Alpaca Owners Association, Inc. and Subsidiary
Lincoln, Nebraska

December 31, 2016 and 2015

Financial Statements
and
Report of Independent Certified Public Accountants

HBE
Becker Meyer Love LLP
Certified Public Accountants & Consultants

Alpaca Owners Association, Inc. and Subsidiary

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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 statements of financial position as of December 31, 2016 and 2015, 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 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 of 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.

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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, 2016 and 2015, 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 Becker Meyer Love LLP

March 28, 2017

Becker Meyer Love LLP
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Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents (note A)	$ 363,870	$ 258,121
Certificates of deposit	800,107	949,140
Accounts receivable (note A)	38,453	28,762
Prepaid expenses	3,464	7,000
Total current assets	1,205,894	1,243,023
PROPERTY AND EQUIPMENT (notes A and B)	19,968	16,572
OTHER ASSETS		
Association software costs, less accumulated amortization of $1,188,486 (2016) and $1,095,700 (2015) (notes A and C)	298,335	361,648
Deposits	3,490	3,490
Total other assets	301,825	365,138
Total assets	$ 1,527,687	$ 1,624,733

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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 28,685	$ 46,762
Accrued payroll	3,393	6,593
Accrued vacation (note A)	32,345	32,345
Deferred revenue (note A)	89,097	122,977
Total current liabilities	153,520	208,677
NET ASSETS (note A)		
Unrestricted	1,374,167	1,416,056
Total liabilities and net assets	$ 1,527,687	$ 1,624,733

See accompanying notes to financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
Registry income	$ 686,955	$ 775,978
National show	296,078	248,547
Show system	172,866	179,069
Member marketing	25,195	39,202
Membership and voting rights	184,090	204,515
Product income	57,582	66,988
Other member services	93,917	92,761
Other business income	-	601
Advertising income	130,583	149,747
Interest	10,663	8,097
Total revenue	1,657,929	1,765,505
EXPENSES (note D)		
Program services		
DNA testing and registration services	334,434	395,430
National show	228,418	210,586
Show system	169,750	175,166
Products	12,465	804
Other member services	241,211	267,472
Other AOA	50,574	23,128
Publication service	108,419	117,874
Total program services	1,145,271	1,190,460
Management and general		
Management and general before depreciation and amortization	456,260	568,162
Depreciation and amortization	98,287	124,172
Total management and general	554,547	692,334
Total expenses	1,699,818	1,882,794
DECREASE IN NET ASSETS	(41,889)	(117,289)
Net assets at beginning of year	1,416,056	1,533,345
Net assets at end of year	$ 1,374,167	$ 1,416,056

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See accompanying notes to financial statements.

Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2016	2015
Cash flows from operating activities		
Cash received from members	$ 1,543,658	$ 1,638,570
Cash paid to suppliers and employees	(1,653,152)	(1,741,917)
Miscellaneous services income	93,917	92,761
Investment income	9,696	7,714
Net cash used by operating activities	(5,881)	(2,872)
Cash flows from investing activities		
Purchases of certificates of deposit	(450,000)	(300,000)
Proceeds from maturity or sale of certificates of deposit	600,000	200,000
Purchase of equipment	(8,897)	(8,598)
Purchase of association software	(29,473)	(81,203)
Net cash provided (used) by investing activities	111,630	(189,801)
Net increase (decrease) in cash and cash equivalents	105,749	(192,673)
Cash and cash equivalents at beginning of year	258,121	450,794
Cash and cash equivalents at end of year	$ 363,870	$ 258,121
Reconciliation of decrease in net assets to net cash used by operating activities		
Decrease in net assets	$ (41,889)	$ (117,289)
Adjustments to reconcile decrease in net assets to net cash used by operating activities		
Depreciation	5,501	4,774
Amortization	92,786	119,399
Reinvested interest	(967)	(383)
(Increase) decrease in assets		
Receivables	(9,691)	(26,077)
Prepaid expenses	3,536	6,488
Increase (decrease) in liabilities		
Accounts payable	(18,077)	4,093
Accrued payroll	(3,200)	2,793
Deferred revenue	(33,880)	3,330
Total adjustments to decrease in net assets	36,008	114,417
Net cash used by operating activities	$ (5,881)	$ (2,872)

See accompanying notes to 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 statement 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 statement 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, 2016 and 2015, 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 statements of activities.

Advertising and Promotion. The Association expenses advertising costs when incurred. The accompanying consolidated financial statements include advertising expense of $40,336 and $54,583 for the years ended December 31, 2016 and 2015, respectively.

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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:

	2016	2015
Equipment	$ 77,787	$ 68,890
Furniture and fixtures	57,440	57,440
	135,227	126,330
Less accumulated depreciation	(115,259)	(109,758)
	$ 19,968	$ 16,572

Depreciation expense for the years ended December 31, 2016 and 2015 was $5,501 and $4,774, 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, 2016 and 2015 were $92,786 and $119,399, respectively.

