



Narcotics Anonymous World Services Consolidated Statement of Financial Position

(Balance Sheet)

30 June 2005

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents		
Checking Accounts	\$2,573,429	
Reserve Accounts	1,856,732	
		\$4,430,161

Accounts Receivable		
Accounts Receivable	\$713,719	
Convention & Sales Deposits Clearing	(1,418)	
Less Allowance for Doubtful Accounts	(71,000)	
		641,301

Inventory		660,158
Prepaid Expenses		377,955

Total Current Assets		\$6,109,576
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EQUIPMENT, FURNITURE AND IMPROVEMENTS

Equipment and Furniture	\$1,962,321	
Leasehold Improvements	805,814	
Intellectual and Software Property	1,030,859	
Less Accumulated Depreciation and Amortization	(2,251,296)	
		1,547,699

TOTAL ASSETS		\$7,657,274
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$248,285	
Accrued Payroll Expense	151,588	
Total Current Liabilities		\$399,872

LONG TERM LIABILITIES

Notes Payable	\$0	
Leases Payable	\$601,206	
Total Long Term Liabilities		601,206

DEFERRED INCOME

Conventions	\$1,043,580	
Total Deferred Income		1,043,580

INTERBRANCH ACCOUNTS

Interbranch Accounts	\$0	
Total Interbranch Accounts		0

NET ASSETS

Previous Unrestricted Net Assets	\$4,977,691	
Current Gain / (Loss) Unrestricted Net Assets	634,925	
Total Net Assets		5,612,617

TOTAL LIABILITIES AND NET ASSETS		\$7,657,274
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Narcotics Anonymous World Services

Consolidated Statement of Activities (Income Statement)

For the Twelve Months Ending 30 June 2005

	YTD ACTUAL	YTD BUDGET	VARIANCE
INCOME			
RECOVERY LITERATURE INCOME			
BASIC TEXT: Hardcover English	\$2,078,009	\$1,818,557	\$259,452
BASIC TEXT: Translated	159,971	116,084	43,887
BASIC TEXT: Softcover	727,413	662,561	64,852
JUST FOR TODAY	849,355	695,259	154,096
IT WORKS: HOW & WHY	697,131	640,698	56,433
SPONSORSHIP BOOK	282,072	0	282,072
STEP WORKING GUIDES	699,902	589,773	110,129
LITERATURE INCOME (IRAN)	13,540	0	13,540
OTHER RECOVERY LITERATURE	1,464,498	1,365,993	98,505
Subtotal	\$6,971,892	\$5,888,925	\$1,082,967
OTHER INVENTORY INCOME			
MEDALLIONS	\$516,972	\$495,176	\$21,796
KEY TAGS & CHIPS	995,001	872,722	122,279
NON-FIPT INFORMATION BOOKLETS	60,493	48,685	11,808
HANDBOOKS	62,118	59,389	2,729
SPECIALTY ITEMS	49,138	34,128	15,010
AUDIO MATERIALS	3,139	38,153	(35,014)
GROUP/AREA MATERIALS	85,944	71,266	14,678
MIRACLES HAPPEN	29,009	32,596	(3,587)
Subtotal	\$1,801,815	\$1,652,115	\$149,700
SHIPPING	\$351,279	\$308,573	\$42,706
DISCOUNTS	(1,371,528)	(1,183,518)	(188,010)
DEVELOPMENTAL SUBSIDIES & ALLOWANCES	(230,056)	(106,256)	(123,800)
Subtotal	(\$1,250,305)	(\$981,201)	(\$269,104)
Gross Literature Income (less discounts)	\$7,523,401	\$6,559,839	\$963,562
RECOVERY LITERATURE COST OF GOODS			
BASIC TEXT: Hardcover English	\$344,764	\$322,144	\$22,620
BASIC TEXT: Translated	37,486	31,892	5,594
BASIC TEXT: Softcover	65,014	70,780	(5,766)
JUST FOR TODAY	94,810	80,101	14,709
IT WORKS: HOW & WHY	133,331	148,583	(15,252)
SPONSORSHIP BOOK	53,265	0	53,265
STEP WORKING GUIDES	122,210	114,456	7,754
LITERATURE PRODUCTION (IRAN)	27,015	0	27,015
OTHER RECOVERY LITERATURE	310,258	253,736	56,522
Subtotal	\$1,188,152	\$1,021,692	\$166,460
OTHER INVENTORY COST OF GOODS			
MEDALLIONS	\$89,040	\$80,897	\$8,143
KEY TAGS & CHIPS	267,149	209,992	57,157
NON-FIPT INFORMATION BOOKLETS	35,220	28,322	6,898
HANDBOOKS	20,620	19,390	1,230
SPECIALTY ITEMS	19,159	10,757	8,402
AUDIO MATERIALS	1,222	11,788	(10,566)
GROUP/AREA MATERIALS	40,274	31,040	9,234
MIRACLES HAPPEN	3,126	9,318	(6,192)
Subtotal	\$475,810	\$401,504	\$74,306
Total Cost of Goods	\$1,663,961	\$1,423,196	\$240,765
Net Literature Income	\$5,859,440	\$5,136,643	\$722,797



