

## **Narcotics Anonymous World Services, Inc.**

### **Proposed 2014–2016 Budget Description**

#### **Overview**

The draft budget described by this document is for the upcoming 2014–2016 conference cycle, but the budget actually covers the fiscal years ending in 2015 and 2016. The budget draft reflects the current standards for nonprofit financial statements. The draft shows operating income (gross sales minus cost of goods) before the four expense areas (Literature Production & Distribution, World Service Conference Support, Fellowship Development, and Events). The initial income and expense projections for the World Convention can be found at the end of the budget. A budget is a plan for how an organization intends to receive income and allocate funds for expenses in a given period.

The base of the 14–16 NAWS budget comes from our actual experience through the end of the previous fiscal year and then annualized or, more simply put, carried forward a few additional months to provide for better projections.

The first column of figures of this budget (titled 06/30/13 YTD Actual) provides you with the actual income and expense for the last fiscal year ending 30 June 2013.

The second column of figures (titled 7/1/12–11/30/13 Annualized) includes the actual income and expense from 1 July 2012 through 30 November 2013. All of the income and expense for these 17 months were added together and then divided by 17 to get a monthly amount and then the result was multiplied by 12 to show a twelve-month projection. These figures are a better forecast than using the previous budget because we have drastically reduced expenses in many areas and have had variations in income largely due to fluctuations in the world economy and reduced contributions.

The third column of figures (titled Proposed July 2014–June 2015) covers year one of the two-year budget cycle; the fourth column (titled Proposed July 2015–June 2016) covers year two; and the fifth column (titled Cycle Totals for Fiscal Years 2015 and 2016) shows the total proposed income and expense for the entire two-year cycle (1 July 2014 through 30 June 2016). This last column can have a slight variance due to rounding up or down to the nearest dollar.

In the past we have presented a budget proposal that took a conservative approach to projecting income and a more liberal approach to projecting expense. We did this because we exist in an environment of unpredictable cost factors, such as increases in transportation costs and cost of raw materials, that can impact our cost projections. Our approach was intended to accommodate the possibility of these types of effects. We would also project increases in income, which would typically allow us to accommodate all of our projected expenses.

The 14–16 budget proposal is based more on our actual expectation for income. We did not include the recent literature price increase in the first year of this plan since so many of our literature purchasers ordered large quantities of literature in December 2013. We forecast a 2.5% increase in income for the Basic Text in year two and 5% for all other literature related items. With our recent sales trends this seemed prudent. We also decreased the projected income for *Living Clean* by \$150,000 or 13%.

Our cost of goods has a forecasted increase of 2% each year. We have already received notification of increases for 2014 and expect this trend to continue. With our lowered quantities for many titles and the current trends in the publishing industry, we also see this as prudent.

We have projected an increase to other expenses by 1.8% in year one and 1% in year two. Costs continue to rise for most items, and our cost-cutting efforts over the last several cycles have already capitalized on most of the opportunities to decrease costs that we are presently aware of.

This proposed budget reflects an anticipated net loss in the second year of the proposal, and for the cycle, primarily due to the anticipated cost of the WSC. There are those that would suggest that we should not be proposing a budget that shows a net loss. It is our belief that this type of circumstance is exactly why we establish and maintain operating reserves; so we can cover the anticipated reality of utilizing more funds than we take in for a specific need. It is not something that we would plan to repeat, but at this time it is how we know we could cover these costs. Additionally, the allocation for the 2016 WSC uses the actual expenses for WSC 2012 as its basis for expense. Again, this seemed the most prudent approach at this point.

The World Board has already approved an additional expenditure of reserve funds for the upcoming cycle for new accounting software, transition of our entire system, and hardware such as new servers and computers. This was considered a business necessity since we currently use an accounting platform that is so dated that it is no longer supported. This will also give us a new shopping cart, which we know many of you have wanted for some time now. We will be discussing this more at WSC 2014.

The draft budget included in this packet covers all proposed world services activity from 1 July 2014 through 30 June 2016. We continue to work on better systems to capture the information needed to support the budget you approve, and ways to make the reporting of that information more easily understood.

The *Guidelines for the NA World Services Budget (GWSNA p 28)* calls for three classifications of funds:

- **Fixed Operational Funds**—funds allocated toward world service activities that are recurring in nature and have little to no functional change from budget year to budget year.
- **Variable Operational Funds**—funds allocated toward non-routine world service projects and/or activities that vary from budget year to budget year. This includes those items prioritized, primarily in project plans, by the World Service Conference.

- **Reserve Funds**—funds that are set aside to meet current and/or future financial needs. These funds are maintained in both short-term and long-term reserve accounts. Funds are also allocated toward the planned use of cash to offset the effect of depreciation, to improve asset value, to provide financial resources necessary to effectively address the intellectual property management called for in the *FIPT*, and/or to acquire any fixed asset that has a depreciable value. Additionally, these funds are used to address necessary expenditures, which are in excess of anticipated revenues.

