

Al-Anon Family Group Headquarters, Inc.

Financial Statements and Supplementary Information

Years Ended December 31, 2019 and 2018

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Independent Auditors' Report

Board of Trustees
Al-Anon Family Group Headquarters, Inc.
Virginia Beach, Virginia

We have audited the accompanying financial statements of Al-Anon Family Group Headquarters, Inc. (a nonprofit Organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Al-Anon Family Group Headquarters, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Change in Accounting Principle

During 2019, as discussed in Note 2 to the financial statements, Al-Anon Family Group Headquarters, Inc. adopted FASB Standards Update (“ASU”) No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Dixon Hughes Goodman LLP

**Norfolk, Virginia
February 17, 2020**

Al-Anon Family Group Headquarters, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 1,639,906	\$ 1,619,970
Accounts receivable	139,171	172,673
Inventories of books and other literature	347,302	394,965
Deferred charges and deposits	159,705	118,436
Investments	7,042,543	5,759,434
Property and equipment, net	1,493,003	1,570,753
Intangible assets, net	238,116	197,709
	<u>11,059,746</u>	<u>9,833,940</u>
Total assets	<u>\$ 11,059,746</u>	<u>\$ 9,833,940</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 304,039	\$ 296,595
Accrued postretirement health benefits	926,603	769,808
Unearned subscription income	190,138	199,766
Unearned convention and conference income	109,965	121,526
	<u>1,530,745</u>	<u>1,387,695</u>
Total liabilities	1,530,745	1,387,695
Net assets without donor restrictions	<u>9,529,001</u>	<u>8,446,245</u>
Total liabilities and net assets	<u>\$ 11,059,746</u>	<u>\$ 9,833,940</u>

See accompanying notes.

Al-Anon Family Group Headquarters, Inc.
Statements of Activities
Year Ended December 31, 2019

	General Fund	Board Designated Funds Reserve Fund	Building Fund	2019 Totals
REVENUE:				
Literature sales	\$ 3,704,652	\$ -	\$ -	\$ 3,704,652
Cost of sales	790,198	-	-	790,198
Gross profit	2,914,454	-	-	2,914,454
Forum subscriptions	274,853	-	-	274,853
Contributions	2,186,645	-	-	2,186,645
Noncash contributions	34,702	-	-	34,702
Investment gains	57,627	1,155,032	-	1,212,659
Total revenue	5,468,281	1,155,032	-	6,623,313
FUNCTIONAL EXPENSES:				
Program services	3,021,604	-	-	3,021,604
Literature distribution services	838,661	-	-	838,661
General administration	1,523,497	156,795	-	1,680,292
Total functional expenses	5,383,762	156,795	-	5,540,557
Change in net assets	84,519	998,237	-	1,082,756
Net assets without donor restrictions, beginning of year	2,134,616	4,777,233	1,534,396	8,446,245
Transfers	103,714	(21,550)	(82,164)	-
Net assets without donor restrictions, end of year	<u>\$ 2,322,849</u>	<u>\$ 5,753,920</u>	<u>\$ 1,452,232</u>	<u>\$ 9,529,001</u>

See accompanying notes.

Al-Anon Family Group Headquarters, Inc.
Statements of Activities
Year Ended December 31, 2018

	General Fund	Board Designated Funds		2018 Totals
	Fund	Reserve Fund	Building Fund	
REVENUE:				
Literature sales	\$ 3,975,491	\$ -	\$ -	\$ 3,975,491
Cost of sales	<u>781,297</u>	<u>-</u>	<u>-</u>	<u>781,297</u>
Gross profit	3,194,194	-	-	3,194,194
Forum subscriptions	257,685	-	-	257,685
Contributions	1,953,460	-	-	1,953,460
Noncash contributions	25,077	-	-	25,077
Investment losses	(90,787)	(362,649)	-	(453,436)
Convention income, net	<u>217,358</u>	<u>-</u>	<u>-</u>	<u>217,358</u>
Total revenue	<u>5,556,987</u>	<u>(362,649)</u>	<u>-</u>	<u>5,194,338</u>
FUNCTIONAL EXPENSES:				
Program services	2,731,010	-	-	2,731,010
Literature distribution services	859,503	-	-	859,503
General administration	<u>1,826,472</u>	<u>(22,058)</u>	<u>-</u>	<u>1,804,414</u>
Total functional expenses	<u>5,416,985</u>	<u>(22,058)</u>	<u>-</u>	<u>5,394,927</u>
Change in net assets	140,002	(340,591)	-	(200,589)
Net assets without donor restrictions, beginning of year	1,862,964	5,139,588	1,644,282	8,646,834
Transfers	<u>131,650</u>	<u>(21,764)</u>	<u>(109,886)</u>	<u>-</u>
Net assets without donor restrictions, end of year	<u>\$ 2,134,616</u>	<u>\$ 4,777,233</u>	<u>\$ 1,534,396</u>	<u>\$ 8,446,245</u>

