



Notes to Consolidated Financial Statement

Independent Auditors' Report Years Ended June 2010, 2009, and 2008

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 that 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 NAWS and the Trust are not private foundations 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 U.S. generally accepted accounting principles (GAAP) not-for-profit organizations are required to report information regarding 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, 2010, 2009 and 2008, 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 reported at fair value. Investments include certificates of deposit, money market funds and government securities. See Note 5.

E. Publication Inventory

Publications and other items held for resale are included in inventory 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 straight-line 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, 2010, 2009, and 2008 amounted to \$72,391, \$408,680 and \$276,493, 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, 2010, 2009 and 2008 amounted to \$101,606, \$118,235 and \$78,656, 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, Europe and the Middle East 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.

K. Functional Allocation of Expenses

Based on estimates developed by management, 2010, 2009, and 2008 program service costs totaled \$7,325,806, \$6,505,777 and \$9,235,329, management and general costs totaled \$813,978, \$722,864, and \$1,026,148, respectively.

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 deferrals of up to 5% of compensation based on the employee's number of years of service. NAWS contributions totaled \$69,941, \$73,503 and, \$63,072 for the years ended June 30, 2010, 2009 and 2008, respectively.

NOTE 4 – OPERATING AND CAPITAL LEASES

NAWS has entered into capital lease agreements for the use of office equipment. These agreements were terminated and the equipment retired during 2010. The total value of the equipment under capital leases as of June 30, 2009 and 2008 was \$776,560 and \$776,560, respectively. Replacement equipment was obtained under a new agreement, which is treated as an operating lease in the accounting records. NAWS leases additional equipment and facilities under various operating leases.



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, 2010:

Year ending 30 June

2011	\$ 617,181
2012	618,550
2013	601,997
2014	592,137
2015	601,415
Thereafter	<u>514,1803</u>
Total minimum payment required	<u>\$3,546,083</u>

Total payments made under the leases during the years ended June 30, 2010, 2009 and 2008 were \$746,935, \$700,956 and \$737,135 respectively.

NOTE 5 – INVESTMENTS

GAAP establishes a fair value hierarchy that prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market:

Level 1 – Inputs are quoted prices in an active market.

Level 2 – Inputs are based on quoted prices for similar instruments and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.

Level 3 – Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The following tables summarize investments based on the inputs used to value them, as required by GAAP for periods ending after November 15, 2008:

	<u>June 30, 2010</u>			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 109,014	\$ –	\$ –	\$ 109,014
Certificates of Deposit	–	–	455,791	455,791
US Government and Government Agency obligations	–	13,222	–	13,222
Equities	1,569	–	–	1,569
	<u>\$ 110,583</u>	<u>\$ 13,222</u>	<u>\$ 455,791</u>	<u>\$ 579,596</u>

	<u>June 30, 2009</u>			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 364,105	\$ –	\$ –	\$ 364,105
Certificates of Deposit	–	–	415,336	415,336
US Government and Government Agency obligations	–	16,228	–	16,228
Equities	701	–	–	701
	<u>\$ 364,806</u>	<u>\$ 16,228</u>	<u>\$ 415,336</u>	<u>\$ 796,370</u>

The following table reconciles the beginning and ending fair value of the Plan's Level 3 investments:



	<u>Year Ended</u>	
	June 30, 2010	June 30, 2009
Balance, 1 July	\$ 415,336	712,775
Purchases/Accrued Interest	12,178	12,325
Sales/Maturities	28,277	<u>(309,764)</u>
Balance, 30 June	<u>\$ 455,791</u>	<u>415,336</u>

Level 1 investments comprise equities and money market funds traded daily on an active exchange. Level 2 investments consist of government obligations valued based on trade prices for similar securities. Level 3 investments are certificates of deposit reported at cost, which approximates fair value.

NOTE 6 – CONCENTRATIONS OF CREDIT RISK

NAWS places its cash and cash equivalents with high quality financial institutions. Cash in U.S. banks was fully covered by the Federal Deposit Insurance Corporation (FDIC). Cash in Canadian accounts is insured up to \$100,000 (Canadian) per bank by CDIC. Cash in other foreign accounts is not insured by the FDIC and totaled approximately \$591,316 as of June 30, 2010.

At June 30, 2010, deposits at banks in Iran and Malaysia were approximately \$268,000 and \$50,000, respectively. The Malaysian account is in the name of a NAWS employee, who resides in Iran. At certain times during the year ended June 30, 2010, Iranian funds were transferred to this particular employee's personal account.

Assets reported in the statement of financial position include cash of approximately \$311,000 and publication inventory of approximately \$400,000 at the Iranian office. Due to current relations between Iran and the United States, it is unlikely that NAWS could transfer such assets out of Iran; accordingly their use is limited to Iranian operations.

NOTE 7 – EMPLOYMENT CONTRACT

NAWS has entered into an employment agreement with its Executive Director. The agreement provides for compensation and benefits and expires on December 31, 2013. Should the agreement be terminated by NAWS, certain amounts would be payable to the Executive Director as defined in the agreement.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2010, the date these financial statements were available to be issued. There were no other material subsequent events that require recognition or additional disclosure in these financial statements.