Fixed and variable expenses are identified in the draft 2014–2016 budget. The proposed project plans included with the NAWS Strategic Plan correspond with the proposed variable operational expenses. Along with the fixed operational expenses we have also provided a brief explanation of some of the kinds of items contained in each line item. Although these are identified as “Fixed Operational Expenses,” in the past they have been called “Routine” or “Basic Services.” Today we refer to them as essential services.

### 2014–2016 World Services Projected Income

The income estimates for this budget are derived from the actual income received during the period described above.

**Recovery Literature**—Year one is estimated to provide no increase in income, and year two is estimated to provide an increase of 2.5% for the Basic Text and 5% for everything else over year one income. *Living Clean* is projected to have a \$150,000 or 13% decrease because it has now been available for almost two years. We believe these are realistic estimates.

We include a separate line item for [Literature Income \(Iran\)](#) in both income and cost of goods. We show this separately and call out the budget totals without Iran because, as we have repeatedly reported, these are not funds readily available to us.

**Other Inventory**—We have estimated the same overall increase as reported above for recovery literature.

**Shipping**—This income is based on the estimated literature sales and the annualized actual income and expense. Since the last shipping increase took place 1 July 2013 this may vary somewhat.

**Discounts**—This is based on estimated literature sales and the projected discount level for those sales. The discount level varies based on the customer and size of orders.

**Developmental Subsidies & Allowances**—This is the cost of subsidizing or reducing the price of literature (often free) provided to a growing worldwide fellowship. We are not projecting an increase in this proposal. Presently, to see the full value of this cost you have to add this amount to the line in the expense portion of the budget under Fellowship Development labeled “Developmental Literature” which includes the expenses for shipping, customs, and duties. This line item had increased between 7% and 25% each year for the previous seven fiscal years, but we were actually able to better stabilize our costs for this important service in the last fiscal year by printing in various alternative locations.

**Recovery Literature – Cost of Goods**—This section covers the cost of goods for recovery literature as defined under the *Fellowship Intellectual Property Trust* (generally all of the direct costs from manufacture to placing the item on the inventory shelf). Through staff efforts we have been able to avoid the standard increases in this area experienced by most publishers, but the publishing world is changing. Paper costs continue to rise worldwide, and we have forecast an overall increase in expense of 2% for year one and 2% for year two for all literature cost of goods. The exception(s) are the expense line item for *Living Clean*, which shows a decrease of 13% for year one and no increase for year two. This adjustment is due to the decrease in the number of books we are expecting to sell, which is reflected in *Living Clean* income.

**Other Recovery Literature**—This refers to the cost of goods for the remaining *FIPT* literature other than books (primarily recovery pamphlets and some booklets). Also reflects a 2% overall projected increase each year.

**Other Inventory Expense**—This section covers the cost of goods for all other items sold from inventory not considered as part of the *FIPT*. Also reflects a 2% overall projected increase each year.

**Fellowship Contributions**—We are forecasting that contributions will remain the same as the actual monies received this year. Since 2008, when we received almost one million dollars, contributions declined 17% in 2009, then decreased an additional 20% in 2010, increased 15% in 2011, and then decreased 10% in 2012. For the fiscal year ending 30 June 2013, we recouped some of that unprecedented decline and showed a 12% increase. There is no consistent trend here. We thank all of the members, groups, areas, and regions who responded to our appeal.

**Licensed Vendor Payments, Interest, and Miscellaneous**—This income estimate is conservatively based on previous actual experience.

**Event Specific Income**—In our ongoing effort to keep the direct income and expense effect of a world convention easy to see, we have placed the WCNA 36 convention budget at the end of the overall budget. Please remember that this is a working budget only, since many of the specifics about this event have not been finalized.

## **2014–2016 World Services Fixed Operations**

The term “Fixed Operational Expenses” refers to the activities of World Services that are ongoing and recurring in nature, and that do not change dramatically from year to year as a result of conference actions. All of these activities require planning, support, and follow-up from World Services staff.

The budget is divided into four major expense categories that represent our overall activity:

- **Literature Production & Distribution**
- **World Service Conference Support**
- **Fellowship Development**
- **Events**

Under each of these categories there is an allocation for accounting, personnel, overhead, and technology. The overall expense for these items is divided between the four categories based on focus of activity; the expense is derived mainly from hours of staff support and building space occupied. For this cycle we are keeping the same allocations we had for the last cycle. These remain as 35% of all NAWS activity allocated for Literature Production & Distribution, 21.5% for World Service Conference Support, 32% in year one and 34% for year two for Fellowship Development, and 11.5% in year one and 9.5% for year two for Events. The allocation for events is higher in the fiscal years when a World Convention is held.

