



REPORT OF INDEPENDENT AUDITORS

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. as of June 30, 1999, and the related consolidated statements of activities and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the management of Narcotics Anonymous World Services, Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the 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.

As more fully described in Note 2, management elected to not report the functional classification of expenses, such as major programs and supporting activities, which is required by generally accepted accounting principles.

In our opinion, except for the effects of such adjustments for not reporting the functional classifications of expenses which results in an incomplete presentation, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Narcotics Anonymous World Services, Inc. at June 30, 1999, and the results of their operations and cash flows for the six months then ended, in conformity with generally accepted accounting principles.

October 29, 1999

NARCOTICS ANONYMOUS WORLD SERVICES, INC.

FINANCIAL STATEMENTS

JUNE 30, 1999

NARCOTICS ANONYMOUS WORLD SERVICES, INC.

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

JUNE 30, 1999

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REPORT OF INDEPENDENT AUDITORS

To the World Board of
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October 29, 1999

Narcotics Anonymous World Services, Inc.
Consolidated Statement of Financial Position

June 30, 1999

Assets	
Current assets	
Cash	\$ 995,259
Accounts receivable (net of allowance for uncollectible accounts of \$4,276)	433,102
Inventory	402,138
Prepaid expenses	<u>16,654</u>
Total current assets	<u>1,847,153</u>
Property and equipment	
Furniture and equipment	585,793
Leasehold improvements	<u>482,761</u>
	1,068,554
Less accumulated depreciation and amortization	<u>787,676</u>
Property and equipment - net	<u>280,878</u>
Other assets	
Deposits	17,439
Trademarks and copyrights (net of accumulated amortization of \$103,563)	<u>116,468</u>
Total other assets	<u>133,907</u>
Total assets	<u>\$ 2,261,938</u>
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 86,367
Accrued salaries and withholdings payable	175,481
Deferred revenue	<u>16,620</u>
Total liabilities	278,468
Unrestricted net assets	<u>1,983,470</u>
Total liabilities and net assets	<u>\$ 2,261,938</u>

See accompanying notes to financial statements.

Narcotics Anonymous World Services, Inc.

Consolidated Statement of Cash Flows

Six Months Ended June 30, 1999

Cash flows from operating activities	
Net increase	\$ 388,400
Adjustment to reconcile net increase to net cash provided by operating activities:	
Depreciation and amortization	87,615
(Increase) decrease in assets:	
Accounts receivable	78,934
Inventory	47,096
Prepaid expenses	12,811
Deposits	(775)
Increase (decrease) in liabilities:	
Accounts payable	(296,974)
Accrued salaries and withholdings payable	<u>75,458</u>
Net cash provided by operating activities	<u>392,565</u>
Cash flows from investing activities	
Purchase of property and equipment	(98,938)
Payments to secure copyrights and trademarks	<u>(12,516)</u>
Net cash (used for) investing activities	<u>(111,454)</u>
Cash flows from financing activities	
Payment of note payable	<u>(42,500)</u>
Net increase in cash	238,611
Cash	
Beginning of year	<u>756,648</u>
End of year	<u>\$ 995,259</u>

See accompanying notes to financial statements.

NARCOTICS ANONYMOUS WORLD SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1. NATURE OF THE ORGANIZATION

Narcotics Anonymous World Services, Inc. (NAWS) was incorporated on January 25, 1977 and operates its United States and world center in Chatsworth, California. NAWS 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 Service 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.

During the year ended December 31, 1998, NAWS changed their year end to June 30.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The preparation of financial statements in conformity with generally accepted accounting principles 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.

Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its 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, 1999 NAWS held no temporarily or permanently restricted net assets.

Additionally under SFAS No. 117, NAWS is required to provide information about expenses reported by their functional classification, such as major classes of program services and supporting activities. Since NAWS does not use activity based costing an accurate functional classification was unable to be determined.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 ranges as follows:

Leasehold improvements	5 years
Furniture and equipment	5 - 10 years

Trademarks and Copyrights - The cost of acquiring and defending its copyrights and trademarks are capitalized and are being written off over the approximate economic life of the copyright or trademark which is estimated to be ten years.

