

WORLD SERVICE CONFERENCE OF NARCOTICS ANONYMOUS

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Date: October 1, 1987
To: The Fellowship
From: Leah Goodrich, Chairperson
World Service Conference

Attached is the report to the Fellowship on the possibility and impact of reducing the price of the Basic Text and information pamphlets by twenty-five percent. This report is the result of a motion adopted by the World Service Conference at its annual meeting in April, 1987. It is my belief that this report was prompted by a desire to better understand the role the WSO has in furthering the primary purpose of Narcotics Anonymous.

For a number of years, our Fellowship has been trying to understand and grasp the appropriate relationship between itself as a spiritual entity, and the business aspects necessary for an effective service center. We have struggled through different phases of our understanding by separating the two, all the while finding ourselves relying more and more on the resources an effective service center has to offer. It is evident that we are not yet comfortable and experienced with how our service centers and special workers fit in with the overall aspects of N.A. service work. However, it is of the utmost importance that we come to some conclusion, by examining our Twelve Traditions, for the addict who still suffers cannot afford to wait while we continuously fight with ourselves.

Money always presents us with a difficult subject with which to grapple. Money has always represented power and the ability to control activities and results. Some of our members find the discussion of money within N.A. totally contrary to the spiritual nature of our Fellowship. But money is necessary if we are to inform addicts and the general public about our existence. Funding for all world service activities (WSC, WSB, and WSO) needs to be understood and supported by a set of accepted priorities. This is where we have, perhaps, succeeded the least. For example, twice in recent years, the WSC has supported the use of funds from literature sales for its own general activities, but we have not discussed to what extent those funds should be used and what other services may be affected as a result of providing the WSC with more access to funds from literature sales. What affects one committee or board eventually affects all.

The decision we have before us is simple. It compares the impact of cheaper books to the individual member with the impact of starting less meetings and perhaps slower growth worldwide. It is the impact of cheaper books to our English-speaking members and less available funds to translate our message into other languages. It is the trade of one vehicle for carrying our

message at the expense of others. And who is to say that literature is a better carrier of our message than meetings, P.I., and H&I services? It is the combination of all we have to offer that makes us effective in carrying our message. One is not better than the other. They all work.

The responsibility to make books available to the newcomer falls on our individual members. When we as individual members work with newcomers and sometimes provide shelter, food, clothes, or a Basic Text, we do not require reimbursement from our group. Most of us would find this quite absurd. We are not a charity but a Fellowship who demands self-support as the price of freedom. Giving of oneself is the reward of our individual membership and not the responsibility of our service committees and boards. As a member I am grateful to be able to do so.

If we take a look at all our Twelve Traditions have to offer, they specifically mention trusted servants, groups, service boards and committees, service centers and special workers all having an important responsibility. Each, separately and together, provides services to N.A. and for N.A. They are complementary and supportive of all aspects of N.A. services. We are not separate entities competing with one another, we are working together to serve the best interests of the Fellowship of Narcotics Anonymous. When we are able to realize the full impact of what our Traditions imply, we will be most effective in providing our services.

There is a practical as well as spiritual side to the proposal. If, for instance, the Office were to maintain only its publishing and distributing responsibilities, the World Service Conference would find itself funding a separate administrative facility to continue its work. Someone would have to be found to staff this facility. More and more effort would have to be made by our trusted servants in their service work and less time given to work, family and other personal responsibilities. It would cost more to serve and many would be unable to do so and that would be a shame.

What we may feel are our problems in world services, and the WSO specifically, would not be solved by a simple reduction in the cost of literature, although in years to come that may be a reality we pursue. We have made mistakes, there is no doubt. Our decisions have not always proved fruitful or beneficial, but the remedy does not lie with limiting our abilities to provide services or separating our resources. It will be in understanding our common welfare, working together, and sharing a mutual trust and respect amongst our services, trusted servants, special workers, groups and members. Our unity will depend on all of us united in a common purpose to improve our ability to carry our message of hope and recovery to the addict who still suffers.

It is my opinion that the report clearly examines the impact that a twenty-five percent price reduction would create. While we may not agree entirely with every statement or conclusion of the report, it does show the uncertainty of current services that would result from a price reduction.

The report includes many interesting and important comments on the events that led to the WSO doing what it does. The description of services provided in the report is, in my opinion, incomplete. I might have preferred that the report be more specific in actual services that would have to be cut,

but the message is clear in trying to balance the needs of our members, and our future members, with the needs of an effective service center.

The current WSO discount policy does offer a price reduction within the Fellowship on a graduated scale. The extent of that system matches pretty closely the intent of the original motion. The information presented in this report clearly shows that now is not the time to pursue a reduction in literature prices, because in the long run, it will not prove to benefit our primary purpose.



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NARCOTICS ANONYMOUS

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Date: October 1, 1987
To: The Fellowship
From: The World Service Office

A SUMMARY

Attached is the report to the Fellowship requested by the World Service Conference. In order to analyze the impact of reducing the price of the Basic Text and information pamphlets, it was necessary to project the monetary impact on existing financial records. This was accomplished by measuring probable reductions in income against the figures reported in the WSO 1986 Year End Financial Report.

In addition to affecting the figures in the Year End Report a change in literature prices would have impact on most WSO policies. The first policy to be affected is the Discount Sales Policy. This policy converts relevant publications industry practices to our spiritual Fellowship needs. The study reveals that although WSO offers only some of the discounts common in the publishing industry to our customers, several commercial buyers do purchase from WSO. Sales to these companies (called suppliers in the report) resell most of the literature to treatment centers, hospitals, and other professionals. These "suppliers" purchase about fifty percent of all Basic Texts sold, providing to the WSO twenty-six percent of all income. They receive a forty percent discount but have to pay for the shipping costs. This averages out to be a thirty-five percent discount. These companies purchase large quantities only because they can obtain this discount.

The WSO Discount Sales Policy favors purchases by the N.A. Fellowship and offers discounts to committees and N.A. offices on a sliding scale. The scale begins with a five percent discount and increases to include a twenty percent discount plus a provision that waives the five percent shipping fee. Another provision for large committee or N.A. office purchases offers a forty percent discount and waives the five percent shipping fee.

The report discloses that a twenty-five percent across-the-board reduction in the price of the Basic Text and I.P.'s would have a disastrous impact on the WSO. If a price reduction was required, a decision would have to be made to determine if the WSO was to continue providing the services it currently does for the addicts who have not yet found N.A., for the Fellowship and its committees, as well as the general public. If the answer was "no," then the WSO would lay off a large part of its staff and limit its operation to publishing and distributing. If the answer was "yes," and a price reduction was required, other sources of income would have to be created.

Regardless of the decision on the breadth of services, if the price reduction was required, then the discount system would have to be abandoned. Elimination of the discount system would further reduce the income.

The report describes that cuts would be made first in prudent reserve allocation, transportation expense, and purchase of new equipment. Even though these reductions would have a major impact, they would not save enough to live within the lower income level. A summary of the various areas of WSO service is provided in approximately the sequence that such services exist in priority for retention. A twenty-five percent reduction in price would have the impact of forcing staff cuts that would eliminate many valuable activities.

The report offers four possible alternative measures to offset a reduction in price: Renewed efforts to obtain funding for WSO operations from the Seventh Tradition fund flow system, adding new inventory items such as jewelry, T-shirts, bumper stickers, etc., depending on introduction and sales of other major literature productions (*It Works: How and Why*, and a daily meditation guide or other lengthy publications) and embarking on a project to sell the Text through commercial book stores. Although some members may support one or more of these and other members oppose several or all, they are practical alternatives. However, they may not provide income immediately and the level of income they would generate cannot be accurately determined.

The report ends with some concluding remarks. Three paragraphs of those concluding comments are included here:

1. The trade off between saving the member or the group the two dollars per book if the price was reduced and reducing the services provided by the WSO does not seem to be a wise trade. There is more benefit to addicts still on the streets, to the individual members of our Fellowship, to our service committees and to the general public if the price remains the same.
2. An across-the-board reduction in the price of the Basic Text and I.P.'s, by twenty-five percent, would cause elimination of the discount policies. This would, in turn, eliminate a major part of our sales outside the Fellowship. This would decrease WSO income and more importantly deny addicts the opportunity to obtain the N.A. Basic Text while in treatment centers, hospitals or from social service professionals.
3. The services provided by the WSO are an essential part of a vibrant and functioning Fellowship. The crippling of the WSO by reducing its ability to generate income for services is a step backward, the consequence of which may be to convey the message that we do not care or are uninterested in investing enough of our resources to help suffering addicts find recovery in our Fellowship.

Our Fellowship, although strong in North America, is weak or non-existent in most other places. The last three years have proven that a financially sound WSO has had a significant impact on the growth of N.A. If we are committed to carrying the message of recovery to every addict, then making the WSO weak by reducing its financial foundation is the last thing we should do.

A REPORT TO THE FELLOWSHIP
ON THE POSSIBILITY AND IMPACT OF REDUCING THE
PRICE OF THE BASIC TEXT AND INFORMATIONAL PAMPHLETS

At the World Service Conference meeting held this year the following motion was adopted: "That the WSO Board, in conjunction with the WSC Administrative Committee, prepare a report for the Fellowship as a whole on the possibility and impact of reducing the price of our Basic Text and informational pamphlets by 25%. Included in this report will be the impact on our services worldwide and possible solutions to any adverse effect that this reduction in price would create in our ability to carry out our Fifth Tradition. This report will be made to the Fellowship by October 1, 1987."

This report comes as the result of a request to discuss the consequences of a possible reduction in the price of the Basic Text and the informational pamphlets. This issue arose before the Conference originally as a motion that would have directed the WSO to reduce its prices by twenty-five percent without having first studied the matter. The members who initially proposed the motion as an action item for the Conference considered a request by the WSO to amend their motion and seek a study rather than an immediate change in price policy.

The WSO wishes to thank these members for their willingness to consider the matter and amend their motion. The Office supported adoption of the motion to have this study completed.

During the past four months a comprehensive review of World Service Office finances was conducted. In the course of the study the relationship of the Office to other service elements was analyzed. It was clear from all aspects of this study that every action taken that affects the aggregate income or expense of the Office has impact on all other elements of N.A.

The report, including attachments, will be sent to all current World Service Conference participants and regions. Because the report with attachments is quite lengthy, a prudent fee will be charged for copies made and sent to all others.

The study was conducted with considerable interest by WSO staff members who worked on it and others who assisted in the review process prior to its publication. It was a very enlightening project. The study reveals valuable insights to the current operation of the WSO -- its relationship to N.A. as a whole, to those who purchase from the Office, to those service elements who obtain assistance from the WSO, and addicts who directly or indirectly benefit from the utilization of WSO funds.

The report is divided into sections by subject matter. There was an almost unlimited variety of ways this report could be structured and there are a larger number of items that could be analyzed than are presented here. However, it became necessary to set limits on this study in order to make it productive without becoming lost in minutiae.

This report presented the opportunity for the Office to examine some of the policies and backgrounds for policies that the WSO has followed. Some of these policies have been stated at Conference meetings, others published in the *Newsline* or Fellowship Reports, and Special Reports. Conducting this study provided the opportunity to re-evaluate each of those policies and determine their relevance and

significant details as they financially affect the WSO and the Fellowship. Some changes in these policies may result from this study during the coming year.

THE ISSUES

From time to time the Office receives inquiries concerning various aspects of WSO financial operations. These inquiries are founded on interest from members who simply do not have answers to their own questions or those they hear from others. There is no question that every member of the Fellowship has an equal right to express such interest, as this Office serves the interests of all members. The Office is an incorporated body with a Board of Directors who exercises direct legal control over the Office, in the name of and for every addict who works the N.A. Program and considers himself a member.

The inquiries we receive cover a wide range of interests. Some ask about employment policies while others inquire about becoming a vendor to supply the WSO with certain products. Others may ask about literature production schedules. Some ask about management policies: what instructions are given to employees about how they respond to certain types of situations.

Many of our members, especially early in their recovery, are unemployed. Frequently money for living expenses is hard to come by and there is often a large number of financial amends to be made. This makes it hard for some members to be able to put money in the basket when it comes around or buy their own copy of the Text. Buying copies for others is a constant desire but frequently not possible. Often our members talk of this and express their wish that the Text and other items were less costly.

Probably the issues most often raised pertain to the cost of literature, about price policies, the cost of production and, of course, what we are doing with all that money. This last question presupposes that there is a mass of money floating around.

The price of the Basic Text was established in 1982. The price for the informational pamphlets was established in early 1983. Both were established by the WSO Board of Directors. Until the end of 1982, the Office was operated entirely by volunteers. The first part-time employee was hired in December of that year and the second employee was added in April 1983. Until orders for the Basic Text were accepted in 1982, income of the Office was not large enough to pay for employees. The amounts charged for the White Booklet and pamphlets were only enough to pay for their production and shipping costs, with a little left over to pay for the rent and the phone.

Adding to the lack of funds at that time was the small number of items in the inventory and the small quantity of each that was sold. At the time there were less than 2,000 meetings and several area committees were printing the White Booklet and the informational pamphlets on their own, thereby depriving the WSO of needed income. The availability of the Basic Text on April 27, 1983, and an additional thirteen informational pamphlets three months later, changed everything.

When the price was established for the Text, it was announced that the price would eventually be reduced when the WSO became solvent, accumulated essential office equipment, and overcame the expected increase in monies required for organization of the Office. As we have become more able to provide services, we have discovered how little we are doing compared to the need. Although N.A. has grown tremendously in recent years there are still more addicts who have *not*

heard of N.A. than those who have. We are still some years away from the time when the need for expanded effort will pass.

There are several other matters affecting WSO expenses that were not known at the time when the price of the Text and I.P.'s was established. Because literature was not available in other languages, little if any was sold outside the U.S., Canada, England and Australia. Only after we began an organized effort to translate literature into other languages and develop the few contacts into meetings and service structures did we discover the tremendous cost we would incur. In addition to discovering the costs, we learned of the inability of many of these groups to be able to purchase literature at the current prices or at any price. It has become obvious that the English-speaking part of the N.A. Fellowship is going to have to subsidize the translation process and the distribution of literature in other cultures for many years. After those emerging N.A. communities grow they will be able to print and distribute literature in their own countries on an economical basis consistent with their own standards of living. But, in most cases, that will be five or ten years away. These and many other needs we have been requested to meet are why consideration by the WSO Board to reduce the price never got very far.

