Al-Anon Family Group Headquarters, Inc.

Financial Statements and Supplementary Information for the Year Ended December 31, 2014 with Comparative totals for 2013, and Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

Al-Anon Family Group Headquarters, Inc.

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DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Al-Anon Family Group Headquarters, Inc. (a nonprofit Organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2014, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for the purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Al-Anon Family Group Headquarters, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dixon Hughes Goodman LLP

Norfolk, Virginia
March 5, 2015

Al-Anon Family Group Headquarters, Inc.

Statement of Financial Position

December 31, 2014 with Comparative Totals for 2013

	2014 Totals	2013 Comparative Totals
Assets		
Cash	$ 797,351	$ 1,278,442
Accounts receivable	206,767	201,376
Inventories of books and other literature	680,718	596,835
Deferred charges and deposits	242,459	250,654
	1,927,295	2,327,307
Investments	5,922,878	5,753,947
Property and equipment		
Land	158,347	158,347
Building	2,791,878	2,791,878
Building improvements	524,254	485,294
Furniture and equipment	374,725	402,030
	3,849,204	3,837,549
Less - accumulated depreciation	(1,764,073)	(1,632,415)
	2,085,131	2,205,134
	$ 9,935,304	$ 10,286,388
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 331,282	$ 407,956
Accrued postretirement health benefits	989,424	899,722
Unearned subscription income	167,605	162,053
Unearned conference and other income	154,933	186,561
Total liabilities	1,643,244	1,656,292
Unrestricted net assets	8,292,060	8,630,096
	$ 9,935,304	$ 10,286,388

The accompanying notes are an integral part of these financial statements.

Al-Anon Family Group Headquarters, Inc.

Statement of Activities

Year Ended December 31, 2014 with Comparative Totals for 2013

	General Fund	Reserve Fund	Building Fund	2014 Totals	2013 Comparative Totals
Revenue					
Literature sales	$ 3,861,570	$ -	$ -	$ 3,861,570	$ 4,118,601
Cost of sales	801,520			801,520	975,096
Gross profit from literature sales	3,060,050	-	-	3,060,050	3,143,505
Forum subscriptions	242,117	-	-	242,117	252,757
Contributions	1,521,388	-	-	1,521,388	1,405,814
Investment income (loss)	207,818	(232,139)	-	(24,321)	679,562
Convention income	-	-	-	-	69,821
Loss on disposal of property and equipment	-	-	-	-	(15,060)
	5,031,373	(232,139)	-	4,799,234	5,536,399
Functional expenses					
Member services	1,568,128	-	-	1,568,128	1,418,586
Communication services	1,160,014	-	-	1,160,014	1,176,303
Literature distribution services	799,602	-	-	799,602	801,711
General administration	1,519,824	89,702	-	1,609,526	1,558,334
	5,047,568	89,702	-	5,137,270	4,954,934
Change in net assets for year	(16,195)	(321,841)	-	(338,036)	581,465
Net assets - beginning of year	2,193,222	4,737,958	1,698,916	8,630,096	8,048,631
Transfer	(265,129)	-	265,129	-	-
Net assets - end of year	$ 1,911,898	$ 4,416,117	$ 1,964,045	$ 8,292,060	$ 8,630,096

The accompanying notes are an integral part of these financial statements.

Al-Anon Family Group Headquarters, Inc.

Statement of Cash Flows

Year Ended December 31, 2014 with Comparative Totals for 2013

	2014 Totals	2013 Comparative Totals
Cash flows from operating activities		
Change in net assets	$ (338,036)	$ 581,465
Adjustments to reconcile to net cash from operating activities:		
Depreciation	169,853	155,043
Loss on disposal of property and equipment	-	15,060
Loss (gain) on investments (realized and unrealized)	98,640	(595,687)
Interest/dividend income reinvested	(40,239)	(32,974)
Change in:		
Accounts receivable	(5,391)	(14,381)
Inventories	(83,883)	133,330
Deferred charges and deposits	8,195	46,091
Accounts payable and accrued expenses	(76,674)	76,068
Accrued postretirement health benefits	89,702	43,455
Unearned subscription income	5,552	(12,250)
Unearned convention income	-	(408,641)
Unearned conference and other income	(31,628)	45,662
Net cash from operating activities	(203,909)	32,241
Cash flows from investing activities		
Sale of investments and transfers to operating cash	824,354	1,375,340
Purchases of investments	(1,051,686)	(673,913)
Purchases of property and equipment	(49,850)	(140,230)
Net cash from investing activities	(277,182)	561,197
Net change in cash	(481,091)	593,438
Cash - beginning of year	1,278,442	685,004
Cash - end of year	$ 797,351	$ 1,278,442

The accompanying notes are an integral part of these financial statements.