See accompanying notes.

Al-Anon Family Group Headquarters, Inc.
Statements of Functional Expenses
Year Ended December 31, 2019

	Program Services	Literature Distribution Services	General Administration	2019 Totals
Operating expenses:				
Salaries	\$ 1,929,381	\$ 612,046	\$ 553,257	\$ 3,094,684
Employee benefits	427,935	137,151	121,744	686,830
	<u>2,357,316</u>	<u>749,197</u>	<u>675,001</u>	<u>3,781,514</u>
Occupancy costs	135,338	107,717	33,143	276,198
Packing and shipping, net	-	(46,178)	-	(46,178)
Postage	135,954	2,430	37,443	175,827
Telephone	10,943	3,879	35,806	50,628
Stationery and supplies	23,988	1	34,565	58,554
Office services and expenses	11,586	5,876	266,945	284,407
Credit card and bank fees	-	-	93,144	93,144
Repairs and maintenance	4,059	1,440	9,194	14,693
Travel and meetings	51,867	-	167,788	219,655
Direct conference costs	75,214	-	-	75,214
Professional fees	-	-	70,750	70,750
Printing	101,061	-	-	101,061
Canadian office	1,726	-	-	1,726
Office volunteers	-	200	-	200
Public service announcements	68,192	-	-	68,192
Miscellaneous expenses	43	5	22,643	22,691
Non-cash service expense	-	-	34,702	34,702
	<u>2,977,287</u>	<u>824,567</u>	<u>1,481,124</u>	<u>5,282,978</u>
Total operating expenses				
Nonoperating expenses:				
General service meeting	(1,006)	-	-	(1,006)
Membership survey	-	-	-	-
Depreciation and amortization	10,159	2,151	23,132	35,442
Postretirement health benefits	35,164	11,943	176,036	223,143
	<u>44,317</u>	<u>14,094</u>	<u>199,168</u>	<u>257,579</u>
Total nonoperating expenses				
Total expenses	<u>\$ 3,021,604</u>	<u>\$ 838,661</u>	<u>\$ 1,680,292</u>	<u>\$ 5,540,557</u>

See accompanying notes.

Al-Anon Family Group Headquarters, Inc.
Statements of Functional Expenses
Year Ended December 31, 2018

	Program Services	Literature Distribution Services	General Administration	2018 Totals
Operating expenses:				
Salaries	\$ 1,563,705	\$ 626,208	\$ 875,279	\$ 3,065,192
Employee benefits	352,717	142,383	200,085	695,185
	1,916,422	768,591	1,075,364	3,760,377
Occupancy costs	136,530	108,666	33,437	278,633
Packing and shipping, net	-	(46,330)	-	(46,330)
Postage	147,785	3,296	43,351	194,432
Telephone	8,735	4,367	34,805	47,907
Stationery and supplies	28,397	312	35,407	64,116
Office services and expenses	36,067	6,192	192,830	235,089
Credit card and bank fees	-	-	103,572	103,572
Repairs and maintenance	3,251	2,065	7,949	13,265
Travel and meetings	29,378	-	187,994	217,372
Direct conference costs	97,220	-	-	97,220
Professional fees	-	-	73,774	73,774
Printing	112,312	1,416	-	113,728
Canadian office	1,591	-	-	1,591
Office volunteers	-	60	-	60
Public service announcements	95,625	-	-	95,625
Miscellaneous expenses	-	-	18,105	18,105
Non-cash service expense	25,077	-	-	25,077
Total operating expenses	<u>2,638,390</u>	<u>848,635</u>	<u>1,806,588</u>	<u>5,293,613</u>
Nonoperating expenses:				
General service meeting	20,165	-	-	20,165
Membership survey	150	-	-	150
Depreciation and amortization	26,006	2,450	4,451	32,907
Postretirement health benefits	46,299	8,418	(6,625)	48,092
Total nonoperating expenses	<u>92,620</u>	<u>10,868</u>	<u>(2,174)</u>	<u>101,314</u>
Total expenses	<u>\$ 2,731,010</u>	<u>\$ 859,503</u>	<u>\$ 1,804,414</u>	<u>\$ 5,394,927</u>