Regardless of whether or not the price had been reduced, the income of the Office was going to increase as the Fellowship grew and as a larger volume of the Text and informational pamphlets were sold. This has come to pass. But the needs we were requested to satisfy were growing faster than the increase in income. Through the reports made by the WSO since mid-1983, these additional needs were discussed. Unfortunately, there is a lack of trust among some of our members, and the facts published by the WSO concerning WSO income and expenditures in the Annual Report, *Newsline*, and Fellowship Reports do not satisfy all these fears. From time to time we hear of discussions alleging that the WSO has hundreds of thousands and occasionally millions of dollars tucked away in some bank.

A major thrust of this report is the evaluation of the impact of a price reduction with direct relationship to the effect on the services provided by WSO. There are two separate issues in this matter. The first is the financial impact of the reduction and the second is the philosophical appropriateness of the impact. If the financial impact would cause a reduction in services, the second question then has to be addressed: Does the Fellowship want to trade the cost saved by the group or member when a book is purchased for a continuation of services provided by WSO? If the answer is that the Fellowship desires to avoid decreasing services provided by WSO, then the price would have to remain the same or other income producing efforts would have to be initiated. The section on Alternatives addresses this matter.

WSO COMMUNICATIONS

The Office has attempted to be open and forthcoming with respect to the general management of this trust responsibility. In 1983, the Office initiated publication of a monthly report called the *Newsline*. This publication was intended primarily to provide an opportunity for the Office to inform the Fellowship at large of what was going on at the Office. This publication has been used to inform members and groups about things being considered, things decided, things delayed, things not decided, about policies, procedures and problems. Although the *Newsline* is now printed bi-monthly it will continue to be used for these purposes.

Additionally the Office has taken full advantage of the Fellowship Reports that have been prepared during the same period of time. The Office has included reports in this publication to further inform N.A. members about the Office, its actions and problems. Other reports have also been prepared on specific problems or subjects. These special reports have usually been prepared jointly with other service arms such as the Board of Trustees and the Conference Administrative Committee.

The Office has prepared an extensive report for delivery to the Conference when it meets each year. This report includes a financial statement, an analysis of income and report on areas of responsibility or problems. The Office has answered numerous questions when this report is presented each year and is always receptive to responding to questions at any time.

The desire of the Office Board and staff is that this report present a clear, concise and accurate picture of WSO financial operation so that the matter of price of items purchased from the Office will be put to rest. The responsibility for the creation and implementation of WSO policies and procedures has been in the hands of the Board of Directors. This report clearly reveals that decisions for the Office concerning the complex interrelationships between price policy, discount policy, industry practices, N.A. objectives and Fellowship philosophy need to be left in the hands of people fully conversant with the issues.

THE STUDY

The consideration of a possible reduction in the price of the Basic Text and I.P.'s cannot be accomplished without investigating all impacts that a change in WSO income would cause. The price established at \$8.00 for the Text and \$.15 for each I.P. is the "retail price." Since late 1984, WSO had begun to develop a volume sales discount policy that applied to all customers, but favored service committees. These policies were adopted, amended and have been in use for some time. A copy of the current policy is included as Attachment One to this report.

A general statement about the sales policy would be that most Fellowship purchases are eligible for discounts of some amount. The discount amount depends on who the purchaser is, how much they are purchasing, and the specific section or paragraph of the policy being applied to the sale. The discounts range from five percent to twenty percent at which point the five percent shipping fee is waived. Another section of the policy allows discounts up to 40%.

Any reduction in price policy would have an impact on the sales policy. This study therefore begins with an overview of the common publication industry business practices and the WSO adaptation of these in the WSO sales policy (Attachment One). This is followed by an examination of the 1986 Year End Report (Attachment Two) and the probable impacts on WSO operations. The report ends with suggestions for several mitigating measures and concluding observations.

Attachment Three gives a breakdown of the income generated from the different inventory groups, other valuable statistics and shows the calculations used in the report. The single largest income source is the Text. The Text, even when purchased with a discount, provides more than 50% of WSO income. A decrease in the price of this item has a larger impact than an equal decrease in the price of any or all other items. (Attachment Four, Note 1)

INDUSTRY BUSINESS PRACTICES

The Office is part of a spiritual fellowship, but the Office must conduct most of its business, for the benefit of the Fellowship, keeping in mind common practices of businesses for profit. What is really different about the Office is what the excess income is used for. Rather than dividing the income among stock holders, the money is used to help the Fellowship and the addict who is still suffering.

Another key difference is how the WSO applies the use of common industry practices to its policies and operation. In the literature business (book and magazine industry which are the closest industry to which the WSO price and sales policies are related) there are many standard business practices that the WSO must adapt to N.A. needs. For sales within the Fellowship these practices may not be expected, but for the ability of WSO to conduct business in the industry, some of these practices are essential. It is the burden of the WSO to evolve policies that are relevant to both and not in conflict with the needs of each.

Every company involved in the production and sale of books and magazines utilizes their own combination of these practices. The common practices involve buyer purchase conditions: use of purchase orders, partial payments or credit arrangements, returns on outdated publications, consideration of customer stock levels when scheduling release of revisions of standard publications and discounts on volume purchases.

Each company has its own slant on each of these and there are differences from company to company in some respects. These differences are frequently fairly slight, with emphasis on its products or experiences unique to the company. The industry discount standards are based on characteristics of retail book sales which usually offers a discount that is 40 to 50 percent of the retail price. Few publishing companies offer smaller discounts. The WSO does not match most of these standard industry discounts.

An important reason for the difference is that the industry establishes prices using different reasoning than does the WSO. Making money is usually the biggest concern. The normal industry price for a book of the page count, quality production and sales volume of the N.A. Basic Text is \$12.00 to \$16.00. If any commercial publishing company had the publishing rights to this book, the retail sales price would not be less than \$12.00.

This minimum price and the price range shown would provide opportunity for the publishing company to offer the standard industry discounts and still make a larger profit than the WSO does. When the price for the N.A. Text was established in 1982, it was done without any knowledge of the industry practices or pricing norms.

DISCOUNT SALES POLICY

For those who are eligible to take advantage of the discount, the effect of having a discount sales policy is the same as a reduction in the price. In 1983 and early 1984 no discounts were authorized. In late 1984, a sales policy was adopted that included opportunity for discounts. (Attachment One)

The consequence of this policy has been a reduction in WSO income for sales made pursuant to the policy. Generally the discount policy provides for a progressive discount based on an increase in the purchase quantity. When the policy was first written it provided for special treatment of purchases made by N.A. service committees. During the last twelve months we have worked with our area and regional offices to develop a modification to the discount system that improved the policy for the benefit of sales within the N.A. Fellowship.

The field of economic theory is full of information concerning bell curves that show the impact of increases or decreases in the number of units sold when the price of an item is raised or lowered. Unfortunately we do not have the freedom to experiment with such economic theory when it comes to the price of the Basic Text or income for the WSO. It is safe to say, however, that in the short term a decrease in the price of literature would normally be followed by an increase in the number of units sold, equaling at least the original total dollar expenditure. In the long term, however, there tends to be a lessening in demand eventually establishing a new level which is below the original dollar expenditure level.

When the discount policy has been utilized by committees and offices, the short term impact has been to increase the quantity of items purchased so that the levels of their expenditures have remained the same or increased. It has not been possible to study this to learn the dynamics involved. It appears, however, that the larger the volume of materials a committee or office has, the larger the demand upon them for the materials.

The impact of these discounts is simply a reduction in income for the WSO on a larger quantity of items distributed. The figures in the 1986 year end report are easy to understand on this point (See Attachment Two). If no discount had been available, the income of the Office would have been \$469,551 more than it actually was, if the same quantities had been purchased by the same buyers.

An added factor concerning the discounts offered is that for sales in some categories, the WSO pays the shipping costs. The effect of having the WSO pay the shipping costs on some orders is to increase the discount amount on those orders. In 1986, the Office paid over \$9,000 in shipping expenses for orders where the shipping fee was waived.

The yearly average credit discount policy and its shipping fee calculation is reflected below.

| | |
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| More than \$500 but less than \$1,000 - | 5% discount - no shipping fee |
| More than \$1,000 but less than \$5,000 - | 10% discount - no shipping fee |
| More than \$5,000 but less than \$15,000 - | 15% discount - no shipping fee |
| More than \$15,000 per month | 20% discount - no shipping fee |

The impact of the no shipping fee policy is to add 5 percent to the discount for these orders.

For sales not using the yearly average provision but making separate orders for \$10,000 or more, the shipping fee is also waived making the discount twenty or twenty-five percent depending on whether it was under paragraph seven or eight of the policy.

The discount policy was developed with a specific goal in mind: To provide a financial incentive for areas and regions to become directly involved in the literature distribution process rather than having the WSO be the single source provider for all direct literature sales. A reasoned, logical and mutually discussed discount policy can, and to a major degree already has, achieved this. The discount passes on to the area or region sufficient funds to make operation of an office or literature committee an economical possibility.

Part of the problem involved in the discussion of the price of the Text and informational pamphlets is what the actual costs are for a member when he buys them from the area office, the area literature committee, or at a group. There is great divergence within the Fellowship on price policy at the group and area level. Some sell the literature at their cost while others increase the price so as to generate income for operational needs or other purposes. The discount offered by the Office makes it possible in some places to keep the cost of the Text fairly close to the retail price that the WSO charges.

It has been the intention of the WSO that the retail price remain \$8.00, regardless of where the book was purchased. Few WSO customers sell the Text for less than that. However, we have known of some committees who sold the Text for as much as \$12.00. There is a strong desire from the area and regional offices that the WSO discount be increased so that more of the area or regional office operational costs can be built into their sales without increasing the price they charge.

If an across-the-board twenty-five percent price reduction was mandated, the WSO could not continue to operate as it now does. Among the first considerations would probably be to eliminate the discount for bulk literature sales. This would eliminate the margin of income that area and regional offices depend on. Some would have to close.

The effect of the price reduction on WSO income from those who currently purchase small quantities, and are not able to take advantage of discounts, would most likely not be balanced by an increase in sales. It would simply show as a decrease in WSO income. If the members or groups were inclined to increase their literature distribution efforts, a price reduction would aid their aims. They could use the money saved to increase their supply of literature. However, if the group did not change their literature habits, the extra money would be spent in other ways.

There is no assurance that if a price reduction did not have an impact in the discount policies for N.A. purchasers that WSO income from sales within N.A. would generate the existing level of dollar income. If the quantity of items purchased increased, the increase would probably only be equal to the amount of money they saved. However, there are other demands for money at the regional, area and group levels. These expenditures run the full range from telephone lines to dances, from H&I to P.I. Undoubtedly much of this money would be expended in some of these other areas. Therefore, the reduction in the price of literature would not automatically result in an equivalent increase in the quantities of literature items purchased. In the best possible circumstance the change would be reflected in a balancing effect, that is the decrease in income per item would be matched by an increased volume of sales producing the same dollar income. However, this is not very likely. Additionally this trade-off does not take into consideration the increased production and shipping costs that such an increased volume of material would require.

For those using discount programs, there are different impacts, depending on what changes were made to the discount programs. If the discounts were eliminated many of those committees and offices would lose their positive competitive position. Their customers would be able once again to purchase directly from WSO at probably an equal or lower price. This would undermine the ability of committees and offices to continue to function as they now do. This would probably mean a shifting of purchases from those offices and committees back to the WSO. This would have the impact of increasing WSO manpower requirements to handle the same volume currently handled through bulk sales.

If the discounts were reduced, the committees and offices would have to supplement their income from literature sales to a greater degree than they currently do or cease operation. The basic cost for operation of an area or regional office does not change, and decreasing the margin of income resulting from the WSO discount would make a difference.

For sales outside the Fellowship a decrease in the price that did not affect the discount policy would primarily change the income to the Office rather than the quantity of literature that would be sold. There are two non-N.A. customer categories, direct users and suppliers. For the direct users, mostly hospitals and treatment centers, their purchases are limited to the number of Texts they use,

based on their client count. A change in the price of our Text will not have an impact on their client count. It will save them money. For sales to suppliers, the situation is similar. Their customers are hospitals and treatment centers that have not learned that they can obtain literature from WSO at the same or lower cost. Again a decrease in the price from WSO would not necessarily increase the number of items sold. These suppliers provide our literature to customers and therefore addicts who might not otherwise obtain N.A. literature.

If the discounts were eliminated for sales outside of the Fellowship a different impact would result. Most direct users purchase our literature because they want it, and they would buy it even if they did not obtain a discount. About fourteen percent of our Basic Text sales are to direct users without any discount. However, for suppliers the situation is different. They purchase from the WSO because the discount is available. After discussing this aspect with these companies and learning of their choice, we are certain that if the discount were smaller or eliminated altogether, then their purchases for eventual re-sale would cease. They would continue to purchase Basic Texts for use in their own treatment programs. The people who buy from them would lose the direct link to the supply. We believe that some of these users would eventually find WSO and buy direct. Others however would begin to use other publications. Our estimate is that more than seventy-five percent of the sales that are currently made by suppliers would cease. There are two sequential impacts the elimination of discount sales to suppliers would produce.

The first impact would be that sales to the larger suppliers would end immediately. The sales to suppliers under the discount policy in 1986 accounted for \$560,929 of the income. The effect of eliminating the discount to these suppliers would be a reduction in available income of \$420,696, or about nineteen percent of all WSO income. (Attachment Four, Note 3)

The second impact would be that direct sales to the former customers of these suppliers would gradually increase. Of the 215,352 copies of the Texts sold in 1986/87, 107,000 were sold to non-N.A. suppliers who then resold them to hospitals, treatment centers and other individuals. Eventually many of these users would become direct customers of the WSO. Unfortunately this would take time and many of them would not become customers because we have no direct way of getting in touch with them. The primary reason WSO does not currently sell directly to these users is that we do not have access to the names and addresses of users to whom the suppliers sell.

Consequently, in determining the impact of a twenty-five percent reduction in price, if it affects the existing discount sales policy, it would mean a significant decrease of income to the WSO. Substantial reductions in the number of WSO employees would result and an equal decrease in services provided. Before it is possible to determine the choices for reduction of expenditures it is necessary to clarify the impacts of a reduction of income.

As part of this report an examination was conducted of the impact the current discount policy has had on WSO income and the impact of the reduction earlier this year of the shipping and handling fee. A review of all orders received in July was made. The results show the amount of money received for shipping is less than the actual expense for shipping. The amount of the loss for the month was just over \$2,500. The number of orders and the dollar volume for July was smaller than most recent months. Consequently the loss for July may be less than is representative. The impact of this reduction in shipping fees has had the effect of giving most buyers an additional discount. A more comprehensive study of this will be conducted later to determine if an increase in shipping fee is warranted. An alternative may be to reduce the benefits of the current discount policy.