December 31, 2014

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

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for 2013, from which the summarized information was derived.

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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The classes of net assets are described as follows:

> **Unrestricted amounts** 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 6 related to Board designated Reserve and Building Funds. Unrestricted contributions and bequests are recognized as revenue when cash is received.

Temporarily restricted amounts are those that are stipulated by donors for specific purposes or are inherently time restricted, such as pledges. When a temporary 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 Organization does not accept restricted contributions and does not solicit pledges. Therefore, there are no temporarily restricted net assets.

Permanently restricted amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. The Organization has no permanently restricted net assets.

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

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.

Inventories

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 literature sold. The cost of non-English literature is charged to expense in the year produced.

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.

Total depreciation expense for 2014 is $169,853. Depreciation on the building of $114,198 has been included in occupancy costs for 2014.

Investments

Investments are shown at quoted market prices to represent their fair value. Gains and losses on investments are recognized on sale or redemption on an average cost basis.

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.

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.

Convention Income

The Organization records income related to conventions held net of related costs. No revenue related to conventions was recorded during 2014.

Expenses

The total program cost of producing and distributing literature includes the cost of literature distributed and total literature expense. Shipping and handling costs are also included. The total expense for 2014 includes cost of literature distributed of $801,520, which is netted with gross profit from literature sales in the statement of activities, plus literature distribution services of $799,602 for a total of $1,601,122.

Included in general and administrative expenses is $16,999 for fundraising (appeal letters).

The costs of providing the various programs and activities have been summarized on a functional basis in the schedule of functional expenses, which is shown as supplementary information. 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 allocation of functional expenses has been modified to conform more closely with the operations of the Organization. At one time there were Directors for each of the four departments; Group Services, Membership Outreach, Public Outreach, and Fellowship Communication. As two of the Directors retired, the Organization consolidated Group Services and Membership Outreach into the Member Services Section and Public Outreach and Fellowship Communications into the Communications Services Section. During the past several years, the departmental designations became less and less distinct as the employees now worked more for the Section than their prior department. In order to show this makeup of the Organization more correctly, we have consolidated the departments into their appropriate section. There was a similar situation with the Customer Service/Warehouse and Literature Production. These departments are now consolidated in Literature Distribution Services.

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.

At December 31, 2014, the Organization had cash deposits in a Canadian financial institution of $100,902 (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.

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. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2014. Fiscal years ending on or after December 31, 2011 remain subject to examination by federal and state tax authorities.

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.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 5, 2015, the date the financial statements were available to be issued.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation. The Organization changed the method of allocating certain expenses on the statement of activities and schedule of functional expenses and reallocated approximately $300,000 from general administrative expense to program expenses. This change was made to more accurately reflect the expenses for services provided by the Organization. These reclassifications have no effect on the 2013 change in net assets.

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 7.3% of the first $25,000 of salary and 11.5% 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 contribution for 2014 was $245,665.

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 at fair value was $4,416,117 at December 31, 2014.

5. Investments

Investments at December 31, 2014 are summarized as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 110,973	$ 110,973	$ -
Mutual funds	321,577	307,878	(13,699)
Equity securities	2,632,254	3,570,525	938,271
Debt securities	1,930,132	1,933,502	3,370
	$ 4,994,936	$ 5,922,878	$ 927,942

Investment income for 2014 was as follows:

Interest and dividends	$ 137,554
Net realized gains	54,012
Net unrealized losses	(152,652)
Investment expenses	(63,235)
Net investment income	$ (24,321)

6. 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 $524,254 have been added to the Building Fund. Accumulated depreciation on the building and building improvements was $1,510,434 at December 31, 2014.

