

April 2009

Trustees' Report: Finance and Budgetary Committee  
Terrance Bedient, Treasurer

SUMMARY

At last year's Conference we reviewed the proposed budget for 2008 and reported that the G.S.O. expected a profit from operations of approximately \$240,800, which after Conference actions resulting in mid-year budget adjustments, was reduced by \$60,000 to \$180,800. For the year 2008, however, G.S.O. incurred a loss from operations of \$275,365.

While expenses for the year were approximately \$365,000 (2.74%) over budget, total revenue was approximately \$90,000 less than budgeted. The most noteworthy deviation from budget and a change in trend was that contributions for the year finished \$212,000 less than budget.

For 2008 the Grapevine proposed a positive result of \$3,304 and anticipated an excess of expense over revenue from La Viña of \$67,371. In actuality, the Grapevine incurred a loss of \$138,456 and La Viña's loss was \$76,264.

At the end of 2008, the Reserve Fund balance represented approximately 9.3 months of operating expenses.

GENERAL SERVICE OFFICE

Our revenue essentially comes from two sources: profit from literature sales and contributions from members. For the first time in ten years, contributions received for 2008, were less than budgeted and less than the prior year as well.

As with the rest of the country, we were hard hit in the 4<sup>th</sup> quarter of the year when contribution revenue was approximately \$224,000 less than budgeted. We were hopeful that this was just a short-term situation. Contributions for January were slightly ahead of January 2008, but February of 2009 trailed February 2008.

Contributions of \$6,325,180 received from groups and members were \$203,200, or 3%, less than budgeted, and \$56,400 (slightly less than 1%) less than in 2007. The \$6,325,180 in contributions came from 26,519 groups, individuals, and service entities. That, for comparison, represents 44.1% of the 60,093 groups listed with G.S.O., just slightly lower than the 45.2% reported last year.

Total contributions of \$6,462,760, reflected in our 2008 financial statements, include \$137,580 received to help carry the message worldwide from countries and service structures that participate in the World Service Meeting. Funds received on behalf of the World Service Meeting International Literature Fund are recorded as Contributions to G.S.O. The comparable comparisons for prior years were: 2007, \$144,400; 2006, \$145,000; 2005, \$135,000; 2004, \$128,357; 2003, \$102,900; and 2002, \$108,000.

While total contribution dollars were slower this year, the number of groups listed at G.S.O. was 60,093, (1,753 more groups), and as noted above the percent of groups contributing declined slightly as well (1.1% of total groups). It is important to remember, however, that the statistics we discuss concerning number of groups, membership and averages are only a reflection of the information we capture on "our systems." We report to you what you report to us.

Turning to the other major component of our income, net sales of literature were \$12,430,000, which was \$80,000 (.65%) greater than budgeted, and \$36,000 higher than 2007 as well. During 2008, while the number of books and booklets sold was approximately the same as 2007, there was a mix of both increases and decreases in the sales of the different formats of the individual titles. (During 2008, the total number of Big Books sold was approximately 1,110,000 compared with 1,120,000 in 2007. This is still a lot of Big Books.)

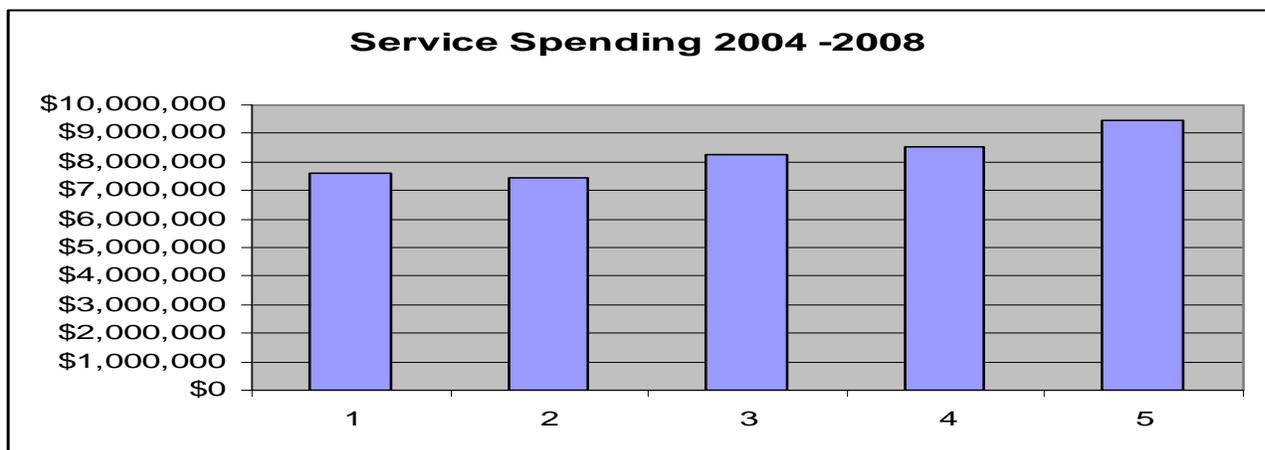
In total, printing and other manufacturing costs, shipping expenses and royalty payments were less than budgeted by approximately \$46,000. Better than anticipated manufacturing costs were offset by higher shipping and warehousing costs (the effect of inflation and pass along of fuel surcharges by the trucking industry hit hard in the first half of the year). Gross profit of \$6,948,350 was \$125,850 greater than budgeted.