Narcotics Anonymous World Services

Consolidated Statement of Activities (Income Statement)

For the Twelve Months Ending 30 June 2005

	YTD ACTUAL	YTD BUDGET	VARIANCE
FELLOWSHIP DONATIONS			
BREAKDOWN BY DONOR TYPE			
Members	\$8,609	\$10,142	(\$1,533)
Groups	45,169	39,448	5,721
Areas	96,373	78,849	17,524
Regions	594,500	440,000	154,500
Events/Conventions	50,737	21,859	28,878
Unity Day	312	19,556	(19,244)
Zonal & Other Forums	6,700	6,497	203
Total Donations	\$802,401	\$616,351	\$186,050
EVENT INCOME			
UNITY DAY	\$0	\$0	\$0
WORLD SERVICE CONFERENCE BI-ANNUAL MEETING	388	0	388
Total Event Income (Not including event specific)	\$388	\$0	\$388
MISCELLANEOUS INCOME			
LICENSED VENDOR PAYMENTS	\$22,500	\$17,050	\$5,450
INTEREST	22,696	26,495	(3,799)
MISCELLANEOUS	1,611	0	1,611
Total Miscellaneous Income	\$46,806	\$43,545	\$3,261
INCOME ALL SOURCES (Not including event specific)	\$6,709,036	\$5,796,539	\$912,497



Narcotics Anonymous World Services

Consolidated Statement of Activities (Income Statement)

For the Twelve Months Ending 30 June 2005

	YTD ACTUAL	YTD BUDGET	VARIANCE
EXPENSE			
LITERATURE PRODUCTION & DISTRIBUTION			
FIXED OPERATIONAL EXPENSES			
MARKETING	\$100,274	\$80,023	\$20,251
IN HOUSE PRODUCTION (not included in Cost of Goods)	(46,572)	48,834	(95,406)
TRANSLATIONS (not included in Cost of Goods)	32,694	22,216	10,478
LITERATURE DISTRIBUTION (IRAN)	14,995	0	14,995
SHIPPING	391,758	328,587	63,171
LEGAL	83,005	11,381	71,624
LITERATURE PRODUCTION & DISTRIBUTION TRAVEL	4,388	3,422	966
INVENTORY ADJUSTMENT	0	0	0
ACCOUNTING	11,279	11,206	73
PERSONNEL (Includes amount budgeted to variable projects)	996,830	881,862	114,968
OVERHEAD	467,986	416,347	51,639
TECHNOLOGY	55,554	44,416	11,138
Subtotal	\$2,112,192	\$1,848,294	\$263,898
VARIABLE OPERATIONAL EXPENSES			
BUSINESS PLAN WORK GROUP	\$10,320	\$26,800	(\$16,480)
LITERATURE & CONVENTION WORKSHOP	0	0	0
Subtotal	\$10,320	\$26,800	(\$16,480)
Total Literature Production & Distribution	\$2,122,511	\$1,875,094	\$247,417
WORLD SERVICE CONFERENCE SUPPORT			
FIXED OPERATIONAL EXPENSES			
PUBLICATIONS	\$36,146	\$22,161	\$13,985
WORLD SERVICE CONFERENCE BI-ANNUAL MEETING	15,772	0	15,772
WORLD BOARD	201,885	168,584	33,301
HUMAN RESOURCE PANEL	19,178	14,415	4,763
WSC CO-FACILITATOR	723	0	723
CONFERENCE RELATED TRAVEL	0	28,000	(28,000)
LEGAL	0	0	0
ACCOUNTING	8,378	8,325	53
PERSONNEL (Includes amount budgeted to variable projects)	740,502	653,966	86,536
OVERHEAD	349,852	316,709	33,143
TECHNOLOGY	41,355	32,995	8,360
Subtotal	\$1,413,791	\$1,245,155	\$168,636
VARIABLE OPERATIONAL EXPENSES			
NAWS COMMUNICATIONS AND PUBLICATIONS	\$0	\$47,360	(\$47,360)
LEADERSHIP IDENTIFICATION & DEVELOPMENT	0	22,240	(22,240)
LEADERSHIP QUALITIES IN NA	0	27,240	(27,240)
CONSENSUS-BASED DECISION MAKING AT THE WSC	0	22,240	(22,240)
CAPTURING LONG TIME MEMBERS EXPERIENCE	0	35,360	(35,360)
WORLD WIDE WORKSHOPS	61,164	76,000	(14,836)
OTHER FINISHED WSC PROJECTS	943	0	943
Subtotal	\$62,107	\$230,440	(\$168,333)
Total World Service Conference Support	\$1,475,898	\$1,475,595	\$303



