSETS

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CURRENT ASSETS			
Cash and cash equivalents	$ 746,681	$ 4,423	$ 751,104
Accounts receivable	13,787	-	13,787
Prepaid expenses	34,986	-	34,986
Total current assets	795,454	4,423	799,877
PROPERTY AND EQUIPMENT, net	1,530	-	1,530
OTHER ASSETS			
Association software costs, less accumulated amortization of $1,498,020	64,304	-	64,304
Investments	609,130	-	609,130
Total other assets	673,434	-	673,434
Total assets	$ 1,470,418	$ 4,423	$ 1,474,841

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	$ 25,327	$ -	$ 25,327
Accrued payroll	14,758	-	14,758
Accrued vacation	24,983	-	24,983
Contract liability	113,552	-	113,552
Total current liabilities	178,620	-	178,620
NET ASSETS, WITHOUT DONOR RESTRICTIONS	1,291,798	4,423	1,296,221
Total liabilities and net assets	$ 1,470,418	$ 4,423	$ 1,474,841

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2022

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

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2021

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS			
Revenue and support			
Registry income	$ 498,361	$ -	$ 498,361
National show	253,013	-	253,013
Show system	101,497	-	101,497
Member marketing	16,365	-	16,365
Membership and voting rights	137,860	-	137,860
Product income	51,018	-	51,018
Other member services	110,480	-	110,480
Other business income	3,784	-	3,784
Advertising income	164,746	-	164,746
Interest	49,237	-	49,237
Total revenue and support	1,386,361	-	1,386,361
Expenses			
Program services			
DNA testing and registration services	205,061	-	205,061
National show	250,193	-	250,193
Show system	199,612	-	199,612
Other AOA	559,323	-	559,323
Total program services	1,214,189	-	1,214,189
Management and general			
Management and general before depreciation and amortization			
Wages and benefits	113,739	-	113,739
Conference and fees	2,897	-	2,897
Professional fees	76,253	-	76,253
Board of directors	11,060	-	11,060
Rent	4,245	-	4,245
Building maintenance	3,440	-	3,440
Utilities	1,965	-	1,965
Insurance	13,906	-	13,906
Office expenses	7,210	-	7,210
Bank charges	32,500	-	32,500
Other	6,193	-	6,193
Total management and general before depreciation and amortization	273,408	-	273,408
Depreciation and amortization	8,560	-	8,560
Total management and general	281,968	-	281,968
Total expenses	1,496,157	-	1,496,157
DECREASE IN NET ASSETS	(109,796)	-	(109,796)
Net assets at beginning of year	1,401,594	4,423	1,406,017
Net assets at end of year	$ 1,291,798	$ 4,423	$ 1,296,221