



## Notes to Consolidated Financial Statement

### 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 25 January 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 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 30 June 2008, 2007, and 2006, 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 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 30 June 2008, 2007, and 2006 amounted to \$276,493, 298,839 and \$340,264, 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 30 June 2008, 2007, and 2006 amounted to \$78,656, \$110,856 and \$120,651, 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. Reclassifications**

Certain amounts in the 2007 and 2006 financial statements have been reclassified to conform to the 2008 presentation.



### 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, 2008, 2007 and 2006 was \$63,072, \$67,593 and \$59,435, 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 30 June 2008, 2007, and 2006 was \$776,560, \$855,486 and \$901,304, 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 30 June 2008:

Year ending June 30	
2009	\$246,528
2010	\$246,528
2011	\$246,528
2012	\$221,172
2013	\$145,104
Thereafter	<u>\$72,552</u>
Total minimum lease payments	\$1,178,412
Less: amount representing interest expense	<u>(\$513,401)</u>
Net minimum lease payments	\$665,011

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 30 June 2008:

Year ending 30 June	
2009	\$313,647
2010	\$315,873
2011	\$88,277
2012	<u>\$23,582</u>
Total minimum payment required	<u>\$741,379</u>

Total payments made under the leases during the years ended 30 June 2008, 2007, and 2006 were \$737,135, \$639,502 and \$586,545, respectively.



## Note 5 – Investments

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

	2008	2007	2006
Investments at fair value as determined by quoted market price: US Government and Government Agency obligations	\$18,713	\$21,288	\$26,337
Equities	\$827		
Investments at fair value as determined by cost:			
Money market accounts	\$356,988	\$340,260	\$317,259
Certificates of deposit	\$712,775	\$681,274	\$645,370
<b>Total</b>	<b>\$1,089,303</b>	<b>\$1,042,822</b>	<b>\$988,966</b>

## Note 6 – Concentration of Credit Risk

NAWS places its cash and cash equivalents with high quality financial institutions. Cash and cash equivalents balances exceeded the Federal Deposit Insurance Corporation insurance limits by approximately \$1,028,000 as of 30 June 2008. Subsequent to 30 June 2008, the limits were increased to \$250,000 from \$100,000 per financial institution per organization.

## 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 31 December 2009. Should the agreement be terminated by NAWS, certain amounts would be payable to the Executive Director as defined in the agreement.