Narcotics Anonymous World Services

Consolidated Statement of Activities (Income Statement)

For the Twelve Months Ending 30 June 2005

	YTD ACTUAL	YTD BUDGET	VARIANCE
FELLOWSHIP DEVELOPMENT			
FIXED OPERATIONAL EXPENSES			
PUBLICATIONS	\$134,898	\$165,000	(\$30,102)
FELLOWSHIP SUPPORT	139,823	33,181	106,642
PROFESSIONAL EVENTS	51,782	32,244	19,538
DEVELOPMENTAL LITERATURE	222,869	136,816	86,053
ARCHIVES & INFORMATION MANAGEMENT	47	51,000	(50,953)
LEGAL	1,266	0	1,266
ACCOUNTING	9,990	9,926	64
PERSONNEL (Includes amount budgeted to variable projects)	882,907	778,046	104,861
OVERHEAD	336,298	347,113	(10,815)
TECHNOLOGY	49,205	39,340	9,865
Subtotal	\$1,829,086	\$1,592,666	\$236,420
VARIABLE OPERATIONAL EXPENSES			
BASIC TEXT PROJECT	\$70,428	\$59,600	\$10,828
PUBLIC RELATIONS STRATEGY	55,614	56,480	(866)
SERVICE MATERIALS	1,859	26,800	(24,942)
SERVICE HANDBOOKS	79,170	56,480	22,690
SELF-SUPPORT PAMPHLET	0	33,360	(33,360)
SERVICE STRUCTURE RELATIONSHIP & DEFINITION	0	34,240	(34,240)
TARGETED LITERATURE	0	65,600	(65,600)
FELLOWSHIP ISSUE DISCUSSIONS	0	24,240	(24,240)
Subtotal	\$207,071	\$356,800	(\$149,729)
Total Fellowship Development	\$2,036,157	\$1,949,466	\$86,691
EVENTS			
FIXED OPERATIONAL EXPENSES			
UNITY DAY	\$0	\$0	\$0
FUTURE (AND PRIOR) CONVENTIONS	\$5,071	\$12,995	(\$7,924)
LEGAL	0	0	0
ACCOUNTING	2,578	2,561	17
PERSONNEL (Includes amount budgeted to variable projects)	230,283	200,786	29,497
OVERHEAD	118,333	95,165	23,168
TECHNOLOGY	12,748	10,152	2,596
Total Events (Not including event specific)	\$369,014	\$321,659	\$47,355
TOTAL EXPENSE ALL SOURCES (Not including event specific)	\$6,003,580	\$5,621,814	\$381,766
EXCESS REVENUE/EXPENSE (Not including event specific)	\$705,456	\$174,725	\$530,731