See accompanying notes.

Al-Anon Family Group Headquarters, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Change in net assets	\$ 1,082,756	\$ (200,589)
Adjustments to reconcile to net cash from operating activities		
Depreciation and amortization	151,650	147,193
Loss (gain) on investments (realized and unrealized)	(982,437)	425,743
Interest/dividend income reinvested	(42,563)	(38,887)
Change in operating assets and liabilities:		
Accounts receivable	33,502	6,133
Inventories of books and other literature	47,663	37,072
Deferred charges and deposits	(41,269)	50,147
Accounts payable and accrued expenses	7,444	7,454
Accrued postretirement health benefits	156,795	(22,058)
Unearned subscription income	(9,628)	4,316
Unearned convention and conference income	(11,561)	(468,977)
Net cash provided (used) by operating activities	<u>\$ 392,352</u>	<u>\$ (52,453)</u>
Cash flows from investing activities:		
Sale of investments and transfers to operating cash	1,340,927	1,565,963
Purchases of investments	(1,599,036)	(1,110,796)
Purchases of intangibles	(57,406)	(78,913)
Purchases of property and equipment	(56,901)	(11,536)
Net cash provided (used) by investing activities	(372,416)	364,718
Net change in cash	19,936	312,265
Cash, beginning of year	<u>1,619,970</u>	<u>1,307,705</u>
Cash, end of year	<u>\$ 1,639,906</u>	<u>\$ 1,619,970</u>

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

Al-Anon Family Group Headquarters, Inc. (Organization) is a not-for-profit corporation that publishes and distributes books, pamphlets and other materials directly related to Al-Anon's program of assisting families and friends of alcoholics in dealing with the problems of alcoholism. It also assists in the formation of new Al-Anon and Alateen groups and coordinates policy among all such groups throughout the world.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

Financial statement presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The classes of net assets are described as follows:

Net assets without donor restrictions represent unrestricted revenue and contributions received without donor-imposed restrictions. These funds are available for the overall operations of the Organization and can be designated by the Board of Trustees to fund certain projects. See Notes 4 and 9 related to Board designated Reserve and Building Funds. Unrestricted contributions and bequests are recognized as revenue when cash is received.

Net assets with donor restrictions are those that are stipulated by donors for specific purposes or are inherently time restricted, such as promises to give. The Organization does not accept restricted contributions and does not solicit promises to give. Therefore, there are no net assets with donor restrictions.

Cash and cash equivalents

The Organization considers all highly liquid investments purchased with maturities of three months or less and all certificates of deposit to be cash equivalents. Cash and cash equivalents may include checking accounts, savings accounts, repurchase agreements, commercial paper, and money market funds.

Accounts receivable

Receivables from contracts with customers are reported as accounts receivable. Contract liabilities are reported as unearned income. The Organization considers accounts receivable to be fully collectible; therefore, no allowance for doubtful accounts is required. The Organization's policy is to charge off accounts receivable when management determines the receivable will not be collected.

Al-Anon Family Group Headquarters, Inc.
Notes to Financial Statements

Inventories of books and other literature

Inventories are recorded at cost under the first-in, first-out (FIFO) method of accounting. Slow-moving or obsolete items have been written-down to net realizable value.

Literature distributed without charge is not accounted for separately, but is included in the cost of sales. The cost of non-English literature is charged to expense in the year produced.

Investments

Investments are shown at quoted market prices to represent their fair value. Gains and losses on investments are recognized on the sale or redemption on an average cost basis. The Organization carries substantially all investments in equity securities at fair value and record the subsequent changes in fair values in the Statement of Activities as a component of investment gains/losses. Prior to January 1, 2019, substantially all equity security investments were classified as trading and were also carried at fair value.