ANALYSIS OF INCOME/EXPENSE STATEMENT

An examination of the figures of the Income and Expense Statements for the 1986 Year End Report makes it possible to obtain a fair idea of the impact of a twenty-five percent reduction (See page ten, and Attachment Two). Since this is the last complete financial year this must serve as the basis of our analysis. If the reduction in price had been effective on the first of January 1986, examples one and two would be the result depending on the decision on discount sales.

In 1986, income from non-N.A. sales was \$870,553. Of this amount \$309,624 was from non-discounted sales. Although most of this was for the Basic Text there was a moderate quantity of other items. The remainder of non-N.A. sales was \$560,929. This figure reflects the net income after discounts had been applied. These sales were primarily for Basic Texts and a small volume of White Booklets and I.P.'s. One of these suppliers began to purchase the medallions late in the year. Income from Fellowship sales was approximately \$1,241,327. There was miscellaneous income of \$28,549. (See Attachment Four, Note 4)

For the purposes of this study, two examples are presented that demonstrate the differences effected by a twenty-five percent price reduction. The first example is based on the assumption that the price reduction would not have impacted the quantities sold nor the discount sales policy. The second example is based on probable changes that would have occurred in the discount policy and in the quantity of literature items sold.

Example One: If a reduction in the price of the Text and I.P.'s did not affect the discount policies, each of the income figures (Notes 1, 2 and 3 on Page 10) would simply be reduced by twenty-five percent. By comparing the new Total Revenue figure \$1,611,709 with the Total Expense for 1986 (Note 4 on page ten) it can be observed that a reduction in expenditure of \$333,520 would have been necessary.

Example Two: If a reduction in the price of the Text and I.P.'s did require the elimination of the discount policies, new figures would be generated. Because it is not possible to project precise figures, estimates based on percentages will have to suffice. (See Attachment Four, Note 5)

In the long term we would have lost at least seventy-five percent of our sales to suppliers. As discussed above, the quantity of Texts purchased by suppliers is fixed by their customer needs. The fact that they buy from us at all is dependent on the discount which enables them to cover their overhead costs and earn a modest profit. In the short term we would lose about ninety percent of these sales. The ten percent we would retain are those customers who would quickly find that they could buy from us and begin doing so. Over a period of time we should expect to recapture an additional fifteen percent of the former customers of these suppliers. Using the long term income recaptured from the supplier purchases, the income would have been approximately \$214,000.

The quantities sold to non-N.A. non-discounted buyers would have remained about the same. The decrease in price would have simply reduced the income by twenty-five percent. The non-discounted non-N.A. income would have been \$232,218.

It is very likely that the immediate impact on WSO income from sales within N.A. would not have changed. There would probably have been an immediate, but slight increase in the quantities sold. Eventually the number of units purchased would have declined, reflecting approximately a ten percent decrease. This adjustment is expected because money would be moved from literature purchases to pay for other expenses. This would have set the income at approximately \$1,117,195. After including miscellaneous income, this would have produced approximately \$1,591,962 in income.

An adjustment must be made in Example Two to reflect lower production costs because of the decrease in the quantity of Basic Texts, or other items sold. The primary decrease in expense would be applicable to the reduction in the number of Basic Texts sold to the suppliers. As we estimate that only 25% of these sales would be retained, the decrease would be approximately \$144,450. The new expense level would therefore have been \$1,800,779. The income level from this example would be \$1,591,962. (Attachment Four, Note 6)

The financial impact of the change in Example 2 is overshadowed by the fact that there would be a reduction in the number of Basic Texts in the hands of addicts in treatment. The number of addicts who would not have been given a Basic Text in Treatment would exceed 75,000 people.

In both Examples One and Two, the funds committed to savings and the cash on hand at the end of the year are ignored. In addition to requiring a reduction in expenditures, there would have been no funds on hand at the end of the year nor any returned to prudent reserve.

1986 YEAR END REPORT

(See Attachment Two for the full report)

| | 1986 | EXAMPLE ONE | EXAMPLE TWO |
|---------------------------------|--------------------|---------------------------|--|
| | | STRAIGHT 25% REDUCTION | 25% REDUC- TION & ELIM- INATION OF DISCOUNT |
| REVENUE | | | |
| LITERATURE SALES (1) | \$2,580,431 | \$1,935,324 | \$1,563,413 |
| LESS RETURNS AND ALLOWANCES (2) | <469,551> | <352,164> | |
| INTEREST | 3,819 | 3,819 | 3,819 |
| MISCELLANEOUS | <u>24,730</u> | <u>24,730</u> | <u>24,730</u> |
| TOTAL REVENUE (3) | <u>\$2,140,429</u> | <u>\$1,611,709</u> | <u>\$1,591,962</u> |
| EXPENSES | | | |
| TOTAL EXPENSES (4) | <u>\$1,945,229</u> | < <u>\$333,520</u> > | < <u>\$208,817</u> > (Note 5) |

NOTES:

(1) This figure represents the total income from sales if no discounts had been allowed.

(2) This figure represents the calculation of discounts given on all purchases made according to the WSO sales policy wherein a discount was given. Under the current policy there are a variety of discounts offered for purchases by N.A. and non-N.A. buyers.

(3) This figure represents the total amount of money deposited into the checking account of the Office. This is effectively the income within which the Office has to operate.

(4) This figure represents the total expenses of the Office for the year.

(5) This reduction in expense level is matched against the new but lower income figure. For purposes of proper comparison this should be matched with the actual 1986 expense which would have required a reduction of \$353,267.

It is possible to use any number of different percentages when making these types of projections. The seventy-five percent reduction projection is used because of the small percentage of items purchased by suppliers that are used directly in their own facilities. The rest are sold to other users. These suppliers use the money saved by their discount to offset the expense of operating their sales, warehousing, and shipping. They realize only a small percentage of profit, about nine percent by reselling our materials.

When we compare the income options we get a clearer understanding that more cuts in spending would have to be made. As the next section explains the only significant area where savings can be made is by reducing staff.

POSSIBLE EXPENDITURE REDUCTIONS

In the section above we calculated the impacts on income in both cases: deleting the discount policy and leaving it as it is. In either case there would have to be major reductions in expenditures. The idea of reducing the price of things sounds like a great idea until you have to decide where the cuts are going to be made. There are several areas where cuts would be made first: prudent reserve, transportation and equipment. These areas will be discussed first.

REDUCING PRUDENT RESERVE, TRANSPORTATION AND EQUIPMENT: The most immediate cut would be to stop adding to the prudent reserve. Although the reserve has fluctuated from year to year, the WSO has attempted to slowly build it up. There have been times when the short-range expenditures of the WSO have exceeded the funds available in accounts from current income. When this has occurred, we have had to use prudent reserve funds. This has been done each year.

The elimination of the reserve would have serious impact on the ability of the Office to operate properly. The most dramatic impact may be in our ability to meet periodic large expenditures.

An important aspect of the discussion relating to prudent reserve is that four times in the past eighteen months money has been drawn from the reserve to meet operational expenses. This occurred in February 1986, February 1987, August 1987, and September 1987. The amounts transferred were \$10,000, \$9,000, \$10,000 and \$40,000 respectively. In the first two of these occasions the money was quickly returned to savings when funds were available. In 1985, the prudent reserve was used more extensively. At the beginning of 1985 there was over \$125,000 in the reserve. It was necessary to use about \$95,000 of that for expenditures encountered during that year.

Most of these periodic large expenditures are directly related to the ordering of the Basic Text. By the elimination of the reserve we would have to reduce the quantity ordered for each printing. The reduction in the quantity ordered each time would increase the cost for each copy.

Our experience has proven this to be the case. When the WSO began printing the Text in 1983, the first five thousand copies cost over \$2.50 each. Later in 1983 when we went to a larger printing company and ordered printings of 10,000, we were able to have the cost per item reduced to \$1.93. We eventually went to a larger company in 1985 because we were going to order larger numbers for each printing. When we began ordering 37,000 copies for each printing the cost was reduced to \$1.76. Since that time the usual cost increases have increased the price to \$1.79, but even this will go up in the near future.

Our ability to pay the \$66,230 at one time to purchase 37,000 books at \$1.79 has been dependent from time to time on our ability to use money from our prudent reserve. If we did not have sufficient funds in the reserve at the time we

ordered, we would have to buy fewer copies each time thereby increasing the unit cost.

The second area for reduced expenditures is for new equipment. As was explained in the 1984 and 1985 WSO reports, the large expenditure for equipment was expected to be a short duration process. It was expected that in the first years of operation a large percentage of income would be spent on accumulating the necessary equipment. In subsequent years the percentage of expenditure on equipment would diminish. If we had reduced the expenditures made in 1985 or 1986 for equipment, the ability of the office to perform many of the tasks we now perform would have been severely crippled.

The need to purchase additional equipment has not run its course. If we are unable for a few more years to have the ability to purchase essential equipment, future operations of the Office will be negatively affected. Eventually the Office should reach the situation where the total dollar investment in equipment levels off or has a decrease from the current yearly average. When this occurs the expenditure will be for replacement equipment rather than the initial accumulation of equipment.

The third area for immediate reduction in expenditure is for travel. It is possible to make a significant reduction in this expenditure category. The WSO travel expense is separated into four separate travel needs: WSO Board participation, Board and staff support for area and regional needs, WSO participation in Conference activities (the annual Conference meeting and quarterly workshops) and WSO direct support of WSC travel expenditures in excess of the WSC travel budget. It is possible that almost all of these expenditures could be eliminated.

The WSO could return to requiring the Board members to pay for their own expenses to attend WSO meetings. This would reduce the ability of the Board to properly supervise and manage the Office, or it would place future members on notice that you have to have several thousands of dollars in personal money each year in order to accept this service assignment.

The Office could end its support and participation in area and regional activities. The Office has been involved in the efforts to form area and regional service offices. The individual trips and workshops could be halted. Therefore, N.A. offices could not benefit from the accumulated experience of extensive WSO staff participation.

The Office could end its support and participation in Conference activities. Both staff and Board members attend the Conference and the two workshops. The Office also provides clerical support for the operation of the Conference Committees and the Conference when they meet. The Office staff provide guidance, clerical and administrative assistance to the operation of Committees when they meet. Several Conference Committees have requested and received Board members to serve as an additional resource to their committee. The expenditure for all of these Conference related services could be eliminated.

In prior years the Office paid the complete costs for some Conference Committee activities. These activities were either not included in the Conference budget or were in excess of the amount provided for in the Conference budget. When requested by the Committee and the Conference Administrative committee, the WSO has consented to provide funds for such activities. The WSO could refuse future agreements for such expenditures.

This concludes the activities where cuts in expenditures could easily be made. Unfortunately, even if significant cuts short of eliminating all such expenditures were made, they would not be sufficient to account for the lost income. Reductions would have to be made in the direct labor and contract labor expenses. Cuts in staff and contract labor, however, affect the very purpose and

ability of the Office to provide service to the membership and the still-suffering addict.

REDUCING PERSONNEL COSTS: The area to be cut last would be in personnel expenditures. When we have to make cuts in personnel costs, it means reducing services. Unfortunately personnel costs constitute the largest possible area where cost reductions could be made. The direct labor expense and contract labor account for about 40 percent of the total budget. Before discussing in detail the possibility of reducing expenditures for direct labor or contract labor, it is important to look at where the Office and the Fellowship were in 1982 and before. At that time the Office operated almost exclusively as a literature production and distribution office. It was essentially a printing and distributing service that operated on a shoe string budget. The actual costs for operation was not covered by what was charged for the literature. Donations were sought from the Fellowship. Some money came in, but it was irregular and never enough.

The Office was unable to properly serve the members at the time and was not capable of serving the needs of the millions of addicts who had not learned of N.A. Only after 1983, when the Office began to have and use money from enlarged literature sales, was the Office able to perform its responsibilities properly. The Office cannot perform its responsibilities without enough properly trained, skilled employees.

The Office does not currently have an excess of employees. Our employees generally work longer hours and show more dedication than required by general employment. It is possible to reduce our expenditures for employees, but to do so requires the elimination of the work that they perform. On the pages that follow is a summary of the different areas of work that our employees are engaged in.

Even with the employees we currently have, we are not able to get done all the work that needs to get done. We are always behind. There are always projects and needs that are clearly important to complete that we simply do not have the time to get to. The mixture of services that would be cut would depend on a large number of factors and cannot easily be determined in advance. Which employees would be laid off would be determined by the priority of services the Board would have to decide were to be maintained.

WSO RESPONSIBILITIES

The areas of primary responsibility and activity of the World Service Office can be generally outlined from an examination of the *Temporary Working Guide to the Service Structure*. Many of the WSO duties are described there while others are implied, because they are essential in order to accomplish assigned duties.

The first areas of responsibility relate to the production and distribution of literature. This begins with pre-production activities that include taking material developed by the World Service Conference and approved by the Conference, having it typed, typeset, printed, manufactured, stockpiled and shipped when ordered. It would impair the ability of the Office to provide production and distribution services of our literature if cuts were made in manpower expenditures related to the primary services. Cuts would first be made in the areas described as secondary responsibilities. It is very likely that a large part, if not all of the services described in Part Two, would have to be reduced by twenty-five to thirty-five percent. Many of the services provided to the Conference would be the first eliminated.

PART ONE -- PRIMARY RESPONSIBILITIES:

Inventory Pre-Production: This includes copy editing, typesetting, proof-reading, layout, paste-up, graphics, selection of printer or producer and production supervision. Pre-production activities need to be very carefully managed. We only have one full-time person engaged in this activity. If not properly supervised, errors can result that cause loss of time, energy and money. Our recent mistake with the reprint of the draft of *It Works* is an example of this problem.

Inventory Purchasing or Production: This responsibility is a carry-over of pre-production activities. Some items are produced in house. This is done usually on those types of items where the quantity is small or the changes are frequent. For all other items, purchasing and publication includes the selection of the various manufacturers or printing concerns that actually do the work. This involves obtaining bids and evaluating strengths or weakness of possible contractors. It is important to manage and monitor all companies involved in production and printing in order to avoid wastage, increased expenses and loss resulting from improper activities of the companies involved. The largest part of our total expense is related to obtaining and then keeping adequate supplies of inventory items.