Narcotics Anonymous World Services

Consolidated Statement of Activities (Income Statement)

For the Twelve Months Ending 30 June 2005

	YTD ACTUAL	YTD BUDGET	VARIANCE
EVENT SPECIFIC			
EVENT SPECIFIC INCOME			
WCNA-31 INCOME			
REGISTRATION	\$0	\$0	\$0
SPECIAL EVENTS	0	0	0
NEWCOMER DONATIONS	0	0	0
MERCHANDISE	0	0	0
OTHER SALES	0	0	0
REBATES	0	0	0
Total Event Specific Income	\$0	\$0	\$0
EVENT SPECIFIC EXPENSE			
WCNA-31 EXPENSE			
REGISTRATION	\$6,679	\$0	\$6,679
SPECIAL EVENTS	1,058	0	1,058
PROGRAM	9,139	0	9,139
MERCHANDISE	3,139	0	3,139
FACILITIES	77	0	77
SUPPORT COMMITTEE	4,935	0	4,935
ADMINISTRATION	45,504	0	45,504
Total Event Specific Expense	\$70,531	\$0	\$70,531
Total Event Specific Excess Revenue/Expense	(\$70,531)	\$0	(\$70,531)
INCREASE (DECREASE) NET UNRESTRICTED ASSETS	\$634,925	\$174,725	\$460,200



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Independent Auditors' Report

To the World Board of
 Narcotics Anonymous World Services, Inc.

We have audited the accompanying consolidated statement of financial position of Narcotics Anonymous World Services, Inc. (the "Organization") as of June 30, 2005, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Narcotics Anonymous World Services, Inc. as of and for the year ended June 30, 2004 were audited by other auditors whose report dated August 18, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Narcotics Anonymous World Services, Inc. as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Miller, Kaplan, Arase & Co., LLP

MILLER, KAPLAN, ARASE & CO., LLP

August 23, 2005



Consolidated Statements of Financial Position

30 June 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets:		
Cash and cash equivalents	\$ 3,480,282	\$ 2,503,136
Investments - at fair value	963,546	809,366
Accounts receivable (net of allowance for uncollectible accounts of \$71,000 and \$40,000, respectively)	622,048	615,609
Publication inventory	660,158	667,230
Prepaid expenses	359,280	50,801
Total current assets	<u>6,085,314</u>	<u>4,646,142</u>
Property and equipment:		
Furniture and equipment	1,962,320	1,845,282
Leasehold improvements	805,814	715,947
	<u>2,768,134</u>	<u>2,561,229</u>
Less: accumulated depreciation and amortization	<u>(1,625,305)</u>	<u>(1,411,465)</u>
Total property and equipment - net	<u>1,142,829</u>	<u>1,149,764</u>
Other assets:		
Deposits	24,260	-
Trademarks and copyrights (net of accumulated amortization of \$625,991 and \$512,394, respectively)	404,868	447,932
Total other assets	<u>429,128</u>	<u>447,932</u>
Total assets	<u>\$ 7,657,271</u>	<u>\$ 6,243,838</u>
 Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 248,430	\$ 445,194
Accrued salaries, vacation and tax withholdings payable	151,442	148,908
Current portion of capital lease obligations	120,135	95,341
Deferred revenue	1,043,580	-
Total current liabilities	<u>1,563,587</u>	<u>689,443</u>
Capital leases payable, less current portion	<u>481,070</u>	<u>601,206</u>
Total liabilities	<u>2,044,657</u>	<u>1,290,649</u>
Unrestricted net assets	<u>5,612,614</u>	<u>4,953,189</u>
Total liabilities and net assets	<u>\$ 7,657,271</u>	<u>\$ 6,243,838</u>