The following is a list of the types of expenses that are included in each allocation (reflected in the budget in peach), followed by a simple breakdown of the fixed operations expenses under each budget category. All expense forecasts are derived from the actual expenses shown and reflect an increase in our expenses of 1.8% for year one and 1% for year two. Personnel shows a 5% increase in year one because of decisions that were implemented in this fiscal year but not reflected in the actual or annualized totals. We had cut expenses drastically in most areas over the past few years, and we realized that some of those reductions were starting to have a negative impact on our Fellowship Development and Public Relations activities, so we raised several of those expense areas.

**Accounting**—This contains professional services for annual audits and random forensic spot checks, costs associated with having an audit committee as required by the Sarbanes-Oxley Act, other professional services associated with financial management, and contract labor.

**Personnel**—This contains all wages and salaries, payroll taxes, health and workers compensation insurance, training, recruitment, relocation, and retirement plan expenses associated with employees at all five branches of the World Service Office. It also includes contract labor hired for specific purposes. There are no projected increases.

**Overhead**—This is the facility lease expense, maintenance and repair, telephone, utilities, postage, auto service and lease, office expense, general insurance, amortization, bad debts, depreciation, bank charges, and dues and fees associated with the five branches of the World Service Office. Bank charges continue to rise as use of the shopping cart and credit card sales increase.

These expenses rose in this past cycle due to the aging of our assets in Amortization and Depreciation, an increase in bad debts from a few RSO closures, increased postage costs in all branches, obtaining additional warehouse space in Chatsworth, and new equipment in production to allow us to produce more items in-house.

**Technology**—This is the expense for information services, computer leases, software, supplies, software application upgrades and updates, equipment leases and repair, and service contracts. Expenses associated with maintaining the na.org website; the expense associated with the database, online group data collection, and meeting information; as well as web and software fees for event registration are also included here. This category has increased, which is to be expected when you have an operation that is as dependent upon technology as ours, but is held in check by staff efforts.

As already mentioned, the major expense in the upcoming cycle to transition to a new accounting platform and related technology needs will come from reserve funds.

### **LITERATURE PRODUCTION & DISTRIBUTION**

This section of the budget covers the expenses associated with distributing NA literature to fellowship and non-fellowship customers. This currently occurs through the WSO in Chatsworth and its branches in Canada, Belgium, India, and Iran.

**Fixed Operational Expense**—All literature production and distribution costs that are not included under Total Cost of Goods sold.

**Marketing**—This covers the expense for attendance at and participation in professional events primarily related to corrections and treatment. Although we call this marketing, it is public relations-focused activity. These efforts are primarily conducted by staff with local volunteers. This includes the registration and preparation for events, travel, and follow-up for this activity.

**In-House Production**—This includes the lease for reproduction equipment to print most translated books, booklets, and IPs that are not outsourced (and not included in Cost of Goods)—primarily non-English recovery books, pamphlets, and booklets, service materials, publications other than English *NA Way*, and reports. We have brought more of this activity in-house which has given us greater flexibility and control of those items that we produce in small quantities.

**Translations**—This covers the direct expense for translations of recovery and service material into languages other than English that is not already captured under the COG for each specific project.

**Literature Distribution (Iran)**—This is the allocation for the literature that is sold in Iran.

**Shipping**—This expense is based on the shipping charges for estimated literature sales and announced or anticipated rate increases from our major carriers.

**Legal**—This is primarily the direct registration and legal expense associated with maintaining worldwide copyright and trademark registrations for Narcotics Anonymous, *The NA Way*, the NA Logo, the Group Logo, and the Service Symbol, as well as all recovery and service material. It may also include direct costs to defend our intellectual property.

**Business Plan Workgroup**—This is the allocation for a workgroup that focuses on the routine business operations of NAWS and makes recommendations to the board on business matters. Additionally, as required by law, a portion of this group fulfills the audit committee function. This workgroup's function and expenses have been moved into fixed operations with the concurrence of the conference.

**Literature Production and Distribution Travel**—This allocation allows us to interact directly with RSOs, in addition to the quarterly webinars we have been holding, as well as travel to branch offices as needed.

## **WORLD SERVICE CONFERENCE SUPPORT**

**Fixed Operational Expense**—This section of the budget covers the expenses associated with support to all World Service Conference-related activities.

**Publications**—These are the expenses associated with the production of the *Annual Report* once a year, and the *Conference Report*, the *Conference Agenda Report*, and Conference Approval Track material once each conference cycle, and *NAWS News* approximately four times per year. The expense for translating *NAWS News* and the *CAR* is also included here.

**World Service Conference**—These are the expenses for the site and equipment needed for the event; hiring the parliamentarian; funding for staff, World Board, WSC Cofacilitators, and the Human Resource Panel; and the travel expense for currently 115 delegates from around the world.