Inventory Receiving, Storage and Shipping: This area of responsibility includes receiving, storage, and shipping of literature upon purchase. This major activity requires warehousing facilities, essential shipping and receiving equipment and sufficient manpower. Equipment includes scales, measuring devices, postage machines, photocopy machines, a fork lift, and pallet jacks. This activity includes processing hundreds of orders during each week, the recording of that information, the collating of materials for each order, packaging and shipping the orders. The receiving, storage and shipping activity currently requires a staff of nine people.

Literature Sales: The Office provides direct communication to all purchasers. The administrative end of the literature sales department requires a staff of three people. This includes a supervisor who has general responsibility to communicate and contact those individuals requiring direct and personal service for their orders, or those individuals experiencing some difficulty with their orders. The sales effort is a general response to the growing demand for literature produced and made available through the World Service Office. The number of individual accounts for commercial buyers and the individual accounts for Fellowship buyers continues to grow. The complexity of the sales discount program discussed in other places in this report, points to the essential aspects of literature sales responsibility as a continuing effort from the office.

Accounting: The accounting function is essential to any activity of business management and without an adequate accounting staff, the World Service Office would cease to function. This includes receipt of funds, computerized entry, banking, billing for accounts receivable, inventory accounting, paying bills, payroll, taxes and financial analysis. In addition to accounting for the WSO, services are also provided to the WSC.

Administration: The administrative function of the WSO includes office and personnel management for all activities, interface with the Board of Directors, the Conference and the Fellowship at large. A major reorganization of the WSO occurred during the past year. In addition to changing organizational responsibilities within the staff there was a strengthening of management. The

key element was the selection of an Administrative Assistant to supervise the project coordinator staff.

In prior years all project coordinators reported directly to the Executive Director. The project coordinator staff members are assigned to provide services to the Fellowship at large, to service boards and committees of the Fellowship, and to the general public. The vast number of separate projects being worked on simultaneously made it impossible for the Executive Director to manage them effectively along with all the other responsibilities.

The Administrative Assistant for Services was selected to oversee this important area of work. The person selected has intimate knowledge of the Fellowship at all levels, especially the World Service Conference Committees with whom WSO staff work directly. A result of this additional management has been an improvement in the services provided by WSO to the Fellowship and Conference Committees.

One additional project coordinator position was created and filled during this period. This filled a growing need in public information.

The largest increase in staff level was in the clerical field. We increased the clerical staff from nine positions to thirteen. This increase has made it possible to have one clerical staff member for each coordinator.

The reorganization allowed us to more clearly establish an accounting department. This important management function received considerable investment in time, energy, and funds during the year. This was started by the allocation of a full-time accounting supervisor position. In the coming year it is expected that WSO will hire an accountant for full-time employment to manage this department. Major projects undertaken during this past year were the computerization of all accounting, accounts receivable, payroll and general financial records systems. Additionally, a computerization of the order processing system was undertaken along with inventory management. In the coming year we will complete computerization of the accounts payable function.

The Shipping Department maintained the same number of positions, although two temporary positions were made permanent positions. With the change of these two positions to permanent status, we decreased the utilization of part-time help in shipping and eliminated all temporary workers in this area. Vast improvements have been made in the efficiency and accuracy of shipping responsibilities. Reorganization affected shipping operations by separating the responsibilities for accounting and computer equipment management which had been exercised by the person managing the shipping department.

We continued our facilities management contract with the Xerox Corporation. Under this contract Xerox maintains a large photocopier machine in our shipping building, provides and pays a full-time operator, and provides the paper. This is a three-year fixed fee lease agreement. We do not use this for the general production of literature. Only relatively small runs of literature items are completed on this machine. We use this machine for the many projects that are done each month requiring multiple copies such as Fellowship Reports and the *Newsline*.

The following chart shows the differences in staffing between 1985/86 and 1986/87. The column on the right reflects where additional staff are needed and may be assigned if WSO staff levels increase during the current year. Part-time and temporary positions are not shown. We continue to use some part-time workers for overflow work.

STAFF ASSIGNMENTS

| | 1985/86 | 1986/87 | 1987/88 PROJECTED |
|----------------------|---------|---------|----------------------|
| ADMINISTRATION | 4 | 5 | 6 |
| PROJECT COORDINATORS | 5 | 6 | 7 |
| CLERICAL | 9 | 12 | 15 |
| ACCOUNTING | 1 | 2 | 3 |
| SHIPPING | 6 | 6 | 7 |
| FACILITIES CONTRACT | 1 | 1 | 1 |
| TOTALS | 26 | 32* | 39 |

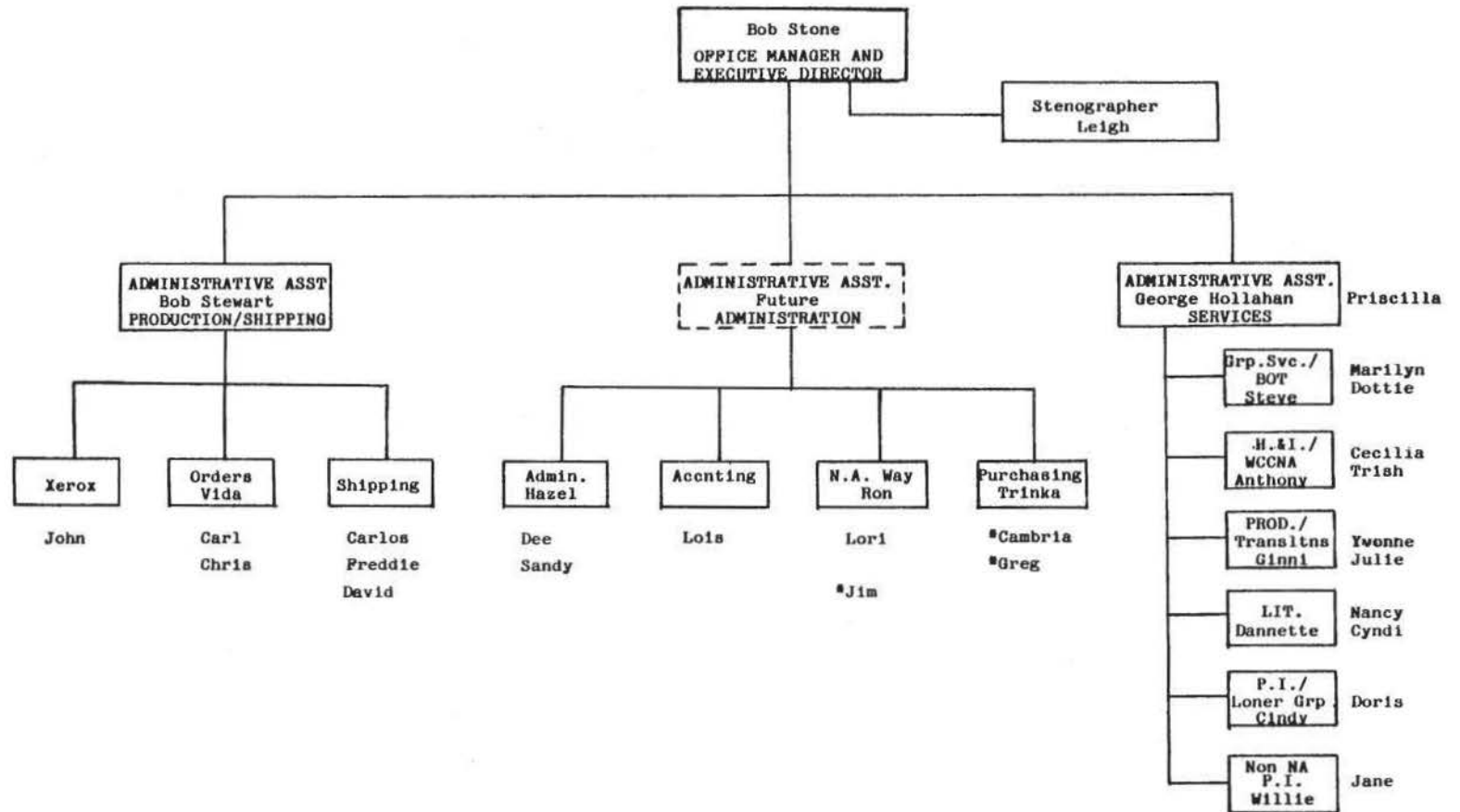
*Note: New positions have been added since the chart was prepared. See organizational chart for additional positions.

New positions are usually created long after a pressing need for the position has been established. Usually we expect our employees to simply work harder to keep up with the increasing workload. Only when we cannot even marginally accomplish tasks with existing manpower do we add new positions.

We do our best to have new positions created through planning as part of the budget adopted at the beginning of each year. In the budget process, a forecast of income is generated along with a forecast of anticipated spending levels for all areas of expense. In this manner employment levels are projected according to need and the availability of sufficient funds to pay for the position on an ongoing basis. Because of the constant increase in the need for clerical and shipping positions, we will experience continued growth in these categories, whereas few new management or supervisory positions are expected.

It is anticipated that one additional project coordinator position will be created during the 1987/88 year. This position will be related to the needs of the international membership. Currently these duties are being handled as additional work responsibilities of employees assigned other primary duties. Consideration has also been given to dividing the duties assigned to the Group Services Coordinator because of the wide range of work in this field and the increasing workload. Because the availability of funds is the final determining factor, no precise planning for either need can be forecast until funds are available.

In the chart following this section, an additional Administrative Assistance position is shown. Consideration for authorizing this position may be undertaken as part of the 1988 budget year. It is shown currently so as to clarify the organizational responsibilities of the departments in that section.



*Part Time or Temporary Employees

Revised 9-87

PART TWO -- SECONDARY AREAS OF WSO ACTIVITY: Secondary areas of WSO activities are those activities accomplished to benefit the general Fellowship and the general public rather than being essential for the operation of the WSO as described above. The secondary areas of activity include General Services, such as group registration, *World Directory* or meeting information, Starter Kit distribution, general Public Information inquiries, production of the *Newsline* and the *N.A. Way Magazine* and the N.A. tape approval process. Others include translations, Loner Group, assistance to offices and Fellowship corporations, assistance to Fellowship committees for the regions, areas and groups, assistance to the World Service Conference, assistance to the World Service Conference Committees, assistance to the World Service Board of Trustees.

Group Registration: Group registrations is an area of important responsibility, where an individual group, as it is first formed, usually sends information to the World Service Office indicating that a group has been formed. The office serves as the initial contact responding to the members, sending them additional information, including them on the mail list for the *Newsline* and providing information to them about the nearest area committee and regional service committee contacts. The Office also provides information to the respective area and region and service committee representatives, so that the new group can receive immediate contact from both of these elements of the service structure. Without this type of communication services, group registrations would be difficult to manage and new groups would find it difficult to locate other elements of the Fellowship.

World Directory/Meeting Referral: The World Service Office has, during the last year, discussed in previous reports the impracticality of maintaining an adequate, up-to-date *World Directory* of meetings. In recent reports, consideration has been given to alternative methods by which information may be obtained and stored for use when inquiries are made. There does exist several specific needs for information from individual groups that should be maintained as essential parts of records of every group at the World Service Office. The essential information includes the names and addresses of every group and a contact person for the group. This information is also used for the *Newsline* and other mass mailings that may need to be done.

Starter Kit Response: The World Service Office distributes several thousand Starter Kits every year. The Starter Kit includes I.P. No. 18 and a small quantity of other literature items. The general response to such Starter Kit inquiries reveals that approximately twenty to twenty-five percent of these freely distributed packets results in the establishment of a meeting. If the World Service Office were to discontinue this function, it is very probable that a great number of addicts would fail to find Narcotics Anonymous and fail to recover from the disease of addiction.

Newsline: The *Newsline* was initiated in 1983 as a mechanism to communicate to the Fellowship about the activities of the World Service Office to explain what was being considered by the Board of Directors, problems the World Service Office was encountering and solutions the office was discussing. Publication of the *Newsline* is currently done without cost to the Fellowship and provides a valuable news source throughout the Fellowship. Recently, a decision was reached to publish the *Newsline* six times a year rather than twelve times a year in a drive to save some money. The *Newsline* continues to be, however, an essential element of public information within the Fellowship.

N.A. Way Magazine: The *N.A. Way Magazine* became a project of the World Service Office in 1984. Since that time, subscribership has grown from approximately 500 to over 5,000. The magazine currently is practically self-

supporting and with pending increases in content and income, it is possible the magazine will continue to remain close to the self-supporting range. The magazine is practically self-supporting from the standpoint that it does not pay its share of the general overhead or equipment expenses. It does, however, pay for its production expenses and labor expenses. The magazine provides an important and growing avenue through which members of the Fellowship can share their personal experiences in recovery and their attitudes about recovery. In increasing the content of the magazine, it will provide opportunities for the Fellowship to share in other ways in philosophical and practical issues within the Fellowship.

N.A. Tape Approval Process: The Office discontinued selling tapes in 1984 because the Office felt that the prior tape inventory had been evolved through a system which was not including the Fellowship at large in any way. The approval process had been done entirely by Board and staff of the World Service Office. The procedure currently in effect provides for a clear and thorough evaluation of tapes for their appropriateness, their language and content by a committee primarily selected by the World Service Conference. The process has proved to be laborious and slow, but nonetheless it is very productive. The tapes entered into the inventory eventually provide income to the Office.

Loner Group: The Loner Group was initiated by the World Service Office in 1984 as a means of supporting individuals who were isolated in some manner and unable to attend regular N.A. meetings. The energy involved in this project is relatively small, however, the rewards and impact are significant to the members of the Loner Group who are isolated and unable to attend meetings.

Translations: The work already done in translation services is small in comparison to the need. The direction of translation efforts has been to complete the White Booklet and the I.P.'s in each language before the Text or service materials are attempted. We are in various stages of completing this goal in Spanish, Italian, French, German, Japanese and Portuguese. The time, energy and expense involved in developing this limited number of items is just the beginning. Much more money and effort is necessary if addicts using these languages are to have the benefit of all the materials available in English. The amount of staff time, and the amount of dollars devoted to the translation of literature, has a direct impact on the ability of addicts in other languages to recover. Cutting back in the area of translation services denies addicts who do not speak English the opportunity to recover from this disease.

WSO Catalog: The catalog has provided the opportunity for widespread distribution of information concerning N.A. literature and other items and thereby makes these materials more widely available to the general public.

Printing Agreements Outside the U.S.: The licensing agreement process the Office has been engaged in during the past eighteen months is just the beginning of a long development process that will eventually see the printing and distribution of literature throughout the world and in a great number of languages in places outside the North American continent. This element of service by the Office will have far reaching effects way beyond the energy and cost involved.

