



Notes to Consolidated Financial Statement

Independent Auditors' Report Years Ended June 2009, 2008, and 2007

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 2009, 2008, and 2007, 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 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 30 June 2009, 2008, and 2007 amounted to \$408,680, \$276,493 and 298,839 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 2009, 2008, and 2007 amounted to \$118,235, \$78,656 and \$110,856, 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 2008 and 2007 financial statements have been reclassified to conform to the 2009 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 deferrals of up to 5% of compensation based on the employee's number of years of service. The matching contribution to the plan for the years ended 30 June 2009, 2008, and 2007 was \$73,503, \$63,072 and \$67,594, 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 2009, 2008, and 2007 was \$776,560, \$776,560 and \$855,486, 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 2009:



Year ending 30 June	
2010	\$246,528
2011	\$246,528
2012	\$221,172
2013	\$145,104
2014	<u>\$72,552</u>
Total minimum lease payments	\$931,884
Less: amount representing interest expense	<u>(\$351,335)</u>
Net Minimum lease payments	\$580,549

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 2009:

Year ending 30 June	
2010	\$315,873
2011	\$88,277
2012	<u>\$23,582</u>
Total minimum payment required	<u>\$427,732</u>

Total payments made under the leases during the years ended 30 June 2009, 2008, and 2007 were \$700,956, \$737,135 and \$639,502 respectively.

Note 5 - Investments

NAWS adopted Financial Accounting Standards Board ("FASB") SFAS No. 157, "Fair Value Measurements" ("SFAS 157") on 1 July 2008 for financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value as required by other accounting pronouncements and expands fair value measurement disclosures. The provisions of SFAS 157 were applied prospectively upon adoption and did not have a material impact on NAWS financial statements.

FAS 157 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. The hierarchy is as follows:

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 table summarizes the investments at 30 June 2009 based on the inputs used to value them:

	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:

Balance, 1 July 2008	\$ 712,775
Purchases/Accrued Interest	12,325
Sales/Maturities	(309,764)
Balance, 30 June 2009	<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.

In February 2008, the FASB issued FASB Staff Position 157-2, which delays the effective date of SFAS 157 for non-financial assets and liabilities that are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after 15 November 2008. NAWS is currently, assessing the impact of adopting SFAS 157 for non-financial assets and liabilities on NAWS financial statements.

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

	30 June 2009	30 June 2008	30 June 2007
Investments at fair value as determined by quoted market price:			
US Government and Government Agency obligations	\$ 16,228	\$ 18,713	\$ 21,288
Equities	701	827	-
Money market funds	364,105	356,988	340,260
Investments at estimated fair value:			
Certificates of deposit	<u>415,336</u>	<u>712,775</u>	<u>681,274</u>
Totals	<u>\$ 796,370</u>	<u>\$ 1,089,303</u>	<u>\$ 1,042,822</u>

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 \$370,000 as of 30 June 2009.

At 30 June 2009, the deposit at a bank account in Iran was approximately \$200,000. The account was in the name of a NAWS employee, who resides in Iran. Subsequent to the year end, approximately \$50,000 was transferred out of that account to a new bank account in Malaysia. The account in Malaysia is also in the name of that particular NAWS employee.

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