	<u>1 July 2004 to 30 June 2005</u>	<u>1 July 2003 to 30 June 2004</u>
Revenues, gains and other support:		
Sales of publications and program materials	\$ 7,632,223	\$ 6,953,228
Less discounts and cost of sales	<u>2,211,375</u>	<u>2,455,751</u>
Net sales of publications and program materials	5,420,848	4,497,477
Convention registration and other revenue	-	2,484,665
Conference contributions	802,400	697,993
Interest	23,082	19,483
Other	<u>120,449</u>	<u>16,612</u>
Total revenues, gains and other support	<u>6,366,779</u>	<u>7,716,230</u>
Expenses:		
Literature production and distribution	1,562,478	1,403,935
World Service Conference support	1,490,462	1,681,880
Fellowship development	2,210,227	1,445,620
Events	<u>444,187</u>	<u>2,740,697</u>
Total expenses	<u>5,707,354</u>	<u>7,272,132</u>
Change in net assets	659,425	444,098
Unrestricted net assets:		
Beginning of year	<u>4,953,189</u>	<u>4,509,091</u>
End of year	<u>\$ 5,612,614</u>	<u>\$ 4,953,189</u>



Consolidated Statements of Functional Expenses

Years Ended 30 June 2005 and 2004

	30 June 2005				
	Literature Production and Distribution	World Service Conference Support	Fellowship Development	Events	Total
Expenses:					
Salaries, wages and payroll taxes	\$ 848,084	\$ 630,004	\$ 751,159	\$ 193,847	\$2,423,094
Employee health benefits	96,100	71,388	85,116	21,966	274,570
Retirement contribution	16,290	12,100	14,428	3,723	46,541
Contract labor	731	542	647	167	2,087
Convention expense	-	-	-	75,602	75,602
Occupancy	134,832	100,160	119,423	30,818	385,233
Travel	11,856	194,874	148,345	4,314	359,389
Conferences	-	35,471	34,257	-	69,728
Worldwide workshops	-	61,164	-	-	61,164
Committees	-	-	-	-	-
Telephone	21,708	16,926	19,226	9,538	67,398
Postage	6,923	6,038	6,132	3,425	22,518
Office expense	42,267	31,398	37,436	9,661	120,762
Depreciation and amortization	114,392	84,977	101,322	26,147	326,838
Professional fees	55,574	40,326	49,347	12,408	157,655
Equipment leases	21,998	16,342	19,484	5,028	62,852
Computer expense	44,900	33,440	39,768	10,313	128,421
Other operating expenses	<u>146,823</u>	<u>155,312</u>	<u>784,137</u>	<u>37,230</u>	<u>1,123,502</u>
Total expenses	<u>\$1,562,478</u>	<u>\$1,490,462</u>	<u>\$ 2,210,227</u>	<u>\$ 444,187</u>	<u>\$5,707,354</u>



Consolidated Statements of Functional Expenses

Years Ended 30 June 2005 and 2004

	30 June 2004				
	Literature Production and Distribution	World Service Conference Support	Fellowship Development	Events	Total
Expenses:					
Salaries, wages and payroll taxes	\$ 816,624	\$ 648,496	\$ 552,422	\$ 384,294	\$2,401,836
Employee health benefits	76,243	60,546	51,576	35,879	224,244
Retirement contribution	15,045	11,948	10,178	7,080	44,251
Contract labor	484	385	328	49,657	50,854
Convention expense	-	-	-	1,894,447	1,894,447
Occupancy	127,139	100,963	86,006	59,830	373,938
Travel	1,686	150,434	4,242	90,085	246,447
Conferences	-	319,849	15,829	-	335,678
Worldwide workshops	-	49,424	-	-	49,424
Committees	-	6,274	107,357	-	113,631
Telephone	21,262	17,706	14,383	18,260	71,611
Postage	13,409	11,818	9,071	6,310	40,608
Office expense	33,983	27,264	22,989	15,992	100,228
Depreciation and amortization	97,668	77,559	66,069	45,961	287,257
Professional fees	23,189	18,415	15,687	11,324	68,615
Equipment leases	24,641	19,568	16,669	11,596	72,474
Computer expense	67,724	53,781	45,813	31,870	199,188
Other operating expenses	84,838	107,450	427,001	78,112	697,401
Total expenses	<u>\$1,403,935</u>	<u>\$1,681,880</u>	<u>\$ 1,445,620</u>	<u>\$2,740,697</u>	<u>\$7,272,132</u>