General P.I. Inquiries: The World Service Office is becoming a widely known contact point throughout the world as the source through which addicts and non-addicts can come in contact with the N.A. Fellowship. The Office address is published in a growing number of magazines, books, newspapers, and appears in television and radio programs. The response the World Service Office provides in writing letters, answering telephone calls and providing information or Starter Kits is an essential element in providing the opportunity for millions of addicts yet to come in contact with N.A. for their possible recovery.

Hospitals and Institutions Services: The Office has provided through its staff, direct assistance to inquiries from H&I administrative personnel across the

globe. This single contact point has been a critical aspect in the development of H&I meetings and activities, and bringing new literature into institutions and hospitals around the world. Supplemental activities include the writing and publication of the H&I newsletter, *Reaching Out*, accumulation of information on H&I meetings worldwide, and assistance to administrators of hospitals and institutions who wish to encourage development of N.A. meetings in their facilities. This important working tool has been a valuable part of the development of H&I meetings and H&I communications.

Assistance to Offices and Fellowship Corporations: In 1983, the Office alerted the Fellowship to the problems the Office discovered concerning matters of legal and financial relationships to the tax agencies in the United States. An important aspect of the resolution to this problem was the development of additional non-profit corporations within the structure of the spiritual Fellowship. This permitted local elements of the Fellowship at the regional or area levels to continue to conduct activities in a similar manner within the legal framework. This activity has occupied a growing amount of time during the last several years. Major reports have been written on this subject. Two separate group workshops have been held and over thirty individual workshops were held in different places in the U.S. The result of this activity has been the development of more than twenty-five separate corporations and service offices throughout the world. It is anticipated that more corporations and offices will be formed. Additional workshops are being scheduled. Individual consultation visits need to continue on a regular basis.

Assistance to Fellowship Committees: In 1984, the Office initiated a Group Services Department to formalize the assistance provided to the area committees, regional committees and individual groups in helping to resolve individual problems that they encountered. This service was, and continues to supplement, the responsibilities of area and regional committees to provide direct services to the members of the Fellowship in their respective areas. Assistance provided by the Group Services Department to Fellowship needs reflects the cumulative knowledge and information of experience gained throughout the Fellowship. The Office provides the central focus for the exchange of this information. Without a single contact point for the collection and distribution of such information, many N.A. committees and groups would continue to experience the same problems over and over again.

Assistance to the World Service Conference: In the years prior to 1983, when the Office began to assist the administration of the Conference, the World Service Conference was only sporadically able to meet the administrative needs it was called upon to conduct. In 1982/83 year, for example, the energies of the Administrative Committee and the Committees of the Conference were fairly limited. They were limited most severely by the time available for those trusted servants to take away from their business and personal lives to conduct necessary activities for the Conference. When the World Service Office began assisting the Conference, the effectiveness of the Conference improved, the reliability of their communications and activities had a profound and impressive change. The Office interface with the World Service Conference now forms an essential part of the overall success of the World Service Conference.

Committees of the Conference: The services that the Office provides to individual committees of the Conference is so extensive as to practically defy a brief description. Each of the Committees of the Conference currently has a corresponding project coordinator assigned to work with it. The project coordinator is backed up with at least one additional clerical staff person to assist in this work. The work of the staff has become an essential part of the functioning of Committees. It is very likely that should staff support be withdrawn from

Committee activities, WSC Committee Chairpersons may find it necessary to become full-time trusted servants, leaving little time for their personal lives.

Meetings of the Conference and Committees: The Office has effectively been providing assistance to the Conference and its meetings. While much of this activity could be done on a strictly voluntary basis, it is currently done with rather considerable efficiency and competence. The Conference and its Committees would experience difficulties in handling all of these responsibilities by themselves.

Assistance on WSC Committee Projects: The Office has provided essential assistance in the development of certain types of projects done by the Conference. Specific examples of this were the development of the Public Service Announcements through the Public Information Committee and the Office in 1985. The Office provided the management skill, contacts, contract administration, contract management for the actual production of the Public Service Announcements. Another example is the assignment by the WSC to edit the Basic Text. The Office again was used for contract management and contract administration. Other examples include public service events of non-N.A. activities, wherein the Fellowship makes presentations or has public information displays at events held by other organizations. The final area where assistance to WSC Committee projects is held is with special workshops or meetings conducted by individual Committees.

Assistance on Fellowship Projects (Regions/Areas): Assistance in Fellowship projects includes workshops, special materials and special meetings. This area of assistance provided by the Office includes workshops at areas and regions on various aspects of service and assistance to individual area and regional committees in resolving problems that previously had been unresolved. This has included attendance by WSO Staff and/or Board members to different area or regional workshops and special meetings.

Financial Assistance to the Conference: During each of the last four years, the World Service Office has provided direct and indirect financial support to the World Service Conference and its various activities. Some of this support has been in the form of direct subsidy, some of the support has been in the form of loans. Regardless of which particular activity type, if the World Service Office is to discontinue this particular service to the World Service Conference, it is very likely that the Conference will endure renewed difficulties in achieving and completing the responsibilities that it sets out to do each year.

PART THREE -- ADDITIONAL SERVICES AFFECTING CURRENT OPERATIONS AND POSSIBLY FUTURE OPERATIONS:

Facilities: The World Service Office, in addition to being an administrative organization, must provide facilities for its operation and for the services it provides. The cost involved for facilities and facility management, in addition to rent, includes expenditures for repair, modernization, alterations to accommodate growth and change in staffing, insurance and repair. The Office continues to operate from an industrial type warehouse, whereby saving the costs that would be incurred if a regular commercial office building was utilized. In general terms, commercial office space is nearly twice as expensive as space in warehouse settings. Another factor to consider for facilities is the savings that would occur if the WSO owned the buildings it used. This would be possible if sufficient funds were allocated from annual income for long-term reserve. After the building had been paid for, (approximately ten years), the WSO would save more than \$100,000 in facilities costs.

Equipment: When the World Service Office changed administration in 1983, the Office equipment that the World Service Office had at the time included

a typewriter that did not work, a magnetic tape memory typewriter system which did not have a screen or movable memory, and a small used photocopy machine. At that particular time the World Service Office included two full-time employees and one part-time employee. It was known then, and reported to the Fellowship, that substantial growth of the Office was going to occur, necessitating vast expenditures for equipment. It was anticipated as early as 1984 that the Office might have between 50 to 60 employees when the period of growth leveled off. The Office currently has 39 employees and providing essential equipment for those employees has been a rather considerable expense. It is anticipated that additional expense will be incurred approximately equal to that which has already been incurred for accumulating equipment. It is anticipated that within five to seven years the general outlay for office equipment will level off and only replacement equipment will then be purchased.

WSO Printing Facility: At the Conference in 1986, the WSO informed the Fellowship that it was considering the possibility of doing its own printing. A preliminary study of the feasibility of this idea was initiated but has not been completed. A list of equipment and facility needs was generated but study of this matter has been halted pending further discussion and possible action on the subject of this report. It is clear that the volume of printing that the WSO does in a given year is more than many small printing companies complete. The total printing bill for I.P.'s, White Booklets and other small items seems to more than justify the establishment of a WSO operated printing facility. It is very possible that, by doing our own printing, tens of thousands of dollars might be saved. In order, however, to engage in this endeavor the issue of price policy for the WSO must be resolved, remain stable for a number of years and provide sufficient income to justify the expense.

World Service Branch Office: Several years ago the WSO Board established a tentative plan that the WSO would open a branch office in Europe to serve the needs of our growing Fellowship there. In the intervening years that project was set aside on the prospect that as the Fellowship developed in each separate nation they would establish their own service offices. Unfortunately the growth of the Fellowship there has been slow and the services needed are not being provided.

Accordingly, the Board has renewed its commitment to the growing N.A. communities in Europe and moved to establish an office there. This was recently reported in the Fellowship Report and the *Newsline*. This project will cost more than it produces in income for a number of years. The basis for determining the need to move ahead with this project is that the worldwide Fellowship has the responsibility to invest the time, effort and money necessary, in order that the hundreds of thousands of addicts in Europe who do not now know about N.A. will have the opportunity for recovery available to them.

As the Fellowship develops in other geographical areas such as South America and Africa, consideration will have to be given to offices to serve their needs too. Wherever possible regions and areas will be encouraged to develop their own service offices in a similar manner as is being done in the U.S. In this way the WSO can avoid duplication of effort by having its office or offices perform only those services appropriate for a world office.

SUMMARY: Generally speaking, the Office provides services to the Conference, services to other elements of the service structure and services to groups or those wishing to start groups. If the work the WSO is currently doing in any or all of these areas could be transferred to others, then the cost of WSO doing them could be shifted to others too. Unfortunately this is not probable. Much of what the WSO does in these areas is done by WSO because it was not being done before or was not being done satisfactorily.

As discussed in a prior section, many of these activities were done at one time by trusted servants only. This proved to be impractical and required more time than most volunteers were able to give. This resulted in many of the decisions leading to having a paid staff perform these services.

The experience of the Fellowship in years prior to 1983 was such that the Fellowship grew at a fairly slow rate. Prior to 1978, the Fellowship was exceedingly small, even though it had existed for more than twenty years. When the World Service Office began functioning and distributing N.A. literature, and the World Service Conference began functioning, the Fellowship began growing at a much greater rate. There are a number of lessons to be learned from this, among them being that the ability of the Fellowship to carry the message to other addicts does, in part, depend on special workers. In the years between 1978 and 1983, the Office was inefficiently managed, but functioned at a level possibly commensurate with the need that existed at the time. It does not seem likely or practical that the Fellowship will be able to accommodate our continuing growth without the assistance provided by the World Service Office and the assistance of more localized service offices.

ALTERNATIVES

The previous parts of this report explain the current activities of the World Service Office. They also report fairly clearly that a twenty-five percent reduction in the income produced by sales of the Basic Text and information pamphlets would have a disastrous effect on the ability of the Office to provide the services that it currently does. The following section will discuss in general terms, alternatives that may be considered.

Alternatives include a presumption that the Fellowship generally believes the types of services that the Office is conducting should be continued. In considering alternatives to the impacts of a reduction in the cost of literature, if it were the choice to maintain services that the Office does provide, additional revenue sources would have to be created. The financial crisis that has existed from the very beginning for the Conference clearly points that it is not currently feasible for the Conference, much less the Office, to be funded solely by donations from area and regional committees.

FUND FLOW FINANCING: If a reduction in literature prices would in reality result in an increase in extra money at the area and regional levels then this extra money could be used to finance the services no longer provided by the WSO. Therefore, if a reliable and functioning system were employed that established requirements for area committees or regional committees to automatically and without fail funnel monies on to the Office, it might be possible to offset some of the loss of revenue from sales by direct donations. It does not seem likely that this will happen.

The logic of reducing the price of literature in order to save money for the individual groups to then be sent back to the WSO to provide services that were cut does not make much sense.

NEW MISCELLANEOUS INVENTORY ITEMS: Another alternative would be to introduce into the World Service Office inventory more items that would be classified as nonrecovery materials. This may be a controversial suggestion as there is divided opinion concerning such items. Included might be T-shirts, polo shirts, jackets, jewelry, bumper stickers, plaques, desk calendars, wall calendars, watches, playing cards, any number of items that are currently sold at conventions. These items could be included in the Office inventory and sold at

prices commensurate with what the Fellowship was willing to pay. Conventions prove there is a large demand for jewelry, particularly.

By using this alternative, it is possible that the Office could recover some of the income lost from a price reduction in literature items. In order to fully benefit from this alternative it would be necessary to restrict the sale of such items to the WSO rather than permitting them to be independently manufactured and sold by or at conventions. If these items were independently sold by individual vendors, or sold at activities such as conventions, the WSO income from sales of these items would not be sufficient to maintain the current level of services from WSO.

NEW MAJOR LITERATURE PUBLICATIONS: As the Fellowship approves other major literature works the financial situation of the Office will continue to improve. For example if or when a daily meditation book and/or a book on the Twelve Steps and Traditions are approved and published they should provide substantial additional income. It is very possible that the quantity of sales of these two publications might easily approach fifty percent of the number of the Basic Texts sold each year. The projected retail price for the book on the Twelve Steps and Traditions is \$6.00. The cost for this publication would be approximately the same as for the Text. Although there will be normal costs associated with their production, there will be a reasonable profit from sales. The speed with which these other major publications are approved may have an impact on the future of the Office.

COMMERCIAL BOOK STORE SALES: The World Service Office does not currently engage in a planned effort to offer N.A. publications for sale to the public generally. Although this has been discussed from time to time with respect to the Basic Text and sales to such outlets as neighborhood bookstores, no effort has been dedicated to this task. It is possible, however, that the Office could engage in open marketing of WSO literature, the Basic Text specifically, and have them sold widely through book stores around the world. The increased volume of the sales could very likely offset the loss of revenue by the reduction in price. Some individual bookstores already purchase small quantities of the Basic Text. However, they do not purchase enough copies to qualify for our discount policy, and only a few copies are purchased. A program to increase bookstore sales would require a discount system that is acceptable to the bookstore industry.

If sales to book stores of all major publications came to pass, then the income generated would further make it possible for a reduction in the cost to the Fellowship.

CONCLUSIONS

The issue at hand really centers on the impact on the person or the group that has to pay for a book. More than half of the books sold are indirectly but ultimately paid for by hospitals and treatment centers who have passed the cost on to an insurance company, a governmental agency or the individual as part of their treatment cost. The ultimate purchaser of the rest of the books is usually by a group who then gives the book away or sells it to a member.

Through the mechanism of discount policies an effort has been made to maintain a relatively equal cost for the person who actually pays for the book, regardless of the source they purchase from. The actual cost depends on factors such as local or state sales tax, shipping costs passed on to the buyer directly or indirectly, and the profit margin policy of the committee or company who sells to the ultimate buyer. These factors we cannot control. However, they are frequently the factors that move the cost to the buyer from \$8.00 to \$9.00 or more.

The WSO has attempted to reduce the price to those who purchase in quantity in order to encourage quantity purchasing. This is a simple business oriented decision: It affords a theoretical reduction in the per unit costs for WSO handling and affords the buyer the opportunity to keep the cost to the buyer lower by allowing the committee or company in the middle a percentage of income to defray their costs.

The central issues in the discussion therefore are the relative value of the current price structure wherein the WSO has sufficient funds to operate or whether there is greater benefit by reducing the cost to the ultimate buyer.