The Board of Trustees may authorize the transfer of net investment income from the Reserve Fund and the Building Fund to the General Fund. The Board has approved the transfer of up to 4% of the fair value of the investment portfolio based on a 36-month average from the Reserve Fund to the General Fund each year.

Property and equipment

Property and equipment are stated at cost and depreciated by the straight-line method over the following useful lives:

Building	40 years
Building improvements	10 years
Furniture and equipment	3 to 10 years

The Organization's policy is to capitalize property and equipment purchased with a cost greater than \$1,000.

Intangible assets

In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), the Organization amortizes intangible assets with a finite useful life. Amortizable intangibles will be amortized straight-line over the life of the agreements.

Revenue Recognition

The Organization generates revenue primarily from literature sales, magazine subscriptions, and contributions from members. As described below, effective January 1, 2019, the Organization adopted new accounting guidance for recognizing revenues found in Accounting Standards Update ("ASU") No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Revenues from nonexchange transactions are accounted for in accordance with the guidance for contributions and promises to give under Accounting Standards Codification ("ASC") Topic 958, while revenues from exchange contracts with customers are accounted for in accordance with ASC Topic 606. The determination of whether a contract is exchange or nonexchange requires management to exercise judgment and evaluate subjective criteria about whether there is a reciprocal exchange of commensurate value that flows to the direct benefit of the parties to the contract. Although the accounting guidance differs for exchange and nonexchange contracts, in practice, the timing and amount of revenue recognition for the Organization's contracts generally would not differ significantly under either Topic.

Al-Anon Family Group Headquarters, Inc. Notes to Financial Statements

Exchange Contracts Accounted for under Topic 606

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09 which, along with subsequent clarifying ASUs, replaced most existing revenue recognition guidance found in U.S. generally accepted accounting principles (“GAAP”). Topic 606 is a principles-based framework that requires an entity to recognize the amount of revenue to which it expects to be entitled in exchange for the transfer of promised goods or services to customers. ASU No. 2014-09 requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as significant judgments made by management in applying the standard.

Topic 606 is effective for annual reporting periods beginning after December 15, 2018 and permits the use of either the retrospective or modified retrospective approach. The Organization adopted the new standard effective January 1, 2019 using the modified retrospective approach. Implementation of the standard did not result in a cumulative effect adjustment and does not have a significant impact on the timing and amount of revenue recognized in the Organization’s financial statements. In adopting Topic 606, the Company elected to only make the disclosures required by nonpublic entities.

Revenues for exchange contracts accounted for under Topic 606 include literature sales and magazine subscriptions are reported at amounts that reflect the consideration to which the Organization expects to be entitled in exchange for providing the contracted good or services. The Organization determines the transaction price based on the stated fixed price of the good or annual subscription. The nature of the Organization’s exchange contracts generally do not include variable consideration that require significant judgments to estimate the transaction price or related constraints due to risk of significant reversal.

Performance obligations are determined based on the nature of delivery of the goods and services provided. Performance obligations for subscription sales are generally recognized over time based on the subscription period. Performance obligations for literature sales are recognized at a point in time when inventory is shipped to the customer.

Receivables consist of amounts for which the Organization has an unconditional right to collect for literature distributed to customers. Receivables are impaired when determined to be uncollectible based on identified risk of nonpayment. The Organization rarely incurs bad debt expense due to the nature of its receivables. Recoveries of accounts previously written off are recorded as a reduction of bad debt expense when received. Interest is not charged on receivables. Collateral is not required to secure outstanding receivables.

The Organization does not incur costs to obtain customer contracts that are incremental to a given contract (e.g., commissions) or recoverable. In some cases, the Organization may receive payment prior to recognition of revenue. The balance of contract liabilities at December 31, 2019 and 2018 were \$300,103 and \$321,292, respectively.