The combination of contributions and net literature sales resulted in total G.S.O. revenue of \$13,416,868, some \$90,000 less than budgeted.

Total operating expenses for G.S.O. during 2008 were \$13,692,233, approximately \$365,529 greater than budgeted. One significant part of this increase is the travel and meetings category. Costs are higher due to higher hotel costs in New York and generally higher costs of travel during most of the year.

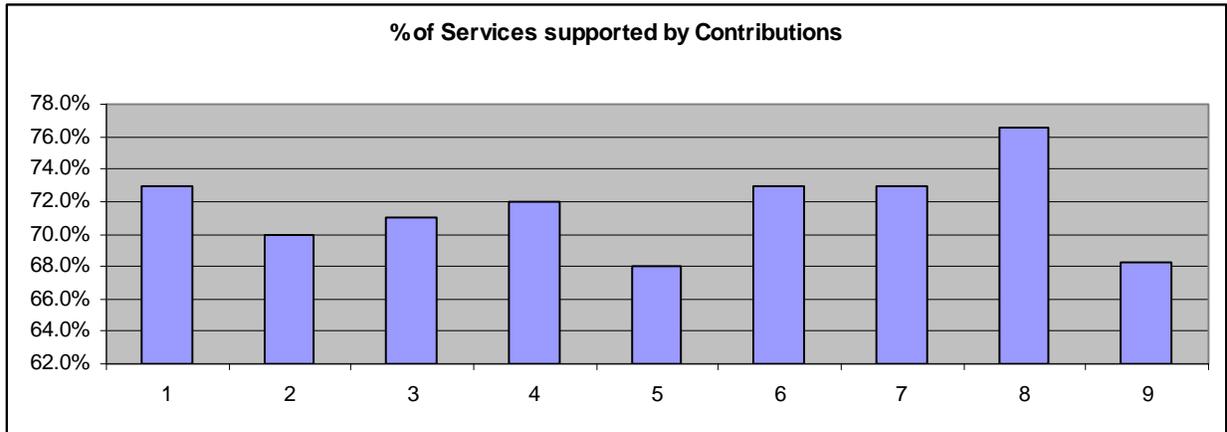
When compared with budget, the lower revenues combined with higher expenses resulted in a 2008 operating loss of \$275,365.

Expanding a bit on the use of the Fellowship's money in providing services back to the Fellowship – in 2008, \$9,447,300 was spent on services to the Fellowship, approximately \$920,000 more than spent in 2007. This compares with \$8,528,100 in 2007, \$8,272,000 in 2006, \$7,443,300 in 2005, and \$7,622,288 in 2004.



The 2008 service dollar was spent on the following activities: Group Services 31% (which includes the Group Services assignment; *Box 4-5-9*; A.A. Directories; records and files; contributions processing; and French services); the General Service Conference, 13.5%; Loners, Internationalists, and Overseas Services, 8.4%; trustees' and directors' activities, 7%; Regional Forums, 7.1%; Archives, 8.8%; C.P.C., 5.2%; Public Information, 4.6%; Correctional Facilities, 4.6%; World Service Meeting, 3.6%; Treatment Facilities, 2.3%; Special Needs, 1.5%; Nominating, 1.5%; other various 0.9%.