If a member or a group bought ten books each year at \$8.00 to give away, the base cost would be \$80.00. If a reduction in the base price of twenty-five percent was initiated, the cost for ten books would be \$60.00. This twenty dollars either affords a savings to the member or group, the opportunity to buy 2.5 more books or, when added to the income of the WSO, it affords operational expenses to the WSO.

In final detail therefore, this discussion centers around whether this money better serves the interests of the individual addict by having it in their pocket, or the addicts of the world by being part of the revenue of the WSO. Every member will have to determine their own answer to that question.

There are several conclusions that this study has reconfirmed in the thinking of the WSO Board and staff:

1. The tradeoff between saving the member or the group the two dollars per book if the price was reduced and reducing the services provided by the WSO does not seem to be a wise trade. There is more benefit to addicts still on the streets, to the individual members of our Fellowship, to our service committees and to the general public that the price remain the same.

2. An across-the-board reduction in the price of the Text and I.P.'s by twenty-five percent would cause elimination of the discount policies. This, in turn, would eliminate most of the sales outside the Fellowship. WSO income would be decreased, but more importantly, it would deny addicts the opportunity to obtain the N.A. Text while in treatment centers or hospitals.

3. The services provided by the WSO are an essential part of a vibrant and functioning Fellowship. The crippling of the WSO by reducing its income or services is a step backward and would have the appearance of conveying to other addicts that this is a self-centered recovery program: We who are here now have ours, and we are not interested in investing enough of our money to help you find recovery in our Fellowship.

It is the opinion of the WSO that for the overall good of the Fellowship as we know it today, and for the millions of addicts who are still using and have not found N.A., the current level of money is essential to the WSO in order to help fulfill the primary purpose of N.A. Even in those countries where N.A. is strong, Canada, United Kingdom, Germany, Ireland, Australia and the U.S., there are millions of addicts who have not yet heard of N.A. In countries where English is not the common language the number of using addicts who know of N.A. is so small it defies imagination. It is the opinion of the WSO Board that the only time when consideration should be given to reducing the income to the WSO is when almost every addict and the general public throughout the world know that N.A. is available and is the avenue to recovery from the disease of addiction. We are probably ten or fifteen years away from that day.

Attachment One

WORLD SERVICE OFFICE SALES POLICIES

(Created November 1984, revised in 1985, 1986 and 1987)

The World Service Office serves as the publishing arm of the Fellowship of Narcotics Anonymous. One of the primary purposes for the existence of the Office is to print and distribute literature so that it is available to existing and future members. The literature sales policies presented in this publication are the result of experience of the Office accumulated over a number of years in our efforts to fulfill that responsibility. These policies are generally developed as a result of need and are adopted by the Board of Directors of the Office before they are permanently included as part of the Literature Sales Policy.

There is a special relationship between the WSO and the membership of Narcotics Anonymous and its service committees, that does not exist between the WSO and non-Fellowship customers. Consequently there are sections of the overall Literature Sales Policy that provide special benefits to purchases made by committees and boards that are part of the Fellowship. There is however a specific effort exerted to utilize standard business practices in all sales and related matters in order that the WSO policies do not accidentally enable members or committees to be subjected to the subtleties of the disease.

The Policy is divided into sections that relate to a cohesive policy concept or need. However, there may be several sections that pertain to the needs of an individual purchaser. Please review the full policy to determine if other sections may affect your needs. (Published Nov. 1986)

CREDIT LIMIT POLICY

The following shall be the policy for credit limits on new accounts and increases in existing accounts as additional orders are received:

ORDER CREDIT LIMITS

| INITIAL ORDER LIMIT | 2ND ORDER LIMITS | 3RD ORDER LIMITS | SUBSEQUENT ORDER LIMITS | PURCHASER CLASSIFICATION |
|---------------------------|------------------------|------------------------|-------------------------------|---|
| \$350.00 | \$500.00 | \$750.00 | 2,500.00 | Areas\Regions and non-U.S. orders |
| \$500.00 | \$1000.00 | \$1500.00 | 4,500.00 | Hospitals, Institutions and Other Corporations |

Exceptions may be made for proven accounts consistently ordering with prompt payments within 45 days of billing.

Other policy sections, such as the discount policy will apply and have impact to allow an increase in some maximum credit limits. Application of specific exceptions to this policy may be made only by the Executive Director.

CREDIT RATING CLASSIFICATION SYSTEM

- | | |
|---|---|
| A | Excellent |
| B | Above Average |
| C | Average |
| D | Below Average |
| F | Unacceptable - Requires cashiers check or money order |
-
- A. An Excellent rating allows the customer to purchase maximum levels on subsequent orders providing subsequent payments are made on time.
 - B. An Above Average rating allows the customer to purchase to the limit shown for Third Order Limits providing subsequent payments are made on time.
 - C. An Average rating allows the customer to purchase only to the limit of Second Order credit limits providing subsequent payments are made on time. When a customer rating returns to a "C" rating from a "D" rating, purchases during the first six months may not exceed the initial Order Limit. During the subsequent six month period if prompt payments are received, orders may be accepted on credit to the Third Order credit limits.
 - D. A Below Average rating requires that all outstanding orders be paid and that subsequent orders for a six month period be paid in advance before credit will be again extended.
 - F. Unacceptable - No credit will be extended. All payments received will be applied to outstanding debts. After all existing orders are paid, an "F" rating may be upgraded to a "D" upon six months of orders having been paid upon receipt of the order.

Upon the receipt of a first order all accounts are automatically set at a "C" rating. Accounts are reviewed on a monthly basis. If the account has been paid in a timely manner (within 45 days of the date the billing is mailed by us) the rating will move to a "B" rating following 6 months. After a period of six months, at the "B" rated level, if payments on the account continue to be paid within the 45 day period of each billing, the account review will lead to an "A" rating.

One late payment in any six month period that does not exceed 90 days will not affect the rating of a customer.

Two orders not paid within the 45 day limit during any ensuing six month period or if any single order exceeds a 90 day delinquency period, will cause the credit rating to drop one classification. If during the next six month period successive or concurrent delinquent status orders are experienced, the rating will automatically drop to a "D" Classification. Any order delinquent more than 120 days automatically drops the rating to the "F" Classification and the account will be put on collection status.

If a customer continues with a below average rating for a period of six (6) months, that account status must fall to an "F" rating and future orders will be acceptable if paid by cashiers check or money order.

A customer may return to a higher rating status by continued purchases with advance payments for a period of six (6) months for each category of change.

GENERAL POLICY ON BULK LITERATURE SALES

This section contains policy statements covering the general policy for WSO literature sales.

The WSO will not make stipulations concerning the price at which the literature is re-sold by customers of WSO except that no items will be sold for less than the WSO retail list price plus the appropriate shipping and handling cost if the order had been placed with the WSO. All prices and discounts are calculated on the basis of the current WSO retail order form list price.

In order to avoid conflict among Fellowship literature committees and/or offices all Fellowship committees and offices will confine their sales to within the accepted boundaries of the committee (area or region) or office served by the committee or office. There may be need however, for cooperation between neighboring committees and/or offices to make exception to this policy on a case by case agreement between them. These boundaries will generally be the same as those accepted by the appropriate region or the World Service Conference as boundaries that define the area or region. If an area has an office that becomes a participant under this agreement, the area served by that office will be determined through conference with WSO. Wherever an office is created to serve one or more areas or a region, those fellowship groups and area committees within that service area should purchase directly from that office. The WSO will not continue to offer discounts to committees that should be serviced by a fellowship office created to provide direct service. If there have been returned checks or late payments then the committee or office is not eligible until one year from the latest incident.

The utilization of these policy statements shall not act to allow concurrent use of more than one paragraph. In order to allow shipments according to any paragraph below, all existing balances must be paid in full.

1. For an area literature committee, when purchasing more than \$500.00 at a time, a ten (10%) percent discount may be applied, if there is no office or regional service literature committee that can otherwise serve their literature needs. These purchases cannot be accomplished on credit arrangements. The shipping and handling fee is assessed.
2. For a regional literature committee, when purchasing more than \$500.00 at a time, a ten (10%) percent discount may be applied, if there is no Fellowship office that can otherwise serve their literature needs. These purchases cannot be accomplished on credit arrangements. The shipping and handling fee is assessed.
3. For regional literature committees of the Fellowship a 90 day credit and discount policy shall be available upon request. This 90 day credit and discount policy shall provide that the region make a one third (1/3) advance payment of the total amount. If the order is over \$1,000.00 a discount of ten (10%) percent may be applied. **The shipping and handling fee is assessed.**
4. For area or regional sponsored service offices that purchase more than \$1,000.00 but less than \$10,000.00 on a single order, a ten percent (10%) discount is applied and the shipping and handling costs are waived, providing one third (1/3) of the order is paid with receipt of the order and the balance is paid within ninety (90) days.

5. For non-Fellowship customers, a standard net-30 day invoice policy for all orders on purchase order-only transactions are available. For non-Fellowship customers (purchase order or pre-payment) a ten percent (10%) discount from list price shall be available on all orders, if after application of the discount, the aggregate purchase is in excess of \$1,500.00. The appropriate shipping and handling fee shall apply.
6. For all non-Fellowship purchases that are in excess of \$10,000.00, a fifteen percent (15%) discount is applied and the shipping and handling charge shall be waived. If the order is not paid in advance, a standard 30 day accounts receivable payment schedule shall apply.
7. For all Fellowship purchases that are in excess of \$10,000.00, a fifteen percent (15%) discount is applied and the shipping and handling costs are waived, providing one third (1/3) of the order is paid with receipt of the order and the balance is paid within ninety (90) days.
8. For all **Fellowship** purchases that are in excess of **\$20,000.00**, a twenty percent (20%) discount is applied to the purchase and the standard shipping and handling costs are waived **providing one third (1/3) of the order is paid with receipt of the order and the balance is paid within ninety (90) days.**
9. **For all non-Fellowship purchases that are in excess of \$25,000.00, a twenty percent (20%) discount is applied to the purchase and the standard shipping and handling charge is waived if the shipment is made directly from our printer to the customer, and the shipping and handling expense is paid by the customer.**
10. For all purchases that are in excess of \$40,000.00, a discount of forty percent (40%) is applied and the shipping and handling charge is waived if the shipment is made directly from our printer to the customer, and the shipping expense is paid by the customer.
11. Literature sales to conventions, retreats, etc., are classified by the WSO as special event activities rather than Fellowship structured committees. As such, the WSO does not provide literature except on an advance purchase basis. When special activities purchase literature in excess of the amount they sell, the Office will re-purchase the excess if it cannot be sold to the local Fellowship. The sponsoring activity must pay return shipping costs.
12. International Literature Distribution: The World Service Office has initiated a program to provide literature to the Fellowship and non-fellowship customers around the world. It is the WSO policy to sell literature to the non-U.S. Fellowship at a price consistent with the cost of living, relative to the country wherein the literature is to be used. The purpose of this policy is to reduce the actual cost of the literature by eliminating the need to pay more because of the currency exchange rates and increased shipping costs. These computations will be based on a sampling of currency exchange rates and will be updated on a semi-annual basis.
13. On a case by case basis separate license agreements may be entered into that may authorize a service committee in a non-U.S. fellowship the authority to reproduce and distribute literature and other items of inventory within the country the committee serves.

YEARLY AVERAGE CREDIT DISCOUNT POLICY
(FELLOWSHIP PURCHASES ONLY)

In order to help areas, regions and Fellowship offices to keep sufficient inventories of literature the WSO offers the opportunity to purchase at a discount on credit to qualifying customers. To be eligible for participation under this section the committee or office must have earned an appropriate rating by having purchased on a payment-upon-order basis from the WSO five or more orders in a six month period. The average of these orders will determine which credit/discount category they are eligible for.

In order to utilize this section for purchases, an office or committee must pay off any amount outstanding that was purchased in accordance with any other credit purchase plan.

Once a committee or office initiates purchases under the yearly average credit discount, the committee or office cannot simultaneously purchase using other credit policies.

In order to initiate purchases under the Yearly Average Credit Discount Policy a motion must be adopted by the appropriate area or regional service committee that acknowledges full payment for all orders made and assigns the responsibility to conduct business on behalf of the area, region or office in one or more persons. In this way the WSO can keep track of who is the responsible party. If problems develop, the WSO will notify the area, region or office. (Please fill out the **STANDARD AGREEMENT FOR CREDIT SALES** on the following page and return to us with the required signatures.)

Only those committees or offices with an "A","B" or "C" rating will continue to be eligible for credit purchases according to this section. Any committee or office whose rating slips to a "D" or "F" will immediately be terminated from the credit policy until all outstanding payments are received and a six month period has elapsed during which all subsequent orders are paid for in advance.

Purchases made after the establishment of a credit classification will be given the discount providing each order is for not less than \$400.00 prior to the calculation of the discount. The Committee or office may make as many separate orders as necessary to keep the committee or office properly supplied. Total cumulative unpaid orders may not exceed an amount equal to double the maximum for the category within which the Committee or office is eligible.

In June and December of each year, re-calculations of order histories will be conducted. If the dollar value of the average of all purchases raises the customer to the next classification level, the customer will be notified and subsequent orders will be accepted to the next higher level only upon the customers request.

No shipping or handling fee will be assessed for transactions made between the WSO and those committees or offices participating in the Yearly Average Discount policy described in the following four categories.

CATEGORY ONE DISCOUNTS:

For purchases resulting in an average of more than five hundred dollars (\$500.00) a month per annum but less than an average of **one thousand dollars** (\$1,000.00) per month, the discount is five percent (5%).

CATEGORY TWO DISCOUNTS:

For purchases resulting in an average of more than one thousand dollars (\$1,000.00) a month per annum but less than five thousand dollars (\$5,000.00) per month, the discount is ten percent (10%).

CATEGORY THREE DISCOUNTS:

For purchases resulting in an average of more than five thousand dollars (\$5,000.00) a month per annum but less than fifteen thousand dollars (\$15,000.00) per month, the discount is fifteen percent (15%).

CATEGORY FOUR DISCOUNTS:

For purchases resulting in an average of more than fifteen thousand dollars (\$15,000.00) a month per annum, the discount is twenty percent (20%).