Nonexchange Contracts Accounted for under Topic 958

In June 2018, the FASB issued ASU No. 2018-08 which clarifies existing revenue recognition guidance for not-for-profit entities and requires an entity to determine whether a contract with a resource provider represents an exchange or nonexchange transaction in order to determine the appropriate accounting guidance for recognition. Arrangements that are determined to be nonexchange transactions are excluded from the scope of Topic 606 and fall under Topic 958. A nonexchange transaction is not considered to be a reciprocal exchange of goods and services with a customer, but rather is tantamount to a contribution from a resource provider.

Al-Anon Family Group Headquarters, Inc.
Notes to Financial Statements

Under Topic 958, nonexchange transactions may be conditional or unconditional. If there is both 1) a barrier and 2) a right of return or release of the resource provider's obligation to transfer assets, then the contribution is conditional. If both criteria are not present, then the contribution is unconditional and is recognized upon satisfaction of any conditions. A contribution also may include a purpose or use restriction on the funding, or may be intended for use in a future year and thus have an explicit or implicit time restriction. Once a contribution becomes unconditional, an entity shall consider whether there is a purpose or time restriction prior to recognizing the funds as unrestricted revenue. The Organization adopted the new standard effective January 1, 2019 using the modified prospective approach.

Unconditional contributions are considered to be available for unrestricted use. The organization does not accept restricted contributions.

Unearned subscription income

The Organization sells subscriptions to a monthly publication called *The Forum*. The Organization records as unearned subscription income the prorated amount of subscriptions which have not been delivered.

Unearned convention and conference income

The Organization records convention and conference income received prior to the convention or conference as unearned convention or conference income.

Noncash contributions

The Organization recognizes contribution revenue for items or services that would be purchased, if not donated, at the fair value of those items at the time the donation is received. During 2019 and 2018, the Organization recognized contribution revenue of \$34,702 and \$25,077, respectively, related to donated marketing services for keywords which link to the Organization's website. The value of the donated non-cash marketing services has been properly reflected in the statements of activities.

Convention income

The Organization records income related to conventions held net of related costs. There was no convention income in 2019. In 2018 there was \$710,809 of direct convention revenue and \$493,451 of direct convention expense, resulting in a net revenue of \$217,358, which is included in the statements of activities.

Direct conference costs

The Organization records income related to direct conference costs net of related costs. In 2019 and 2018, there was \$130,047 and \$149,775, respectively, of direct conference revenue and \$205,261 and \$246,995, respectively, of direct conference expense, resulting in a net expense of \$75,214 and \$97,220, respectively, which is included in the statements of activities in program services expense.

General service meetings

The Organization records income related to general services meetings net of related costs. In 2019 and 2018 there was \$1,006 and \$15,451, respectively, of general service meeting revenue and \$0 and \$35,616, respectively, of general service meeting expense, resulting in a net income (expense) of (\$1,006) and \$20,165, respectively, which is included in the statements of activities in program services expense.

Functional allocation of expenses

The total program cost of producing and distributing literature includes the cost of literature sold and total literature distribution services expense. Shipping and handling costs are also included. The total expense for 2019 and 2018 includes cost of literature sold of \$790,198 and \$781,297 respectively, which is a reduction from literature sales in the statements of activities, plus literature distribution services expense of \$838,661 and \$859,503, respectively, for total costs of \$1,628,863 and \$1,640,800, respectively. Included in packing and shipping expense is \$457,983 and \$541,206, respectively, of revenue for shipping cost included in billed amounts for literature and \$411,805 and \$494,876, respectively, of expense, for a net gain of \$46,178 and \$46,330, respectively, which is included in literature distribution services expense on the statements of activities.

Included in general administration expenses is \$33,290 for fundraising appeal letters.

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses which can be directly associated with a function are charged directly. The 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 salaries, utilities and office administrative expenses, which are allocated on the basis of estimates of employee resources, square footage, and accounting fees that are allocated entirely to general and administrative.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Management made certain significant estimates in the calculation of liabilities for postretirement health benefits. Postretirement health benefits include estimates of employee retention and health care cost trends. It is reasonably possible that a change in these estimates will occur in the near term. The effects of changes in these estimates cannot be determined.

Concentration of credit risk

At times, the Organization has cash and cash equivalents at financial institutions in excess of the federally insured limit. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The Organization places its cash and equivalents with high credit quality financial institutions.