Consolidated Statements of Cash Flows

Years Ended 30 June 2005 and 2004

	<u>30 June 2005</u>	<u>30 June 2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 659,425	\$ 444,098
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	326,838	284,539
(Increase) decrease in assets:		
Accounts receivable	(6,439)	262,171
Publication inventory	7,072	(2,392)
Prepaid expenses	(308,479)	1,040,565
Deposits	(24,260)	2,576
Increase (decrease) in liabilities:		
Accounts payable	(196,764)	286,538
Accrued salaries and withholdings payable	2,534	18,242
Deferred revenue	1,043,580	(1,282,286)
Net cash provided by operating activities	<u>1,503,507</u>	<u>1,054,051</u>
Cash flows from investing activities:		
Proceeds from sale of investments	-	111,400
Purchases of investments	(154,180)	(7,423)
Purchases of property and equipment	(117,039)	(115,411)
Purchases of leasehold improvements	(89,867)	(167,136)
Payments to secure copyrights and trademarks	(69,934)	(62,973)
Net cash used by investing activities	<u>(431,020)</u>	<u>(241,543)</u>
Cash flows from financing activities:		
Repayment of capital lease obligations	(95,341)	(36,977)
Repayment of note payable	-	(87,931)
Net cash used by financing activities	<u>(95,341)</u>	<u>(124,908)</u>
Net increase in cash and cash equivalents	977,146	687,600
Cash and cash equivalents:		
Beginning of year	2,503,136	1,815,536
End of year	<u>\$ 3,480,282</u>	<u>\$ 2,503,136</u>

Supplemental disclosures of cash flow information: Interest paid during the years ended June 30, 2005 and 2004 amounted to \$166,148 and \$65,629, respectively.

Non-cash investing and financing activities: During the year ended June 30, 2005, NAWS entered into lease obligations for the purchase of equipment in the amount of \$655,098.

Notes to Consolidated Financial Statements

Years Ended 30 June 2005 and 2004

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 an office in Brussels, Belgium. 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

NAWS has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 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, 2005 and 2004, 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. The certificates of deposit are valued at cost, which approximates fair value.

E. Publication Inventory

Publications and other items 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, which 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 range as follows:

Leasehold improvements	5 years
Furniture and equipment	5-10 years

Depreciation expense for the years ended June 30, 2005 and 2004 amounted to \$212,902 and \$177,072, 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. Amortization expense for the years ended June 30, 2005 and 2004 amounted to \$113,936 and \$107,467, respectively.

H. Accounts Receivable

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. Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated by management based on the experience of accounts receivable collectibility.

J. 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.

K. 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, 2005 and 2004 was \$46,541 and \$44,251, 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 is \$734,024. NAWS also leases equipment and facilities under various operating leases. Minimum future lease payments on noncancelable lease commitments, including interest on capital leases, subsequent to June 30, 2005 are as follows:

Year end June 30	Total	Operating Leases	Capital Leases
2006	\$ 556,545	\$ 305,202	\$ 251,343
2007	544,012	294,309	249,703
2008	529,232	293,607	235,625
2009	454,677	304,794	149,883
2010	292,291	292,291	—
Thereafter	64,695	64,695	—
Total	\$ 2,441,452	\$ 1,554,898	\$ 886,554

Total payments made under the leases during the years ended June 30, 2005 and 2004 were \$578,963 and \$448,019, respectively.

Note 5 – Investments

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

	2005	2004
Investments as fair value as determined by quoted market price: U.S. Government and Government Agency obligations	\$ 35,128	\$ 51,683
Investment as fair value as determined cost:		
Money market accounts	296,125	272,699
Certificates of deposit	632,293	484,984
Total	\$ 963,546	\$ 809,366

**Note 6 – Concentration of Credit Risk**

As of June 30, 2005, NAWS had cash deposits at United States based financial institutions which exceeded the maximum amount insured by approximately \$3,000,000.

Note 7 – Contingencies

As of June 30, 2005, NAWS was a defendant of a lawsuit. The management of NAWS believes that the lawsuit will be settled without any material impact to the financial statements.