Contributions provided 68.1% and 31.9% came from the profit from literature sales. (This compares with 76.5% and 23.5% in 2007, 73% and 27% in 2006 and 2005; 68% and 32% in 2004; 72% and 28% in 2003; 71% and 29% in 2002; 70% and 30% in 2001; and 73% and 27% for 2000.)



## 2009 G.S.O. Budget

Turning to 2009, the G.S.O. budget anticipates approximately level sales when compared with the prior year. Even though Contribution revenue had seen favorable upward trends during the past several years, the 4<sup>th</sup> quarter 2008 decline in contributions, reinforced the discussion that a restoration of the overall revenue stream was appropriate.

The 2009 G.S.O. budget reflects the approval of across-the-board price increase in books and booklets. For example, there will be an increase in the price of a hardcover Big Book from \$6.00 to \$8.00. Management continues to explore methods to reduce the costs of operations, as well as assess the services supplied. It should be recognized that as we continue to strive to have literature available throughout our Service Conference, in Spanish and French as well as English, lower print runs in non-English languages usually result in higher production cost. We strive to have the same selling prices regardless of the manufacturing cost; therefore lower overall gross profit margins for low volume items affect the overall gross profit percentages and make price increases necessary from time to time.

**Literature prices:** In 1997 the price of a hardcover Big Book was increased from \$5.00 to

\$6.00. The price has not changed since that time with the exception of a two-year period during the introduction of the Fourth Edition. Anticipating a large volume of sales, the price of the Fourth Edition was set at \$5.00 (a \$1.00 per book reduction from \$6.00), thus reducing the expected Gross Profit and with a goal of reducing the Reserve Fund. Projections at that time anticipated that, depending on contributions, the price would be restored in a few years.

**Contributions:** In keeping with our Seventh Tradition of self-support, this year's budget anticipates slightly less than a 1% increase in contributions. The budget envisions approximately a 2.6% **decrease** in costs when compared with 2008 actual results, and is even when compared with the 2008 budget.

**Expenses:** The 2009 budget anticipates approximately \$360,500 less operating expenses than 2008. A major factor in this reduction is that 2008 was a World Service Meeting year and the net costs of that meeting not covered by participating countries falls to G.S.O. (approximately \$225,000).

Based on these preliminary assumptions – approximately even unit sales with a mid-year price increase, a very slight increase in contributions, and a slight decrease in total operating expenses – the 2009 budget as approved reflects an excess of revenue over expenses of approximately \$900,000. For the 2009 budget, management was charged with producing a budget that would allow the General Service Board's Reserve Fund to maintain a minimum nine-month balance at the end of three years.

With 2009 Contributions and sales off to a rocky start, management continues to assess expenses and has taken steps to reduce costs.

### **The Reserve Fund (and Historic Reference for price adjustments)**

In 1994, G.S.O. lowered certain prices and increased discounts on literature. These changes were undertaken to lower the Reserve Fund, which was at that time approaching the upper limit of 12 months of combined operating expenses established by the General Service Conference. In subsequent years, it became necessary to restore the revenue stream with pricing adjustments. As noted previously, G.S.O. management was charged

with presenting a 2009 budget with sufficient revenue that, with all things being equal, would maintain the Reserve Fund at a minimum nine-month level of operating expenses after three years.

The adjusted balance (calculated as assets minus liability for Grapevine subscribers), used for the calculation at December 31 of \$12,270,746, amounts to about \$204 per listed A.A. group. The balance used for the Reserve Fund calculation has increased approximately \$1,360,900 from last year following the 2008 transfer from A.A.W.S. as well as an increase in value of the treasury portfolio because of the decline in the stock market and it's effect in interest rates. Dividing total Contributions received (\$6,462,760) by the 60,093 groups registered gives us an average of about \$108, while expenses to support services to those groups amounted to approximately \$157.

## THE GRAPEVINE

At the Grapevine, magazine income was approximately \$125,000 greater than the prior year and the average paid circulation of 104,993 for 2008 was approximately 1,000 copies lower than 2007. The average paid circulation of 104,993 compares with 106,099 for 2007, 103,878 for 2006, 104,356 for 2005, 108,426 for 2004, 112,614 for 2003, 115,753 for 2002, 115,000 in 2001, 115,700 in 2000, 115,900 for 1999, 117,300 for 1998, 120,679 for 1997, and 128,360 during 1996. Gross profit on the magazine of \$1,249,220 was \$66,000 greater than last year, but \$50,000 less than budgeted. Other publishing income was \$53,000 less than budgeted and \$11,000 less than 2007 as well. Gross profit on Magazine related items was approximately \$35,000 less than budgeted, but it was \$6,600 greater than 2007. Total income, including interest earned, was \$1,806,600, \$66,400 greater than 2007, but \$92,000 less than budgeted.