Included in these financial statements are the operations of the Public Information (P.I.) office in Canada. Canadian source revenues are processed in the U.S. office, but deposited in a Canadian bank. Likewise, expenses of the Canadian P.I. office were disbursed from the Canadian bank account. Included in net realized gains is a foreign currency loss adjustment of \$26,453 and \$75,723 for 2019 and 2018, respectively.

At December 31, 2019 and 2018, the Organization had cash deposits in a Canadian financial institution of \$465,995 and \$495,391, respectively, (U.S. dollars).

The Organization sells its publications to affiliated organizations in foreign countries and occasionally purchases foreign language publications from other countries, but not in significant quantities.

Al-Anon Family Group Headquarters, Inc.
Notes to Financial Statements

Income taxes

The Organization is exempt from federal and state income taxes under Section 501(c) (3) of the Internal Revenue Code and the statutes of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Presentation of sales taxes

The Organization's sales are subject to sales tax imposed by various jurisdictions. The Organization collects that sales tax from customers and remits it to the applicable jurisdiction. The Organization's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

Recent accounting pronouncement

The Organization adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, along with several related ASUs issued subsequently, requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Topic 606 replaces most existing revenue recognition guidance. The accounting change has been applied using the modified retrospective approach as of January 1, 2019. The Organization also adopted the provisions of ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting change has been applied using the modified prospective approach.

The amendments in ASU 2014-09 and 2018-08 are effective for the Organization beginning on January 1, 2019. Management has adopted these standards for the year ended December 31, 2019 and has determined that the effects of adopting this ASU are not material to its financial statements.

In 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires entities to measure substantially all equity securities at fair value and recognize changes in fair value included in change in net assets. The Organization adopted the new standard effective January 1, 2019 using the modified retrospective method. The adoption of the ASU did not have a significant impact on the Organization's financial statements.

Subsequent events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 17, 2020, the date the financial statements were available to be issued.

3. Retirement Plan

The Organization sponsors a defined contribution plan covering all eligible employees which includes a cash or deferred arrangement that is intended to qualify under section 401(k) of the Internal Revenue Code. The Organization's contribution rate is 5.3% of the first \$25,000 of salary and 9.5% of the excess over that amount. The first 3% of the Organization's contribution is fully vested immediately due to the plan's safe harbor provision. The contributions for 2019 and 2018 were \$210,124 and \$218,415, respectively, and is included in employee benefits on the statements of functional expenses.

4. Reserve Fund

In April 1970, the Board of Trustees funded the Reserve Fund in an initial amount of \$80,000, the purpose of which was to set aside sufficient funds to ensure the continuation of the Organization's essential services and the funding of special projects. The objective for the fund was to maintain an amount equal to one year's operating expenses. Effective July 1, 1999, the Board of Trustees redefined one year's operating expenses to include all expenses of the Organization except for unusual, nonrecurring items in excess of \$100,000. At the same time, the board stated that the Reserve Fund's assets would be measured against the objective using the lower of cost or fair value.

Transfers between funds are reviewed by the Board on a year-to-year basis. Due to net transfers and retained income during the years, the Reserve Fund balance was \$5,753,920 and \$4,777,233 at December 31, 2019 and 2018, respectively.

5. Liquidity and Availability

The Organization operates on a cash-based budget. As part of the Organization'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. Short-term needs are primarily for salaries, purchases of inventory, supplies, board and staff travel, and general administrative expenses. Expenses due in the coming year are covered by funds raised through contributions and literature sales.

As part of the Organization's liquidity plan, any operational expenditures in excess of anticipated revenue, creating an operational budget shortfall paid for in the same year, are covered by the Reserve Fund.

To provide further liquidity assurance, the Organization maintains its cash and investments in reserve accounts. As of December 31, 2019 and 2018, the balance in the cash reserve account was \$318,940 and \$455,074, respectively. In addition to the cash reserve account, the Organization has additional unrestricted and undesignated bank accounts of \$928,271 and \$1,130,703 at December 31, 2019 and 2018, respectively.