Translation of Foreign Branch Financial Statements - Foreign branch operations in Canada and Europe are translated throughout the year to United States currency. Gains or losses resulting from translating foreign currency financial statements are recorded in the consolidated statement of activities.

Statement of Cash Flows - For purposes of the statement of cash flows, cash includes only monies held on deposit at banking institutions and petty cash.

NOTE 3. INCOME TAX STATUS

NAWS has qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, comparable California Revenue and Taxation Code and, therefore, has made no provision for federal and state income taxes.

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.

NOTE 4. RETIREMENT PLAN

NAWS maintains a qualified savings and retirement defined contribution 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 six months ended June 30, 1999, was \$20,149.

NOTE 5. OPERATING LEASES

NAWS has leased equipment and facilities under various operating leases. Minimum lease payments on noncancelable lease commitments subsequent to June 30, 1999 are as follows:

	<u>Amount</u>
2000	\$ 314,345
2001	136,083
2002	68,201
2003	31,863
Thereafter	<u>30,934</u>
Total	<u>\$ 581,426</u>

Total payments made under operating leases during the six months ended June 30, 1999 was \$162,982.

NOTE 6. CONCENTRATION OF CREDIT RISK

As of June 30, 1999, NAWS had cash deposits at financial institutions which exceeded the maximum amount insured by the Federal Deposit Insurance Corporation.

NOTE 7. YEAR 2000 DATE CONVERSION

Like all entities, NAWS is exposed to risks associated with the "Year 2000 Issue," which affect computer software and hardware; transactions with vendors and other entities; and equipment dependent on microchips. NAWS has begun but not yet completed the process of identifying and remediating potential Year 2000 problems. If remediation efforts of NAWS or third parties with whom it does business are not successful, the Year 2000 problem could have a negative effect on NAWS in the near term.

ADDITIONAL INFORMATION

Narcotics Anonymous World Services, Inc.
Consolidated Schedule of Financial Position by Office
June 30, 1999

	June 30, 1999			
	United States	Canada	Europe	Total
Assets				
Current assets				
Cash	\$ 770,469	\$ 141,829	\$ 82,961	\$ 995,259
Accounts receivable (net of allowance for uncollectible accounts)	376,464	36,112	20,526	433,102
Inventory	303,598	46,654	51,886	402,138
Prepaid expenses	16,444	210	-	16,654
Total current assets	1,466,975	224,805	155,373	1,847,153
Property and equipment				
Furniture and equipment	543,603	7,629	34,561	585,793
Leasehold improvements	478,623	-	4,138	482,761
	1,022,226	7,629	38,699	1,068,554
Less accumulated depreciation and amortization	759,480	7,629	20,567	787,676
Property and equipment-net	262,746	-	18,132	280,878
Other assets				
Deposits	15,775	1,664	-	17,439
Trademarks and copyrights net of accumulated amortization	116,468	-	-	116,468
Advances to (from) branch offices	650,651	445,839	(1,096,490)	-
Total other assets	782,894	447,503	(1,096,490)	133,907
Total assets	<u>\$ 2,512,615</u>	<u>\$ 672,308</u>	<u>\$ (922,985)</u>	<u>\$ 2,261,938</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 86,367	\$ -	\$ -	\$ 86,367
Accrued salaries and withholdings payable	173,988	-	1,493	175,481
Deferred revenue	16,620	-	-	16,620
Total liabilities	276,975	-	1,493	278,468
Unrestricted net assets	2,235,640	672,308	(924,478)	1,983,470
Total liabilities and net assets	<u>\$ 2,512,615</u>	<u>\$ 672,308</u>	<u>\$ (922,985)</u>	<u>\$ 2,261,938</u>

Narcotics Anonymous World Services, Inc.
Consolidated Schedule of Activities by Office
Six Months Ended June 30, 1999