"The () (ASC)(RSC)(office) by adoption of this motion assigns authority and responsibility for the purchase of literature and other items from the World Service Office to: () Please indicate names and titles (). This authority and responsibility begins on () and continues until a new motion is adopted. The (ASC)(RSC)(office) acknowledges the responsibility and agrees to complete all payments for literature or other items ordered and received by the (area)(region)(office) members assigned the responsibility for the duties specified in this motion. The permanent contact address for the (ASC)(RSC) is: "

CALIFORNIA SALES TAX

California State law requires that on all retail sales conducted with residents of California and visitors who purchase while in California that a sales tax be collected. The sales tax amount is determined according to California law and at the time of the adoption of this policy it is 6.5 percent (6.5%) for sales conducted in Los Angeles County. This tax must be collected from all walk-in sales even if the purchaser is visiting from another state.

California customers who purchase from WSO for the purpose of commercial re-sale within California should present to the WSO a copy of their Franchise Tax Re-sale form in order to avoid having the WSO incorrectly collect California Sales Tax.

In the Shipping and Handling Fee section, a ten percent (10%) handling fee is described for walk-in sales for purchases made by groups and areas or members of the Southern California Region. Under California Sales Tax Law this fee is also subject to the 6.5 percent sales tax. Total costs for walk-in sales therefore will be calculated to include the walk-in handling fee and the full sales tax.

California Sales Tax law exempts subscriptions to periodicals, therefore there is no tax added to the subscriptions of the N.A. Way Magazine, Reaching Out, etc.

SHIPPING AND HANDLING FEE POLICY

This shipping and handling fee policy is effective upon publication and dissolves the existing policy:

For orders with a total purchase of less than fifty dollars (\$50.00) an eight percent (8%) shipping and handling fee shall be charged.

For orders with a total purchase of more than fifty dollars (\$50.00) but less than one hundred fifty dollars (\$150.00) a seven percent (7%) shipping and handling fee shall be charged.

For orders with a total purchase of more than one hundred fifty dollars (\$150.00) but less than five hundred dollars (\$500.00) a six percent (6%) shipping and handling fee shall be charged.

For orders with a total purchase of more than five hundred dollars (\$500.00) a five percent (5%) shipping and handling fee shall be charged.

A ten percent (10%) handling fee for walk-in sales shall be added to purchases by groups and areas or members of the Southern California Region.

DELINQUENCY NOTICES AND COLLECTION

A second notice will be mailed to all outstanding accounts at the end of the following month. If necessary, a third billing will be mailed to all outstanding accounts at the end of the next month following the second notice. All second and third billing notices sent will have a duplicate copy sent to another person or addressee of the purchaser that should have knowledge of or responsibility for the order. Such duplicate notices to area and regional committees will be sent to the Chairperson of the area or region, etc. Duplicate notices to commercial accounts will be addressed to CEO's or other administrative personnel.

Any account that reaches the 90 day date in the Aging Analysis Report will be referred to the WSO Executive Director for informational purposes and the Accounting Staff will make direct phone calls to the ordering party.

Any order delinquent more than 150 days will be referred to the WSO attorney for subsequent collection notices and possible legal action as the situation may warrant.

RETURNED CHECK POLICY

The return of a check to WSO by the customers' bank for any reason will automatically cause the Credit Rating Classification of the customer to be decreased to a "D" classification. All checks returned for Non-sufficient funds, uncollected funds and post-dated checks are automatically redeposited one time after their initial return by our bank. If the check is subsequently returned or if a check for a subsequent order is returned this automatically causes the credit rating classification to be decreased to an "F" rating. A copy of the check will be mailed to the customer with a letter requesting a new check. A copy of the check and letter of transmittal will be mailed to the chairperson of the appropriate committee or CEO if the customer is a non-fellowship buyer. If payment is not made within 30 days, subsequent collection efforts will be turned over to the WSO attorney. Subsequent orders will not be accepted from that customer until the check is made good, except upon receipt of a cashiers check or money order.

REVIEW OF THIS POLICY

This policy will apply to literature sales for a limited period of time. This policy will automatically expire on December 31, 1988 unless action is taken by the WSO Board of Directors to renew the policy. It is the intention of WSO to renew this policy but the automatic termination is intended to signify that a review of this policy is mandatory.

This policy is temporary-intentionally for the purpose of developing a long range policy and philosophy for literature sales within N.A. This policy is subject to changes.

Attachment Two

BROWN & HECOX
CERTIFIED PUBLIC ACCOUNTANTS

April 15, 1987

JON S. HECOX, C.P.A.
DONITA HORN, C.P.A.
NANCY WHEELER, C.P.A.

4730 WOODMAN AVENUE, SUITE 400
SHERMAN OAKS, CALIFORNIA 91423
(818) 783-3022
(213) 873-1269

Board of Directors
World Service Office, Inc.
16155 Wyandotte Street
Van Nuys, California 91406

Ladies and Gentlemen:

We have compiled the accompanying balance sheet of World Service Office, Inc., A California Nonprofit Public Benefit Corporation, as of December 31, 1986 and 1985 and the related statement of revenue and expenses and changes in fund balances for the period then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Brown & Hecox

WORLD SERVICE OFFICE, INC.
BALANCE SHEET
DECEMBER 31, 1986 AND 1985

ASSETS

| | <u>1986</u> | <u>1985</u> |
|---------------------------------|--------------------|--------------------|
| <u>CURRENT ASSETS</u> | | |
| CASH ON HAND AND IN CHECKING | \$ 47,998 | \$ 20,531 |
| CASH IN SAVINGS | 104,696 | 34,603 |
| ACCOUNTS RECEIVABLE - CUSTOMERS | 87,812 | 78,237 |
| ACCOUNTS RECEIVABLE - OTHER | 9,056 | 12,603 |
| INVENTORY | 181,899 | 149,818 |
| PREPAID INSURANCE | <u>3,600</u> | <u>3,600</u> |
| TOTAL | \$435,061 | \$299,392 |
| <u>FIXED ASSETS</u> | | |
| OFFICE EQUIPMENT | \$144,188 | \$ 63,562 |
| FURNITURE & EQUIPMENT | 145,652 | 119,911 |
| LEASEHOLD IMPROVEMENTS | 29,955 | 17,195 |
| LESS: ACCUMULATED DEPRECIATION | (97,475) | (46,290) |
| TOTAL | \$222,320 | \$154,378 |
| <u>OTHER ASSETS</u> | | |
| DEPOSITS | \$ <u>13,500</u> | \$ <u>13,500</u> |
| TOTAL ASSETS | \$670,881 ===== | \$467,270 ===== |

LIABILITIES AND FUND BALANCE

| | | |
|------------------------------------|--------------------|--------------------|
| <u>CURRENT LIABILITIES</u> | | |
| EMPLOYEE SAVINGS DEDUCTIONS | \$ 6,344 | \$ 200 |
| PAYROLL AND SALES TAX PAYABLE | 5,242 | 7,563 |
| DUE TO WCCNA | <u>4,588</u> | <u>-0-</u> |
| TOTAL | \$ 16,174 | \$ 7,763 |
| <u>FUND BALANCE</u> | <u>\$654,707</u> | <u>\$459,507</u> |
| TOTAL LIABILITIES AND FUND BALANCE | \$670,881 ===== | \$467,270 ===== |

SEE ACCOUNTANT'S COMPILATION REPORT

BROWN & HECOX, CERTIFIED PUBLIC ACCOUNTANTS, SHERMAN OAKS, CALIFORNIA

Attachment Two, Page 2

WORLD SERVICE OFFICE, INC.
STATEMENT OF REVENUE AND EXPENSES
AND CHANGES IN FUND BALANCES:
FOR THE YEARS ENDED DECEMBER 31,

| | <u>1986</u> | <u>1985</u> |
|----------------------------------|----------------------------|----------------------------|
| REVENUE: | | |
| LITERATURE SALES | \$2,580,431 | \$1,649,983 |
| LESS RETURNS AND ALLOWANCES | (468,551) | (213,875) |
| INTEREST | 3,819 | 7,467 |
| MISCELLANEOUS | <u>24,730</u> | <u>1,732</u> |
| TOTAL REVENUE | <u>\$2,140,429</u> | <u>\$1,445,307</u> |
| EXPENSES: | | |
| ACCOUNTING & LEGAL | \$ 9,436 | \$ 6,485 |
| AUTO LEASE | 1,440 | -0- |
| BAD DEBTS | 1,746 | 3,201 |
| BANK SERVICE CHARGES | 747 | 296 |
| CONTRACT LABOR | 155,736 | 49,214 |
| COST OF MERCHANDISE | 658,577 | 550,545 |
| DEPRECIATION | 51,185 | 28,227 |
| INSURANCE | 57,929 | 12,918 |
| MAINTENANCE & REPAIRS | 26,816 | 9,783 |
| MISCELLANEOUS | 1,350 | 4,337 |
| OFFICE EXPENSE | 102,390 | 47,439 |
| PAYROLL TAXES | 76,403 | 33,358 |
| POSTAGE & SHIPPING | 39,943 | 7,247 |
| RENT | 69,891 | 60,132 |
| SALARIES | 554,861 | 367,015 |
| TELEPHONE | 27,320 | 27,733 |
| TRAVEL | 101,307 | 83,325 |
| UTILITIES | 7,617 | 3,957 |
| WORLD SERVICE CONFERENCE | <u>535</u> | <u>28,404</u> |
| TOTAL EXPENSES | <u>\$1,945,229</u> | <u>\$1,323,616</u> |
| EXCESS REVENUE OVER EXPENDITURES | <u>\$ 195,200</u> | <u>\$ 121,691</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>\$ 459,507</u> | <u>\$ 337,816</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 654,707</u> ===== | <u>\$ 459,507</u> ===== |

SEE ACCOUNTANT'S COMPILATION REPORT

BROWN & HECOX, CERTIFIED PUBLIC ACCOUNTANTS, SHERMAN OAKS, CALIFORNIA

Attachment Two, Page 3

WORLD SERVICE OFFICE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1986

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

THE SIGNIFICANT POLICIES ARE SUMMARIZED BELOW FOR THE CONVENIENCE OF THE FINANCIAL STATEMENT READERS.

THE ORGANIZATION FOLLOWS THE PRACTICE OF CAPITALIZING EXPENDITURES FOR PROPERTY AND EQUIPMENT IN EXCESS OF \$75. DEPRECIATION IS PROVIDED OVER THE ESTIMATED USEFUL LIFE OF THE ASSETS.

INVENTORY IS STATED AT LOWER OF COST OR MARKET VALUE, USING THE FIRST-IN, FIRST-OUT METHOD.

NOTE 2 - TAX EXEMPT STATUS

WORLD SERVICE OFFICE, INC. IS A NONPROFIT ORGANIZATION WHICH DISTRIBUTES LITERATURE WORLDWIDE FOR NARCOTICS ANONYMOUS. IT IS EXEMPT FROM INCOME TAXES, AND THERE ARE ACCORDINGLY NO SUCH PROVISIONS IN THE FINANCIAL STATEMENTS.

NOTE 3 - LEASES

THE ORGANIZATION LEASES ITS ADMINISTRATIVE OFFICE AND WAREHOUSES UNDER THE FOLLOWING TERMS:

| PROPERTY LEASED | TERM OF LEASE | MONTHLY RENT |
|--|---|--------------|
| ADMINISTRATIVE OFFICE AND WAREHOUSE | NOVEMBER 1, 1986 TO OCTOBER 31, 1988, SUBJECT TO ANNUAL COST OF LIVING ADJUSTMENT, OPTION TO EXTEND LEASE FOR TWO ADDITIONAL YEARS. | \$2,989 |
| WAREHOUSE | AUGUST 16, 1985 TO OCTOBER 31, 1988 \$2,700 UNTIL NOVEMBER 1, 1986; \$2,835 UNTIL OCTOBER 1, 1987; \$2,977 UNTIL OCTOBER 31, 1988. TWO ONE YEAR OPTIONS TO EXTEND LEASE; MONTHLY RENT OF FIRST OPTION, \$3,125; MONTHLY RENT OF SECOND OPTION, \$3,280. | \$2,700 |

SEE ACCOUNTANT'S COMPILATION REPORT

BROWN & HECOX, CERTIFIED PUBLIC ACCOUNTANTS, SHERMAN OAKS, CALIFORNIA

Attachment Two, Page 4

Attachment Four

REFERENCE NOTES FOR COMPUTATIONS SHOWN IN THE REPORT:

NOTE 1: The only way to obtain a reasonable picture of the percentage of income generated from the major inventory items is to multiply the total quantities sold in 1986 by the retail sales price. Unfortunately this gives an enlarged income level and some distortion of the representative percentages that is obtained from sales of each category. The distortion comes from the fact that purchases made with discounts do not purchase equally representative shares of each of the different inventory category items. More books are purchased by discount than medallions, key tags or other items. However it is easy to see that the percentages reflected in the last column clearly establish that sales of the Text, even with discounts, provides the single largest part of WSO income. Even with discounts applied, sales of Text account for 50 to 55% of all income. There are other items, but their cumulative sales for 1986 would have provided approximately \$75,000. We did not maintain specific sales data on the other items.

| | Quantity | Cost | | Income | % of Income |
|----------------|-----------|--------|---|------------------|----------------|
| Medallions | 38,003 | x 1.85 | = | \$70,305 | = .0265 |
| Key Tags | 590,500 | x .25 | = | 147,625 | = .0556 |
| Chips | 188,141 | x .18 | = | 33,865 | = .128 |
| Pamphlets | 3,041,982 | x .15 | = | 456,297 | = .1719 |
| White Booklets | 447,610 | x .50 | = | 223,805 | = .0843 |
| Basic Texts | 215,352 | x 8.00 | = | <u>1,722,816</u> | = <u>.6489</u> |
| | | | | \$2,654,713 | 100% |

NOTE 2: In order to examine the 1986 Year End Report it was essential to determine percentages of sales according to the groupings reflected in Chart Two. This is essential because these percentages and groupings form a major basis for the development of the Literature Sales Discount Policy and the Shipping and Handling Fee Policy. Because the computerized accounting package does not calculate this information, the figures are taken from the Order Control Log. The 1987 Conference report by the WSO provided this breakdown. It was shown as Table One in that report.

The total figure reported did not match the total income reported by the Accountant. This was because the Order Control Log report did not include sales made outside of the United States. In order to utilize these different sources, it was necessary to add in those non-U.S. sales. The difference between the two reports was:

| | |
|--------------------|--------------------|
| Accountant Report | \$2,580,431 |
| Control Log Report | <u>\$2,463,303</u> |
| | \$117,128* |

*We did not investigate this figure to determine the distribution between Fellowship and non-Fellowship sales. This was not considered necessary because of the low number of sales made to non-Fellowship non-U.S. buyers. Consequently this figure has been added for purposes of this analysis to Fellowship Sales.