6. Investments

Investments at December 31, 2019 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 642,961	\$ 628,291	\$ (14,670)
Equity securities	2,755,719	4,796,839	2,041,120
Debt securities	<u>1,659,543</u>	<u>1,617,413</u>	<u>(42,130)</u>
	<u>\$ 5,058,223</u>	<u>\$ 7,042,543</u>	<u>\$ 1,984,320</u>

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Investments at December 31, 2018 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 260,303	\$ 231,275	\$ (29,028)
Equity securities	2,606,484	3,577,413	970,929
Debt securities	<u>1,956,736</u>	<u>1,950,746</u>	<u>(5,990)</u>
	<u>\$ 4,823,523</u>	<u>\$ 5,759,434</u>	<u>\$ 935,911</u>

Investment income for 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 297,539	\$ 38,887
Net realized gains (losses)	(65,972)	97,408
Net unrealized gains (losses)	1,048,409	(523,151)
Investment expenses	<u>(67,317)</u>	<u>(66,580)</u>
Net investment income (losses)	<u>\$ 1,212,659</u>	<u>\$ (453,436)</u>

7. Property and Equipment

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Property and equipment		
Land	\$ 158,347	\$ 158,347
Building	2,791,878	2,791,878
Building improvements	571,559	537,515
Furniture and equipment	<u>467,455</u>	<u>444,598</u>
	<u>3,989,239</u>	<u>3,932,338</u>
Accumulated depreciation	<u>(2,496,236)</u>	<u>(2,361,585)</u>
	<u>\$ 1,493,003</u>	<u>\$ 1,570,753</u>

Total depreciation expense for 2019 and 2018 is \$134,651 and \$141,304, respectively. Depreciation on the building of \$116,208 and \$114,286 has been included in occupancy costs for 2019 and 2018, respectively.

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8. Intangible Assets

Intangible assets consisted of the following at December 31, 2019:

	<u>2019</u>	<u>2018</u>
Trademarks	\$ 261,004	\$ 203,598
Accumulated Amortization	<u>(22,888)</u>	<u>(5,889)</u>
	<u>\$ 238,116</u>	<u>\$ 197,709</u>

Capitalized costs to date represent legal costs incurred to acquire trademarks. Amortization expense of \$16,999 and \$5,889 was recorded during 2019 and 2018, respectively.

9. Building Fund

In July 1995, the Organization established the Building Fund to account for the construction of a new headquarters office and warehouse in Virginia Beach, Virginia. Initial funding was obtained by City of Virginia Beach Development Authority Industrial Development Revenue Bonds (Series 1995) of \$2,500,000. The final payment of these bonds was made in April 2010.

The final cost of the building was \$2,791,878. The land was purchased during 1995 for \$158,347. Initial furniture and equipment costs were \$755,150 and were capitalized and transferred to the General Fund. Building improvements totaling \$537,515 have been added to the Building Fund. Accumulated depreciation on the building and building improvements was \$2,069,553 and \$1,953,344 at December 31, 2019 and 2018, respectively.

A transfer between the Building Fund and General Fund was made in the current year to accurately reflect the cost less accumulated depreciation of the land and building of \$1,452,232 and \$1,534,396 as of December 31, 2019 and 2018, respectively. The annual transfer between the Building Fund and General fund reflects the net of any future building improvements and annual depreciation.

10. Postretirement Health Benefits

The Organization provides health care benefits for retired employees after age 60 with 20 years of service. Benefits are provided before age 65 through the Organization's normal employee health plan, and then through Medicare supplemental health insurance policies. The Organization bears the entire cost of the premiums.

The plan is unfunded. The assumed health care cost trend rate used to measure the expected cost of benefits covered by the plan is 5.1%. A discount rate of 2.86% has been used to measure the accrued postretirement health benefits liability. The following table sets forth the information regarding the plan at December 31:

	<u>2019</u>	<u>2018</u>
Postretirement benefits liability	<u>\$ 926,603</u>	<u>\$ 769,808</u>
Increase/decrease in accrued benefits liability	<u>\$ 156,795</u>	<u>\$ (22,058)</u>
Benefits paid	<u>\$ 66,348</u>	<u>\$ 70,149</u>

During 1996, the board authorized this liability to be carried by the Reserve Fund. Accordingly, the liability decrease was recorded in the Reserve Fund.

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Effective January 1, 2018, the Organization elected to no longer offer postretirement health benefits. The exceptions are for those already retired, and active employees that were 65 years of age or older with 20 or more years of service prior to January 1, 2018.