Minimum amortization expense for the next five years following December 31, 2016 is as follows:

Year ending December 31,	
2017	$ 80,993
2018	57,320
2019	51,151
2020	51,151
2021	48,206
Thereafter	9,514
	$ 298,335

NOTE D - FUNCTIONAL EXPENSES

The cost of providing program and supporting services for the years ended December 31, 2016 and 2015 has been summarized below on a functional basis.

	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

	2015		
	Direct Expenses	Wages and employee expenses	Total
Programs			
DNA testing and registration services	$ 219,541	$ 175,889	$ 395,430
National show	110,092	100,494	210,586
Show system	89,304	85,862	175,166
Products	804	-	804
Other member services	172,148	95,324	267,472
Other AOA	23,128	-	23,128
Publication service	105,386	12,488	117,874
Management and general	510,497	181,837	692,334
	$ 1,230,900	$ 651,894	$ 1,882,794

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 March 11, 2013, the Association 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.

NOTE E - LEASES - CONTINUED

On November 17, 2015, the Association entered into an 18-month operating lease for office space. Under the terms of the lease, monthly rent payments were $1,448. 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, 2016 are as follows:

Year ending December 31,	
2017	$ 34,761
2018	8,642
	$ 43,403

Rent expense for the years ended December 31, 2016 and 2015 was $44,060 and $44,587, 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, 2016 and 2015 were $17,146 and $18,860, respectively.

NOTE G - INCOME TAXES

At December 31, 2016, ALCI has a net operating loss carry forward of $689,567 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, 2016 and 2015 has been provided for a timing difference for a Federal net operating loss carryforward of $144,809 and $145,321, net of a valuation allowance of $144,809 and $145,321 for the years ended December 31, 2016 and 2015, respectively.

The Organization's federal Exempt Organization Business Income Tax Returns (990 and 990-T) for December 31, 2016, 2015 and 2014 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, 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	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

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Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2015

ASSETS

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CURRENT ASSETS			
Cash and cash equivalents	$ 253,441	$ 4,680	$ 258,121
Certificates of deposit	949,140	-	949,140
Accounts receivable	28,762	-	28,762
Prepaid expenses	7,000	-	7,000
Total current assets	1,238,343	4,680	1,243,023
PROPERTY AND EQUIPMENT	16,572	-	16,572
OTHER ASSETS			
Association software costs, less accumulated amortization of $1,095,700	361,648	-	361,648
Deposits	3,490	-	3,490
Total other assets	365,138	-	365,138
Total assets	$ 1,620,053	$ 4,680	$ 1,624,733

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	$ 46,762	$ -	$ 46,762
Accrued payroll	6,593	-	6,593
Accrued vacation	32,345	-	32,345
Deferred revenue	122,977	-	122,977
Total current liabilities	208,677	-	208,677
NET ASSETS, UNRESTRICTED	1,411,376	4,680	1,416,056
Total liabilities and net assets	$ 1,620,053	$ 4,680	$ 1,624,733

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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

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Alpaca Owners Association, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2015

	Alpaca Owners Association, Inc.	Alpaca Livestock Company, Inc.	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS			
Revenue and support			
Registry income	$ 775,978	$ -	$ 775,978
National show	248,547	-	248,547
Show system	179,069	-	179,069
Member marketing	39,202	-	39,202
Membership and voting rights	204,515	-	204,515
Product income	66,988	-	66,988
Other member services	92,761	-	92,761
Other business income	601	-	601
Advertising income	146,785	2,962	149,747
Interest	8,097	-	8,097
Total revenue and support	1,762,543	2,962	1,765,505
Expenses			
Program services			
DNA testing and registration services	395,430	-	395,430
National show	210,586	-	210,586
Show system	175,166	-	175,166
Products	804	-	804
Other member services	267,472	-	267,472
Other AOA	23,128	-	23,128
Publication service	117,874	-	117,874
Total program services	1,190,460	-	1,190,460
Management and general			
Management and general before depreciation and amortization			
Wages and benefits	181,837	-	181,837
Professional fees	130,378	-	130,378
Board of directors	27,173	-	27,173
Conference	5,429	-	5,429
Rent	44,587	-	44,587
Building maintenance	15,796	-	15,796
Utilities	30,372	-	30,372
Insurance	13,881	-	13,881
Office expenses	76,072	-	76,072
Bank charges	39,672	-	39,672
Other	2,645	320	2,965
Total management and general before depreciation and amortization	567,842	320	568,162
Depreciation and amortization	124,172	-	124,172
Total management and general	692,014	320	692,334
Total expenses	1,882,474	320	1,882,794
INCREASE (DECREASE) IN NET ASSETS	(119,931)	2,642	(117,289)
Net assets at beginning of year before distribution	1,405,459	127,886	1,533,345
Distribution	125,848	(125,848)	-
Net assets at end of year	$ 1,411,376	$ 4,680	$ 1,416,056

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