Costs and expenses for editorial, circulation and business, and administration were \$1,945,073. Costs and expenses were \$179,852 more than 2007, and \$49,500 higher than budget. Excluding La Viña, the Grapevine reported a loss from operations of \$138,456, which was approximately \$113,400 greater than the 2007 loss of \$25,047, and \$141,662 greater than the budgeted profit of \$3,200.

The Grapevine's 2009 budget, excluding La Viña, anticipates magazine income of

\$2,003,734 (approximately \$72,000 less than the \$2,076,062 realized in 2008), an increase in magazine direct costs of \$105,100, and a gross profit of \$1,071,759, (a decrease of \$177,500 from 2008). Gross profit on Other Publishing Income is anticipated to increase \$142,800, while interest income is estimated the same as 2008.

A loss for 2009 of \$167,400 is anticipated, compared with the \$138,456 loss for 2008. The 2009 Grapevine budget anticipates an increase of prices of other items, January 1, 2009, and the Magazine, July, 1, 2009.

## LA VIÑA

La Viña is the Spanish-language magazine approved by the 1995 General Service Conference. Since then, the magazine has grown from an idea to a full-fledged publication with a 2008 average circulation of 10,404. This compared with a 2007 average circulation of 10,979, a 2006 average of 10,223, a 2005 average of 9,453, a 2004 average of 9,316, a 2003 average of 9,222, and 2002 circulation of 9,000, 8,600 in 2001, 8,500 in 2000, 8,000 in 1999, and 8,400 in 1997. La Viña appears to be a first-rate product. Our hope is that it will increasingly fulfill the needs of our Spanish-speaking members and we will see a growth in circulation. To date, the project has incurred losses each of the past twelve and one-half years. During 2008, subscription income was \$94,631 and direct costs of publishing were \$72,017, resulting in a \$22,615 gross profit. During 2008, La Viña realized approximately \$22,279 from the sales of CDs, net of costs. Operating expenses directly associated with the publication were \$121,154. These include the editorial, circulation and administrative costs attributable to La Viña. Therefore, the overall loss on La Viña for the year was \$76,260, compared with a lost for 2007 of \$67,047.

In 2001, the General Service Board recommended that La Viña continue to be published and agreed to provide the necessary funding.

The Grapevine Board and management have worked hard to put out a quality product that is responsive to the needs of the Spanish-speaking members of the Fellowship on a cost-effective basis. For 2009, the loss on the La Viña magazine is budgeted to be approximately \$95,776, (approximately \$19,500 greater than 2008), with circulation being projected to decrease slightly to 10,000 copies. The 2009 La Viña budget anticipates an

increase in the price of the magazine effective July 1, 2009 as well. The Grapevine Board and the trustees' Finance Committee continue to monitor progress and report results to the Conference. Since the inception of the magazine, approximately \$1,210,000 has been invested in La Viña in excess of revenues generated.

**Other items:**

As noted in prior reports, the A.A.W.S. and A.A. Grapevine Corporate Boards, as well as the trustees' Finance and Budgetary Committee, continue to receive information and recommendations from the Retirement Plan's actuaries concerning funding requirements as a result of 2007 pension legislation enacted by the U.S. Congress. This legislation called for accelerated funding of pensions, which is a departure from the previously accepted method of long-term funding of pensions over the employee's working life.

The government issued additional guidance during 2008 on calculating funding costs. Still uncertain at this point is actual final costs for pension funding for 2009. We will not know until later this year when the Actuaries have completed their work how much additional may be required.

In summary, while your trusted servants continue to monitor financial affairs, steps taken over the past several years to enhance the revenue side of the equation, reductions in the expense side and consideration of long-term obligations help insure that the Fellowship's finances remain in good condition. While the outlook for 2009 may be uncertain as the economy unfolds, we will continue to monitor events with our goal to insure the financial wherewithal to carry our message.

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