11. Lease Commitments

The Organization leases office equipment and computers under operating leases with varying expirations. Lease expense for office equipment and computers was \$20,425 and \$18,580 in 2019 and 2018, respectively.

In addition, the Organization leases virtual office space in Canada under a lease which expires May 31, 2020. Lease expense for this office space was \$769 and \$751 in 2019 and 2018, respectively.

The minimum lease payments required under the above operating leases as of December 31, 2019 are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2020	\$ 20,511
2021	17,450
2022	7,185
2023	<u>2,472</u>
	<u>\$ 47,618</u>

12. Fair Value Measurements

The Organization defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. Accounting standards establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Current accounting standards expands disclosures about instruments measured at fair value and applies to the other accounting pronouncements that require or permit fair value measurements.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 1 assets include equity and debt securities, as well as U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.
Level 2	Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument. Level 2 assets include agency mortgage-backed debt securities whose value is determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value:

	Assets at Fair Value as of December 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income	<u>\$ 628,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 628,291</u>
Equity securities				
Financial sector	1,726,086	-	-	1,726,086
Health care sector	1,016,358	-	-	1,016,358
Technology sector	901,940	-	-	901,940
Energy sector	205,487	-	-	205,487
Industrial sector	428,433	-	-	428,433
Services sector	108,920	-	-	108,920
Consumer discretionary sector	28,019	-	-	28,019
Consumer Staples sector	8,750	-	-	8,750
Materials sector	123,461	-	-	123,461
Manufacturing	97,100	-	-	97,100
Entertainment	109,764	-	-	109,764
Utilities sector	13,501	-	-	13,501
Real estate sector	13,005	-	-	13,005
Telecommunications sector	15,998	-	-	15,998
Other	15	-	-	15
Total	<u>4,796,837</u>	<u>-</u>	<u>-</u>	<u>4,796,837</u>
Debt securities				
U.S. Treasury securities	383,766	-	-	383,766
U.S. Corporate bonds	-	870,889	-	870,889
Mortgage-backed securities	-	362,760	-	362,760
Total	<u>383,766</u>	<u>1,233,649</u>	<u>-</u>	<u>1,617,415</u>
Total fair value measurements	<u>\$ 5,808,894</u>	<u>\$ 1,233,649</u>	<u>\$ -</u>	<u>\$ 7,042,543</u>

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	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Fixed income	\$ 231,275	\$ -	\$ -	\$ 231,275
Equity securities				
Financial sector	1,181,563	-	-	1,181,563
Health care sector	897,509	-	-	897,509
Technology sector	783,917	-	-	783,917
Energy sector	185,610	-	-	185,610
Industrial sector	315,798	-	-	315,798
Services sector	56,200	-	-	56,200
Consumer discretionary sector	16,592	-	-	16,592
Consumer cyclical sector	26,502	-	-	26,502
Materials sector	85,396	-	-	85,396
Utilities sector	12,640	-	-	12,640
Real estate sector	7,748	-	-	7,748
Telecommunications sector	7,500	-	-	7,500
Other	428	-	-	438
Total	<u>3,577,413</u>	<u>-</u>	<u>-</u>	<u>3,577,413</u>
Debt securities				
U.S. Treasury securities	509,137	-	-	509,137
U.S. Corporate bonds	-	1,091,304	-	1,091,304
Other	7,689	-	-	7,689
Mortgage-backed securities	-	342,616	-	342,616
Total	<u>516,826</u>	<u>1,433,920</u>	<u>-</u>	<u>1,950,746</u>
Total fair value measurements	<u>\$ 4,325,514</u>	<u>\$ 1,433,920</u>	<u>\$ -</u>	<u>\$ 5,759,434</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes the valuation methods are 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 estimate of fair value at the reporting date.

13. Commitments

The Organization has entered into a contract with the Albuquerque Convention Center for the Organization's 2023 International Convention that will be held in July 2023. In the event of cancellation, the Organization may be responsible for the entire rental, up to a maximum of \$60,164 as of December 31, 2019.

The Organization has entered into a contract with RNF Technologies to develop a mobile application. The Organization is responsible for remaining payments of \$23,500 as of December 31, 2019.