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ENTERPRISE BUDGET FOR ALPACAS

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Overview

Enterprise budgets estimate the approximate costs, returns (receipts), and profits associated with a given business endeavor. This stylized enterprise budget represents a new alpaca business and is intended for use by existing alpaca owners as well as those considering the financial benefits and costs associated with entering the industry. In addition, the budget may be used to organize categories of returns generated by an enterprise, list the inputs and production practices that correspond to an organization, evaluate the financial and productive efficiency associated with a farm business, provide a basis for determining the monetary costs and benefits associated with making changes to firm's management or production practices, and to inform stakeholders external to the organization of the costs and benefits associated with the production and management of alpacas, alpaca products and byproducts.

True costs and returns for an organization are often challenging to estimate as there may be numerous categories of expenditures and the time of estimation may affect calculated value. Typically, an enterprise budget has a time horizon of one year; however, the budget template can be customized to reflect the costs and returns for a business on a semi-annual, quarterly, monthly, or other time basis.

Owning to the difficulty of capturing the diversity of operational organizations, production, and management practices, this alpaca budget should be viewed as a sample budget and a point of departure for further customization of the enterprise budget to one's own operation. The alpaca enterprise budget provided here should be viewed as an approximation. If there is common agreement on an enterprise budget format and numerous firm observations can be confidentially provided, it may be possible to conduct benchmarking

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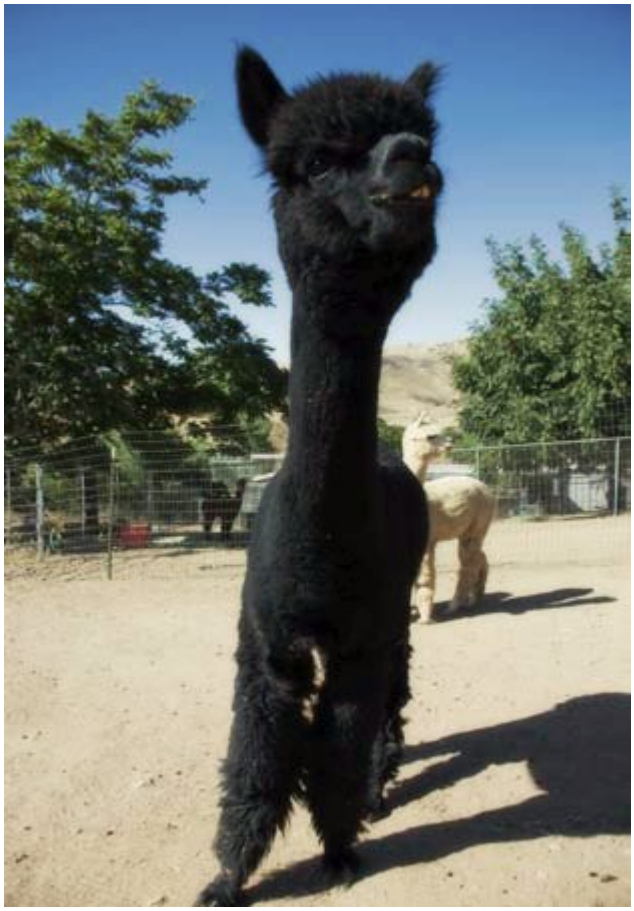
exercises. Benchmarking can provide clarity to individual owners on the relative profitability and efficiency of one's organization as well as provide estimates of upper- and lower-bound performance measures.

Components

A typical enterprise budget contains at least two elements: revenues and expenditures. Revenues from every aspect of the business including product and by product markets should be included in the calculations. For an alpaca business this might include breeding stock sales, fiber sales, alpaca "bean" sales, and breeding fees. The price of services and products should be set at market value as opposed to the cost of production.



Most enterprise budgets include some elements of accrual basis accounting; typically depreciation is included as an expense though accounts receivable may be included as well. If accrual categories of expenses or revenues are allowed, cash on hand is likely to differ from the bottom-line estimate calculated in the enterprise budget. To avoid confusion, some prefer to omit accounts receivable figures and, with the exception of depreciation, formulate an enterprise budget that rooted in cash-basis accounting.