**World Board**—The World Board will meet a minimum of eight times in this conference cycle, plus during the conference itself. An orientation for new board members is included as a separate meeting at the beginning of the conference cycle. Additionally, in each conference cycle, training needs for the full board are included. With the election of a full board from more diverse locations, this expense has increased approximately 15%. The Executive Committee has been planning their meetings to coincide with a World Board or Business Plan meeting.

**Human Resource Panel**—This group is scheduled to meet a minimum of five times during the cycle to work on nominations and manage the World Pool. Part of one of these meetings will be used for orientation and training.

**WSC Cofacilitators**—The WSC Cofacilitators are scheduled to meet to prepare for the conference, with the parliamentarian and the World Board and HRP.

## **FELLOWSHIP DEVELOPMENT**

**Fixed Operational Expense**—This section of the budget covers the expenses associated with support to the fellowship.

**Publications**—These are the projected expenses for producing, publishing, and distributing *Reaching Out* four times per year and *The NA Way Magazine* four times per year in six languages. *The NA Way* is also translated into a seventh language, Farsi, but since WSO Iran charges for these issues, there is no expense. The conference decided at WSC 2010 that we did not have to automatically send paper copies of the *NA Way* to all registered groups; groups and members who wanted a paper copy of the magazine were asked to resubscribe. In the next conference cycle, we were able to save almost \$175,000 for this expense over the previous two-year cycle. Since then, the number of paper copies of the *NA Way* has continued to increase – by about 40% in fiscal years 2012 and 2013 and an estimated 24% in the current 2014 fiscal year.

We are happy to report that at the same time we have had an increase of 18% in subscriptions of the e-version of *The NA Way*. For the same period, paper subscriptions to *Reaching Out* also increased by 11%, and the subscriptions for

the e-version increased by 26%. We will be discussing this more in the *Conference Report* and at WSC 2014.

**Fellowship Support**—This is World Services’ face-to-face interaction with the fellowship, primarily in workshops and forums. This includes interactions at zonal forums, worldwide workshops, and local fellowship development activities. In the past we have also had a line item for travel and workshops under World Service Conference Support, but all travel and workshop expense is now captured here. The distinction of tracking delegate-focused workshops separately in financial reports has been difficult since they often include fellowship development efforts. We have projected an increase in year two to discuss the Service System transition.

**Public Relations**—This is the expense for attendance at and participation in professional events, both NAWS and locally attended, that in some way address addiction and/or addicts. Some of these events have been the International Society of Addiction Medicine (ISAM), the World Federation of Therapeutic Communities (WFTC), the annual meeting of the American Society of Addiction Medicine (ASAM), the SouthEast Conference on Alcoholism and Drug Addiction (SECAD), the National Association of Alcohol and Drug Abuse Counselors (NAADAC), and some minor activity with the United Nations. These activities often overlap our marketing activity.

**Developmental Literature**—This is the cost to distribute free literature to a growing number of developing NA communities, to hospitals and institutions, and for public relations purposes. The amount also includes the expenses for shipping, customs, and duties. We are still working on better reflecting this activity in our financial reports. Presently, to see the full value of this provision, you have to add this amount to the line in the Income portion of the budget called “Developmental Subsidies & Allowances.”

## **EVENTS**

**Fixed Operational Expense**—This section of the budget covers the fixed expenses associated with event planning and support to the fellowship.

**Future and Prior Conventions**—These are the expenses associated with planning up to five conventions at any time.

**WCNA 36 Event Specific**—The income and expense amounts are only a projection at this point. We are still in the planning process for the convention in Brazil.

The NAWS Strategic Plan has an objective about creating a plan for a sustainable World Convention. One outcome under that objective is “*Registration pricing reflects the true cost of producing the Convention and pays for core expenses.*” To support that goal, we are projecting WCNA 36 to be a break-even event.

## **2014–2016 World Services Variable Operations**

The *Guidelines for the NA World Services Budget* (GWSNA p 28) call for a specific process to be created for the consideration, evaluation, development, and approval of World Service projects and those activities that vary from year to year. Each project is included in the draft budget under the appropriate budget category and then under Variable Operational Expenses.

In any given conference cycle, we may or may not be able to accomplish everything that we propose. We believe that the spirit of the budget process adopted by the conference requires conference approval of the work of World Services. Therefore, we present all items that could possibly be worked on before the next meeting of the WSC, and we report our activity throughout the conference cycle. Please refer to the 2014–2016 Strategic Plan for the status of the 2012–2014 adopted projects as well as the proposed plans for 2014–2016.

### **Other Financial Notes**

We have no changes to recommend for the reimbursement policy so it will not require conference action to adopt. It will be distributed to conference participants for the upcoming conference.

The cash basis sheet for the proposed 2014–2016 budget will also be distributed at or before WSC 2014.