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 $1,964,045 as of December 31, 2014. Going forward, the annual transfer between the Building Fund and General fund will reflect the net of any future building improvements and annual depreciation.

7. 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 2.4%. A discount rate of 3.21% has been used to measure the accrued postretirement health benefits liability. The following table sets forth the information regarding the plan at December 31, 2014:

Postretirement benefits liability	$ 989,424
Increase in accrued benefits liability	$ 89,702
Benefits paid	$ 44,331

During 1996, the board authorized this liability to be carried by the Reserve Fund. Accordingly, the current year increase of $89,702 was recorded in the Reserve Fund.

8. Lease Commitments

The Organization leases office equipment under operating leases with varying expirations. Lease expense for office equipment was $29,426 in 2014.

In addition, the Organization leases office space in Canada under a lease which expires in 2014. Lease expense for this office space was $816 in 2014.

The minimum lease payments required under the above operating leases as of December 31, 2014 are as follows:

2015	$	21,045
2016		18,165
2017		8,109
2018		2,519
2019		2,099
	$	51,937

9. 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.

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 as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Fixed income	$ 307,878	$ -	$ -	$ 307,878
Equity securities				
Financial sector	1,255,097	-	-	1,255,097
Health care sector	768,637	-	-	768,637
Technology sector	369,887	-	-	369,887
Oil and gas industry	279,541	-	-	279,541
Other	897,363	-	-	897,363
Total	3,570,525	-	-	3,570,525
Debt securities				
U.S. Treasury securities	644,829	-	-	644,829
U.S. Corporate bonds	1,005,626	-	-	1,005,626
Mortgage-backed securities	-	283,047	-	283,047
Total	1,650,455	283,047	-	1,933,502
Total fair value measurements	$ 5,528,858	$ 283,047	$ -	$ 5,811,905

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.

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Al-Anon Family Group Headquarters, Inc.

Supplementary Information

December 31, 2014

Al-Anon Family Group Headquarters, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2014 with Comparative Totals for 2013

	Member Services	Communication Services	Literature Distribution Services	General Administration	2014 Totals	2013 Comparative Totals
Operating expenses						
Salaries	$ 836,741	$ 643,370	$ 561,603	$ 670,245	$ 2,711,959	$ 2,690,889
Employee benefits	198,510	157,884	135,847	163,948	656,189	746,549
	1,035,251	801,254	697,450	834,193	3,368,148	3,437,438
Occupancy costs	100,597	44,381	115,391	35,506	295,875	280,253
Packing and shipping (net)	-	-	(46,879)	-	(46,879)	(22,587)
Postage	160,186	96,218	3,417	33,986	293,807	219,553
Telephone	8,091	4,998	5,554	37,763	56,406	54,602
Stationery and supplies	14,139	6,698	1,301	66,273	88,411	113,578
Outreach activities	-	6,163	-	-	6,163	5,518
Office services and expenses	6,037	3,882	4,960	237,156	252,035	216,306
Repairs and maintenance	2,017	1,296	2,866	3,128	9,307	6,987
Travel and meetings	30,172	8,313	-	114,124	152,609	138,205
Direct conference costs	55,585	-	-	-	55,585	54,714
Professional fees	-	-	-	68,285	68,285	37,085
Printing	119,785	77,071	-	-	196,856	151,754
Canadian office	-	1,432	-	-	1,432	2,034
Office volunteers	-	-	1,450	-	1,450	1,140
Public service announcements	-	97,463	-	-	97,463	82,764
Miscellaneous expenses	-	-	2,086	31,673	33,759	43,787
Total operating expenses	1,531,860	1,149,169	787,596	1,462,087	4,930,712	4,823,131
Nonoperating expenses						
General service meeting	16,870	-	-	-	16,870	-
Membership survey	-	-	-	-	-	1,500
Depreciation	19,398	10,845	12,006	13,406	55,655	40,845
Postretirement health benefits	-	-	-	134,033	134,033	89,458
	36,268	10,845	12,006	147,439	206,558	131,803
Total expenses	$ 1,568,128	$ 1,160,014	$ 799,602	$ 1,609,526	$ 5,137,270	$ 4,954,934

See independent auditors' report.