	June 30, 1999			
	United States	Canada	Europe	Total
Operating revenue				
Sales of publications and program materials, net of discounts	\$ 2,727,531	\$ 104,887	\$ 79,160	\$ 2,911,578
Less discounts and cost of sales	818,131	31,401	43,649	893,181
Net sales of publications and program materials	1,909,400	73,486	35,511	2,018,397
Covention registration and other revenue	459	-	-	459
Conference contributions	305,782	-	-	305,782
Net operating revenue	2,215,641	73,486	35,511	2,324,638
Operating expenses				
Salaries, wages and payroll taxes	861,700	2,263	25,637	889,600
Employee health benefits	72,207	-	730	72,937
Retirement contribution	20,149	-	-	20,149
Contract labor	7,674	-	-	7,674
Convention expense	1,529	-	-	1,529
Occupancy	167,213	6,920	6,013	180,146
Travel	241,014	-	2,121	243,135
Telephone	26,794	689	2,424	29,907
Postage	20,678	234	1,346	22,258
Office expense	54,247	831	3,335	58,413
Depreciation and amortization	78,550	-	9,065	87,615
Professional fees	52,464	-	59	52,523
Equipment leases	54,709	-	-	54,709
Computer software and supplies	33,462	-	413	33,875
Other operating expenses	190,746	2,670	1,066	194,482
Total operating expenses	1,883,136	13,607	52,209	1,948,952
Excess (deficiency) of operating revenue over operating expenses	332,505	59,879	(16,698)	375,686
Nonoperating revenue:				
Interest	4,436	-	337	4,773
Other	7,941	-	-	7,941
Total nonoperating revenue	12,377	-	337	12,714
Net increase (decrease)	344,882	59,879	(16,361)	388,400
Unrestricted net assets				
Beginning of year	1,890,758	612,429	(908,117)	1,595,070
End of year	\$ 2,235,640	\$ 672,308	\$ (924,478)	\$ 1,983,470

	USA			CANADA			EUROPE		
	1999	1998	Difference	1999	1998	Difference	1999	1998	Difference
Accounts Receivable	376,464	448,951	(72,487)	36,112	39,347	(3,235)	20,526	23,737	(3,211)
Due from affiliated entities	-	-	-	-	-	-	-	-	-
Inventory	303,598	361,901	(58,303)	46,654	38,967	7,687	51,886	48,365	3,521
Prepaid expenses	<u>16,444</u>	<u>29,255</u>	(12,811)	<u>-</u>	<u>-</u>	-	<u>-</u>	<u>-</u>	-
Furniture and equipment	543,603	452,294	91,309	7,629	7,629	-	34,561	33,520	1,041
Leasehold improvements	<u>478,623</u>	<u>472,034</u>	6,589	<u>-</u>	<u>-</u>	-	<u>4,138</u>	<u>4,138</u>	-
Trademarks	220,031	207,515	12,516						
Deposits	15,775	15,000	775	1,664	1,664	-	-	-	-
Advances - branch offices	<u>650,651</u>	<u>636,547</u>	14,104	<u>445,839</u>	<u>423,577</u>	22,262	<u>(1,096,490)</u>	<u>(1,060,124)</u>	(36,366)
Accounts payable	86,367	378,758	(292,391)	(210)	1,148	(1,358)	-	3,226	(3,226)
Accrued salaries and withhold.	151,988	99,386	52,602	-	-	-	1,493	636	857
Deferred Revenue	16,620	16,620	-	-	-	-	-	-	-
Current portion of note payable	<u>-</u>	<u>30,000</u>	(30,000)	<u>-</u>	<u>-</u>	-	<u>-</u>	<u>-</u>	-
Notes payable	<u>-</u>	<u>12,500</u>	(12,500)	-	-	-	-	-	-

REPORT OF INDEPENDENT AUDITORS ON ADDITIONAL INFORMATION

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

Our audit of the consolidated financial statements of Narcotics Anonymous World Services, Inc. for the six months ended June 30, 1999 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information that appears on pages 10 through 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Except as described in the following sentence, such information has been subjected to auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, except for the effects of such adjustments for not reporting the functional classifications of expenses which results in an incomplete presentation, such information is fairly stated in all material respects to the basic consolidated financial statements taken as a whole.

October 29, 1999