The second major component of an enterprise budget is expenditures. Formulating accurate estimates of costs may be difficult owning to the number of inputs required in any production agriculture operation and to price variability. Attaining consensus on cost estimates across a number of producers, owners, and breeders may be additional challenging due to the heterogeneity of production practices, potential regional differences, and disagreement in input cost measurement. Accordingly, this and any enterprise budget must be viewed as a point of departure to further customization. Adaption of the instrument to individual production practices and resource situations is encouraged.

Variable and Fixed Costs

No matter how unique the alpaca operation may be, any associated enterprise budget will reflect two types of costs: variable and fixed, the primary difference between these being that variable costs will fluctuate with the level of output and fixed costs do not vary with the level of output. Variable costs, sometimes called operating costs, may include marketing expenditures, veterinary services, shearing fees, feed costs, and labor, among others. Fixed expenditures, also called overhead costs, are often easier to estimate at the outset of a budgeting period as they are predetermined commitments of funds to service debt, pay salaries, or other known categories of expenditures. Other examples of fixed costs may include depreciation, labor, chattel loan payments, and real estate loan payments.

The sum of variable and fixed costs equate to total operational expenditures over the time period in question. This sum is deducted from total revenues, calculated as the sum of receipts from all business activities, to determine organizational profit.

Capital Asset Depreciation

To reduce a firm's tax burden, it is advisable to include both capital asset depreciation and all deductible costs of doing business in a listing of the organization's annual expenses. Depreciation is an estimation of the reduction of the value of a capital asset over a specified time period. Essentially the depreciation figure

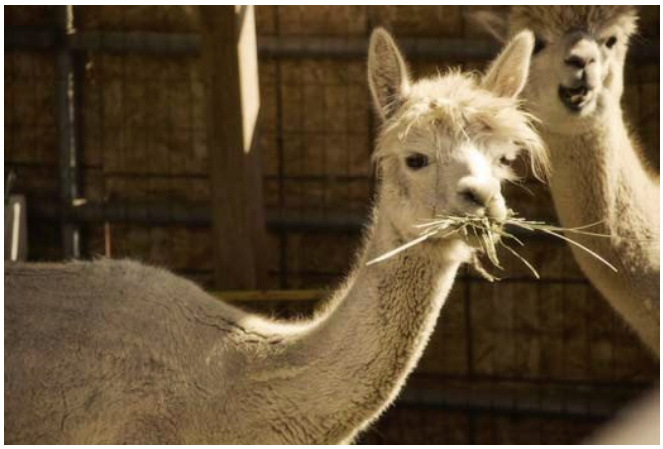
estimates the loss in potential sales revenue that an owner could receive if they sold the item at the end of the fiscal period in question. Many methods for calculating depreciation exist and agricultural operators have flexibility in selecting which method to use. The most popular, and most easily understood, is the straight line depreciation method.

Annual straight line depreciation figures are calculated by subtracting the salvage value of a capital asset from its purchase price and then dividing the remaining value by the item's "useful life," measured in years. The depreciation charge in each year of the asset's useful life is equivalent. For example, suppose an alpaca business owner purchases a $150,000 harvester with an estimated salvage value of $50,000 and useful life of 10 years. Using the straight line depreciation method, annual depreciation expenses would equate to $10,000 or $150,000-$50,000/10 years. As the example illustrates, the straight line depreciation method is simple to calculate and easily understood, however, the method may not be fully reflective of the non-linear relationship between depreciation and the length of an implement or other asset's useful life. Interested owners are encouraged to explore alternative depreciation methods including accelerated depreciation, sum of year's digits methods, declining and double declining balance methods.

Deductions

Our tax system allows business owners to deduct certain expenses associated with the cost of doing business. Allowing these deductions effectively reduces the amount of business income that is subject to taxes. As such, it is advisable to keep careful track of any business expenses that may be allowed as a deduction in order to reduce an operation's tax exposure. Business and personal expenses may be interrelated and care must be taken to separate the business portion of the expense from those associated with personal use. For example, if a vehicle is operated for both business and personal use, only expenditures that are proportional to the firm's use of the vehicle may be deducted.

A list of potential deductible expenses could be quite lengthy and may vary considerably from business to business depending on marketing practices, activities the firm engages in, size of operation, and many additional factors. For ideas about what expenses may qualify as deductions readers are encouraged to read Mike Safley's article "The Alpaca Business Planner" and explore the numerous electronic resources on the topic.



