



Notes to Consolidated Financial Statements

Independent Auditors' Report Years Ended June 2007, 2006 and 2005

Note 1 – Organization and Nature Of Activities

Narcotics Anonymous World Services, Inc. (NAWS) was incorporated on January 25, 1977 and is headquartered in Chatsworth, California. In addition, NAWS operates a literature distribution facility in Toronto, Canada and offices in Brussels, Belgium and Iran. NAWS is a not-for-profit organization which provides communications and information for the Fellowship of Narcotics Anonymous (NA). NAWS achieves its purpose by maintaining correspondence with NA groups and service committees, by printing and distributing World Services Conference (WSC) approved literature, and by maintaining the archives and files of NA.

In 1993, NA established the Fellowship Intellectual Property Trust (the Trust). The Trust was established for the purpose of holding and administering all recovery material and other intellectual properties of NA. The Trust is included in the consolidated financial statements of NAWS as a result of common control.

NAWS is exempt under Section 501(c)(3) of the Internal Revenue Code and comparable California Revenue and Taxation Code. The Trust is also exempt under the applicable Internal Revenue Code and comparable California Revenue and Taxation Code. In addition, the Internal Revenue Service has determined that the organization is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Therefore, no provision for Federal and state income taxes was made for either NAWS or the Trust.

Note 2 – Summary of Significant Accounting Policies

A. Consolidation Policy and Basis of Accounting

The accompanying consolidated financial statements include the accounts of NAWS and the Trust. Significant intercompany balances and transactions are eliminated in consolidation. The consolidated financial statements are prepared on the accrual basis of accounting.

B. Financial Statement Presentation

Under Statement of Financial Accounting Standards No. 117, NAWS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. As of June 30, 2007, 2006 and 2005, NAWS held no temporarily or permanently restricted net assets.



C. Cash and Cash Equivalents

NAWS considers all funds held in checking and savings accounts to be cash and cash equivalents.

D. Investments

NAWS investments are carried at fair value, which generally represents quoted market price as of the last business day of the year. Certificates of deposit are valued at cost, which approximates fair value. Investments include certificates of deposit, money market funds and government securities.

E. Publication Inventory

Publications and other items held for resale are included in inventories and are carried at the lower of cost or market, with cost determined by the first-in, first-out method.

F. Property and Equipment

Leasehold improvements and furniture and equipment are stated at cost. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the useful life of the asset are expensed. Depreciation is computed using the mid-year accounting method over the estimated useful lives of the related assets, which are as follows:

Leasehold improvements	5 years
Furniture and equipment	5-10 years

Depreciation expense for the years ended June 30, 2007, 2006, and 2005 amounted to \$298,839, 340,264 and \$212,902, respectively.

G. Trademarks and Copyrights

The cost of acquiring and defending copyrights and trademarks is capitalized and is being amortized over the approximate economic life of the copyright or trademark, which is estimated to be ten years. The cost of computer software is also capitalized and amortized over a period of seven years. Amortization expense for the years ended June 30, 2007, 2006 and 2005 amounted to \$110,856, \$120,651, and \$113,936, respectively.

H. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. Management estimates uncollectible accounts based on the age of the receivable and other factors.

I. Translation of Foreign Financial Statements

Financial operations in Canada and Europe are translated throughout the year to United States dollars. Gains or losses resulting from translating foreign currency financial statements are recorded in the consolidated statements of activities.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.



Note 3 – Retirement Plan

NAWS maintains a qualified defined contribution retirement plan, which covers all employees. Under the terms of the plan, employees may elect to contribute pre-tax earnings up to the maximum allowable amount. NAWS matches up to 5% of the deferred earnings based on the employee's number of years of service. The matching contribution to the plan for the years ended June 30, 2007, 2006 and 2005 was \$67,593, \$59,435 and \$46,541, respectively.

Note 4 – Operating and Capital Leases

NAWS has entered into capital lease agreements for the use of telephone and office equipment. The total value of the equipment under capital leases as of June 30, 2007, 2006 and 2005 was \$855,486, \$901,304 and \$734,024, respectively. NAWS also leases equipment and facilities under various operating leases.

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2007:

Year ending June 30

	2008	\$ 247,036
	2009	247,036
	2010	247,036
	2011	247,036
	2012	221,553
	Thereafter	<u>217,656</u>
Total minimum lease payments		1,427,353
Less: amount representing interest expense		<u>(686,103)</u>
Net minimum lease payments		<u>\$ 741,250</u>

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2007:

Year ending June 30,

	2008	\$ 317,189
	2009	328,376
	2010	315,873
	2011	88,277
	2012	<u>23,582</u>
Total minimum payment required		<u>\$ 1,073,297</u>

Total payments made under the leases during the years ended June 30, 2007, 2006 and 2005 were \$639,502, \$586,545 and \$578,963, respectively.



Note 5 – Investments

The following summary represents the fair value for each of the investment categories:

	2007	2006	2005
Investments at fair value as determined by quoted market price: U.S. Government and Government Agency obligations	\$ 21,288	\$ 26,337	\$ 35,128
Investments at fair value as determined by cost:			
Money market accounts	340,260	317,259	296,125
Certificates of deposit	681,274	645,370	632,293
	<u> </u>	<u> </u>	<u> </u>
Totals	\$ 1,042,822	\$ 988,966	\$ 963,546
	<u> </u>	<u> </u>	<u> </u>

Note 6 – Concentration of Credit Risk

NAWS places its cash and cash equivalents with high quality financial institutions. Cash and cash equivalents balances exceed the Federal Deposit Insurance Corporation insurance limits.

Note 7 – Employment Contract

NAWS has entered into an employment agreement with its Executive Director for employment services. The agreement provides for compensation and benefits and expires on December 31, 2009. Should the agreement be terminated by NAWS, certain amounts would be payable to the Executive Director as defined in the agreement.