In order to calculate the impact of a reduction in sales by non-Fellowship buyers as a result of elimination of the discount sales program, it was necessary to apportion the Returns and Allowances (discounts) shown in the Accountants Report. This calculation was achieved in two ways. The actual computations for Hazelden and Compcare are maintained on a constant basis and therefore their figures were used appropriately. After their discounts were computed in the overall Returns and Allowances, the distribution of the rest of the Returns and Allowances were computed using the percentage figures reported in CHART TWO. Correction in the percentage was not made prior to the calculation for the Non-U.S. sales.

NOTE 3: Impact of Reduction of Sales to Suppliers.

| | |
|-----------|--------------------------|
| \$560,929 | 1986 Income |
| x .75 | Reduction Percent |
| \$420,696 | Amount of Reduced Income |

Determining Percent of Total Income the Reduction Represents.

$$\$420,696 - \$2,140,429 = .1965\%$$

NOTE 4: (A) Net Sales Outside the Fellowship

| | Gross | Discount | % | Supplier Net | Non-N.A. Net |
|----------------------|-----------|-----------|------|--------------|--------------|
| Hazelden | \$742,307 | \$289,722 | 40% | \$434,585 | |
| Comp. Care | \$148,640 | \$22,296 | 15% | 126,344 | |
| | | | | \$560,929 | \$560,929 |
| Non-discounted sales | \$309,624 | ----- | ---- | | 309,624 |
| | | | | | \$870,553 |

| | |
|-------------|---------------------------------------|
| \$2,140,429 | Net |
| -870,553 | Net from Commercial Sales |
| -28,549 | Interest and Misc. |
| \$1,241,327 | Fellowships Sales Income (See Note 2) |

NOTE 4: (B) Net Fellowship Sales [Minus Interest and Misc.]

| | |
|------------|------------------------------|
| Individual | \$211,026 - 1,241,327 = .17% |
| Area | \$484,117 - 1,241,327 = .39% |
| Region | \$546,184 - 1,241,327 = .44% |
| | \$1,241,327 |

NOTE 5: Income adjusted to accommodate reduction in price by 25% and reduction in sales because of elimination of discount.

Fellowship Sales

| | | |
|--------------|------------------|-------------|
| \$1,241,327 | \$1,241,327 | |
| <u>x .10</u> | <u>- 124,132</u> | |
| \$124,132 | \$1,117,195 | \$1,117,195 |

Recapture of Discount Sales

| | | | |
|--------------|-----------------|---------------|-----------|
| 107,000 | 107,000 | 26,750 | |
| <u>x .75</u> | <u>- 80,250</u> | <u>x 8.00</u> | |
| 80,250 | 26,750 | \$214,000 | \$214,000 |

Non-Discount Sales

| | | |
|--------------|-----------------|-----------|
| \$309,625 | \$309,625 | |
| <u>x .25</u> | <u>- 77,406</u> | |
| \$77,406 | \$232,218 | \$232,218 |

| | |
|---------------------|-------------|
| Misc. Income | \$28549 |
| Net Adjusted Income | \$1,591,962 |

| | |
|---------------|------------------------------|
| \$1,117,195 | Fellowship Sales |
| 232,218 | Non-N.A./Non-Discounted |
| 214,000 | Non-N.A./Discount Recaptured |
| <u>28,549</u> | Misc. |
| \$1,591,962 | |

NOTE 6: Reduction in expense for Basic Text from a 75% reduction in Non-N.A. discount sales.

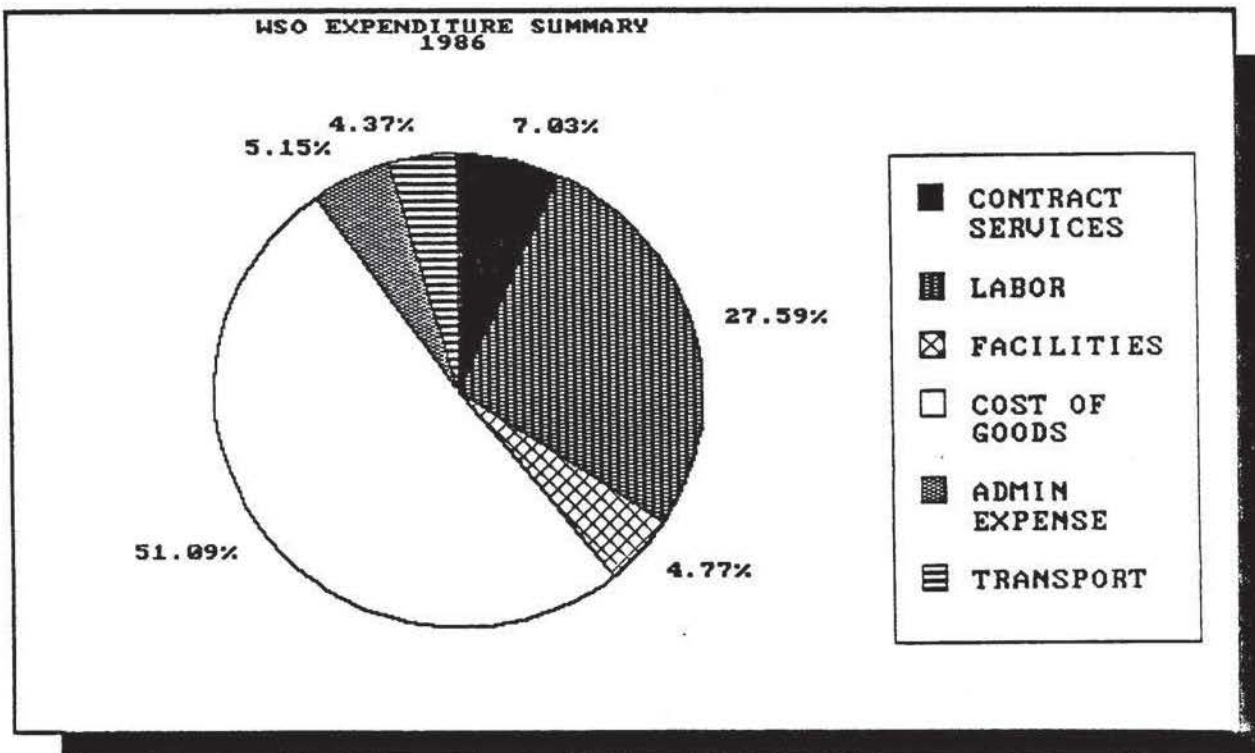
| | | |
|--------------|-----------------|-----------------|
| \$107,000 | \$80,250 | \$1,945,279 |
| <u>x .75</u> | <u>x \$1.80</u> | <u>-144,450</u> |
| 80,250 | \$144,450 | \$1,800,779 |

Attachment Three

On this page and the two following pages are charts that easily reflect the financial picture of the WSO. By examination of CHART ONE, the Expenditure Summary it is easy to visualize the impact of a twenty five percent reduction. The majority of funds were expended in the production and shipping of inventory. The second largest expenditure was for labor followed by contract services. If any significant reduction was made in Cost of Goods expense, the consequence would be a loss of income in addition to being unable to provide inventory items to WSO customers.

Clearly it can be seen that the reductions would have to be made in other categories. The obvious areas are in labor and contract services. Reduction of these areas immediately begins to eliminate the services described in the report that WSO provides.

CHART ONE



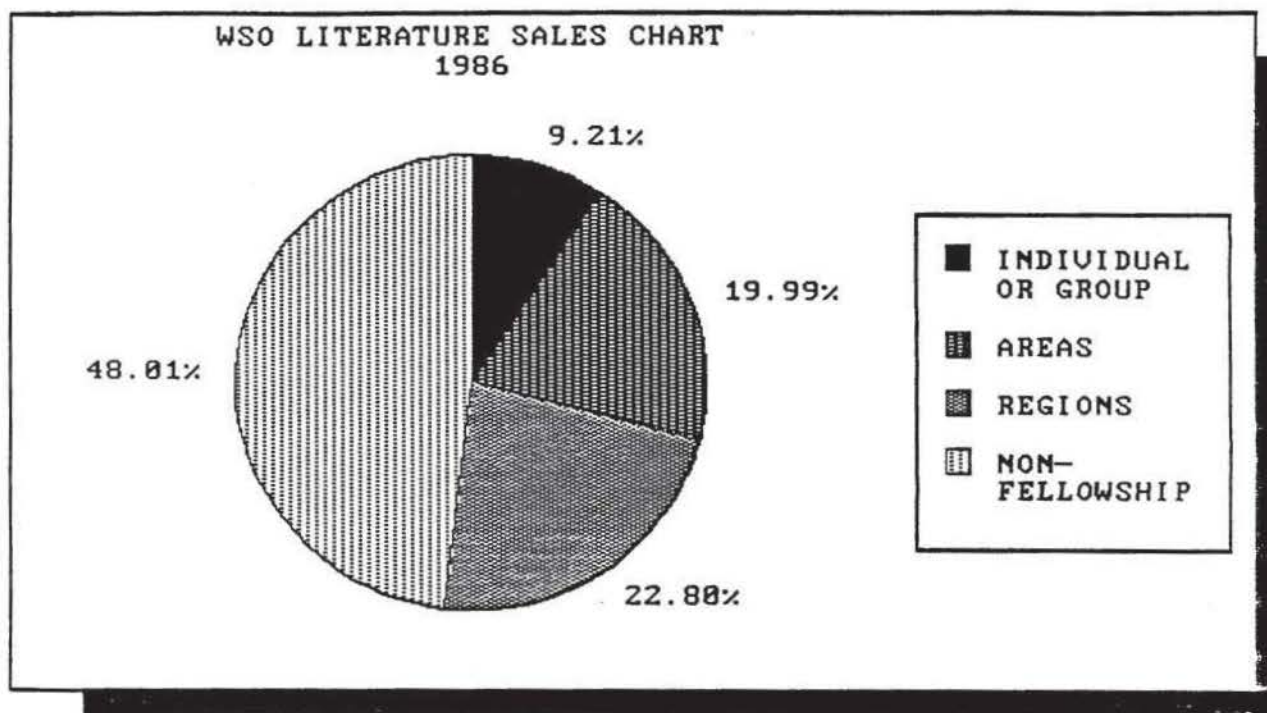
In Chart Two, below, the 1986 Literature Sales totals are shown in graphic form. These figures are reported from the Order Control Log generated as each order is logged in and given a control number. As this log is not an integral part of the computerized accounting system, it is subject to some error. The percentages are therefore a close approximation and not derived from computer records.

However, because we do not currently generate a sales analysis by computer that provides a breakdown of this nature, it is essential to use this chart and its percentage breakdown in a critical part of the analysis of this report. (Also see Note 2 in Attachment Four, for additional details.)

WSO LITERATURE SALES CHART - 1986

| | <u>INDIVIDUAL OR GROUP</u> | <u>AREA</u> | <u>REGION</u> | <u>NON- FELLOWSHIP</u> | <u>1986 TOTALS</u> |
|------------|--------------------------------|-------------|---------------|----------------------------|------------------------|
| TOTAL U.S. | 226,758 | 492,303 | 561,671 | 1,182,571 | 2,463,303 |

CHART TWO



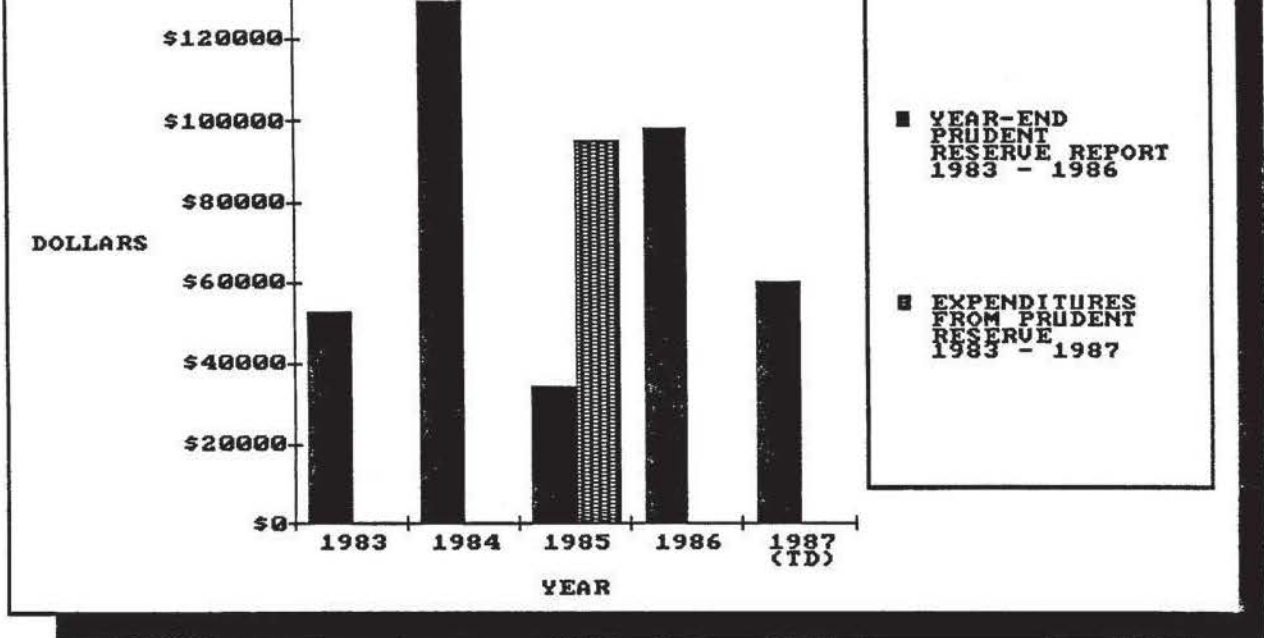


CHART THREE

Chart Three above, reflects the status of the Prudent Reserve since the ending report for 1983. In 1985 and 1987 it was necessary to use more funds from the reserve than were returned to the reserve.

| | |
|----------------------|------------|
| 1983 | \$ 52,923 |
| 1984 | \$ 129,700 |
| 1985 | \$ 34,603 |
| (spent from Reserve) | \$ 95,000 |
| 1986 | \$ 98,352 |
| 1987 To Date | \$ 60,270 |

This chart provides easy reference to the Prudent Reserve. Fortunately we had a sufficient prudent reserve at the beginning of 1985 when expenses exceeded income. During 1986 some money was returned to the reserve. In early 1987 additional money was returned to the reserve. However recent expenditures have exceeded income and \$50,000 has been taken from the reserve to meet operational expenditures.