Enterprise budgets may be used to estimate breakeven price and quantity of output(s). Because alpaca operations are often diverse and frequently market more than one product, calculation of a breakeven price may be challenging and less relevant to the decision making process than for an organization that specializes in the production of a single, homogeneous product. However, it can be informative to calculate the breakeven price and quantity for significant product categories in order to provide upper-bound price and quantity goals.

There are several accepted methods for calculating breakeven price and quantity. The simplest approach calculates the breakeven price as total costs (variable + fixed costs) divided by the number of units an organization projects to sell during the time period in question. Similarly, breakeven quantity is calculated by dividing total costs by the expected average price per unit or a target price. An alternative method of calculating breakeven quantity is to divide an organization's fixed costs (FC) by the estimated price per unit (P) less the per unit total variable costs (VC) or FC/(P-VC). If variable costs and share of fixed costs associated with a category of products can be calculated, category breakeven analysis may be performed and provide targets for separate business units (e.g., fiber sales and livestock sales).

Summary

Enterprise budgets provide a useful means of accounting for receipts and expenses associated with operating an alpaca business as well as estimating organizational profitability under different managerial and production

assumptions. The budgets may be used to project future earnings, forecast taxes, trace through business changes prior to making a strategic decision, estimate breakeven price and quantity, and provide opportunities to benchmark business performance across years and across organizations. This useful tool is flexible and easily customized to individual operations. Finally, an enterprise budget can serve as a point of departure for creating more sophisticated financial statements including income statements and balance sheets. Collectively, these financial planning tools will provide owners with an accurate picture of a firm's financial health and support the strategic decision making process.

Alpaca Enterprise Budget for a Start-up Operation		
ANNUALIZED RETURNS	**Estimated**	**Actual**
Raw Fiber Sales		
Fiber Product Sales (e.g. scarves)		
Breeding Stock Sales		
Non-Breeding Stock Sales		
Stud Fees (all types)		
Boarding Revenue		
Agristment Revenue (if separate from boarding) ($3/day per animal)		
Seminar Revenue		
Brokerage Revenue		
Transportation Revenue (Hauling to Shows/Events for Others)		
Training Revenue		
Agritourism Revenue/Visitor Fees		
Other Revenue		
TOTAL ALPACA OPERATION RETURNS		
ANNUALIZED EXPENDITURES	**Estimated**	**Actual**
Alpaca Purchases		
Open Breeding Females		
Pregnant Females		
Non-Breeding Females		
Breeding Males		
Non-Breeding Males/Geldings		
Cria		
Non-Alpaca Capital (Depreciable) Asset Outlays		
Barn		
Land		
Vehicle(s)		
Water Well		
Fencing		
Equipment Purchases		
Machinery Purchases (e.g., Milling Equipment)		
Other		
Feed		
Dry Feed Costs (Hay) (per ton)		
Supplements (Cost per animal)		
Other Feed Costs		
Cropping Costs (If Growing Own Feed)		

Continued...

ANNUALIZED EXPENDITURES (cont'd)	Estimat-ed	Actual
Marketing		
Personal Farm Website + Hosting and Maintenance		
Commercial Website Use (Online		
Printing and Direct Mail		
Newspaper, Catalogs, and Magazine Ads		
AOBA Leads		
AOBA Farm and Ranch Guide		
Event Costs (e.g., Alpaca Days)		
ILoveAlpacas or Other Cooperative Advertising		
Banners and Other Display Items		
Farm Brochures (Glossy, Full Color)		
Consultant or Other Promotional Services (e.g., Graphics Designer)		
Show and Event (Halter, Fleece, Expo)		
Health Care		
Vet Service (includes 2X annual hoof trimming)		
Drugs (e.g., Vaccines, Wormers, ect.)		
Breeding Fees		
On-Farm (includes 90 days agristment for female and cria if applicable)		
Drive-By Breeding (Female Transport)		
Mobile Mating (Male Transport)		
Shearing		
Other Health Costs		
Professional Services		
Supplies/Manure Management		
Utilities		
Repairs (Not Replacement)		
Labor		
Debt Service		
Depreciation Expenses		
Other Expenses		
Taxes (Property, State, and Federal)		
Property Taxes		
Other Taxes (State and Federal)		
TOTAL ALPACA OPERATION EXPENSES		
	Estimat-ed	**Actual**
NET RETURNS (ANNUALIZED RETURNS LESS ANNUALIZED EXPENSES		