

NARCOTICS ANONYMOUS WORLD SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

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. Therefore, no provision for Federal and state income taxes was made for either NAWS or the Trust.

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 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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

net assets and permanently restricted net assets. As of June 30, 2004 and 2003, NAWS held no temporarily or permanently restricted net assets.

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

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.

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.

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, 2004 and 2003 amounted to \$177,072 and \$106,338, respectively.

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, 2004 and 2003 amounted to \$107,467 and \$105,412, respectively.

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.

Allowance for Doubtful Accounts - Allowance for doubtful accounts is estimated using the direct write-off method.

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

Translation of Foreign Financial Statements - Foreign financial 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 statements of activities.

Estimates - 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.

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 year of service. The matching contribution to the plan for the years ended June 30, 2004 and 2003, was \$44,251 and \$44,518, respectively.

NOTE 4. OPERATING AND CAPITAL LEASES

During the year ended June 30, 2004, NAWS entered into capital lease agreements for the use of telephone and office equipment. The total value of the equipment under capital leases is \$733,524. NAWS also leases equipment and facilities under various operating leases. Minimum future lease payments on noncancelable lease commitments subsequent to June 30, 2004 are as follows:

<u>Year ended June 30,</u>	<u>Total</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
2005	\$ 552,910	\$ 301,567	\$ 251,343
2006	531,936	280,593	251,343
2007	519,403	269,700	249,703
2008	504,592	268,967	235,625
2009	429,701	279,818	149,883
Thereafter	324,191	324,191	-
Total	<u>\$ 2,862,733</u>	<u>\$ 1,724,836</u>	<u>\$ 1,137,897</u>

Total payments made under the leases during the years ended June 30, 2004 and 2003 were \$448,019 and \$417,064, respectively.

NOTE 5. NOTE PAYABLE

NAWS obtained a bank note payable in the amount of \$100,000 during the year ended June 30, 2003. Monthly principal repayments in the amount of \$5,000 were required through January 2005, in addition to interest payments at a rate of 5.5%. The note was paid in full during the year ended June 30, 2004.

NOTE 6. INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Investments at fair value as determined by quoted market price:		
U.S. Government and Government Agency obligations	\$ 51,683	\$ 108,680
Investments at fair value as determined by value:		
Money market accounts	272,699	213,614
Certificates of deposit	484,984	591,049
Total	<u>\$ 809,366</u>	<u>\$ 913,343</u>

NOTE 7. CONCENTRATION OF CREDIT RISK

As of June 30, 2004, NAWS had cash deposits at United States based financial institutions which exceeded the maximum amount insured by approximately \$1,692,417.