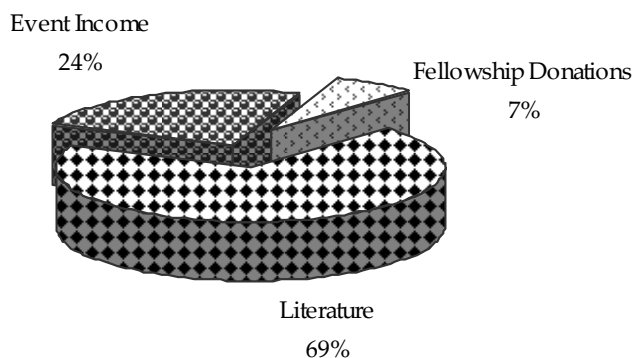


Financial Reports

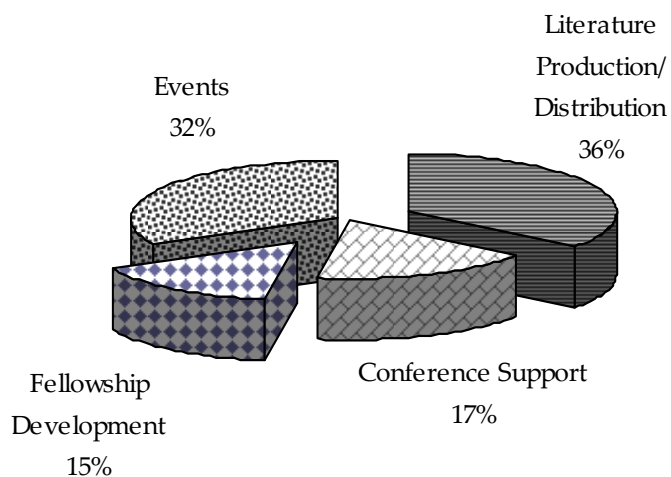
WHERE DOES OUR MONEY COME FROM?

Breakdown of Income 1 July 2003 - 30 June 2004
(Includes WCNA-30 Income)



WHERE DOES OUR MONEY GO?

Breakdown of Expense by Activity Area 1 July 2003 - 30 June 2004
(Includes WCNA-30 Expense)



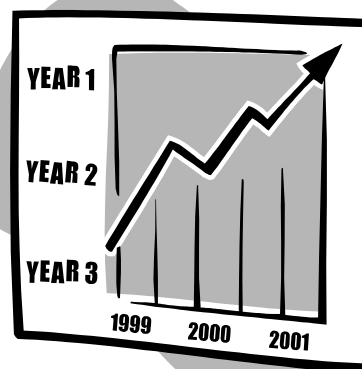
Making Sense of Spreadsheets...

As a kind of sidebar, throughout this report you will see notations that refer to other documents. This is our attempt to guide some with less experience with accounting-type information through the information provided and to offer those with more experience points of reference. In the realm of non-profits, the document that is commonly titled "Balance Sheet" is instead titled "Statement of Financial Position" (SOFP) and the document that is commonly titled "Income Statement" is titled "Statement of Activities" (SOA).

Our Statement of Activities (SOA) is basically presented in two main sections: 1) Income and 2) Expense. Expenses are divided into four basic "activities": 1) Literature Production and Distribution; 2) World Service Conference Support; 3) Fellowship Development; and 4) Events ("activity" reporting is an accounting standard required for non-profits). There is a fifth section for the World Convention that has both income and expense and titled "Event Specific" (which is at least somewhat unique to NA).

When reviewing the Statement of Activities (SOA) you will notice the line items Accounting, Personnel, Overhead, and Technology that are included within the four activity sections of expenses. These line items are for expenses (such as building rent and utilities) that are not directly attributable to a specific area of activity and are budgeted and allocated (distributed) by a calculated fixed percentage. The basis used for the calculation of the percentages has three factors: 1) number of personnel devoted to the activity; 2) the approximated hours of labor; and 3) the amount of physical office space needed for the activity. For this fiscal year (and for the two-year budget cycle) the four calculated percentages are as follows: 1) Literature Production and Distribution—34 percent; 2) World Service Conference Support—27 percent; 3) Fellowship Development—23 percent; and Events—16 percent.

To some, the expense allocation for Events may seem a little high, but one may recall that this two-year budget cycle includes the actual event of the Atlanta convention, as well as the complete San Diego convention. For those who work on conventions we know that much of the work is "unseen" and there is still much to do after the convention is over. The allocation for World Service Conference Support may also seem an little high, but we did have the work associated with the *Sponsorship* book and Literature Survey in addition to the conference itself. Again, much of the work associated with these is virtually "unseen."



NAWS Accounting

It seems when one is involved in finances that on occasions some things that were once only dreams are suddenly realized. Sometimes this is the achievement of something thought to be “impossible,” and other times it may be the realization of the dream that was thought to be the “cure” to all our financial challenges—and then found not to be.

Who would have ever imagined that NAWS would be in a financial position to give away approximately \$400,000 of free or subsidized literature this year to NA communities throughout the world. We do this in keeping with our global vision of making our message more available to addicts around the world regardless of the often prohibitive costs of ensuring that accessibility to our literature.

WCNA-30—A fifty year celebration!

At the beginning of this fiscal (financial) year, we finished the celebration of the fiftieth anniversary of NA. The actual event took place in July 2003, and upon completion of the event, the “deferred” income (the event income recorded on the Statement of Financial Position because it could not be recorded as “earned” until the event actually occurred) and the income that was actually transacted onsite was recorded to “earned income” and all prepaid expenses (that also had appeared on the SOFP), as well as the expenses incurred onsite, were recorded to the event as actual expenses (refer to the end of the Statement of Activities and “Event Specific” for WCNA-30).

The fifty years by itself is quite an achievement, and the event was admired by many who attended (over 20,000 members) as being the best world convention ever, but in the realm of NA finance realizing that it cost over \$2,000.000 and had income exceeding \$2,000.000 is truly amazing. Any group or area treasurers who may be reading this and have the experience of counting the donations each week or month, think about the Unity Day collection from the Saturday night main meeting (refer to SOA Fellowship Donations and “Unity Day”) and counting over 25,000 mostly one dollar (US) bills laced with varying non-US currencies (and do not forget the coins). The event had been budgeted for a loss (expenses exceeding income) and in fact, the event more than “broke even” (income slightly exceeding expenses).

World Service Conference 2004

Toward the end of this fiscal year our biennial WSC took place. This was our second attempt at a fully-funded conference (SOA World Service Conference Support/“World Service Conference Biennial Meeting”). The funding of the regional delegates from around the world to the conference in an effort to provide our members voice regardless of wealth or financial development, and what is now taken as a common practice of having simultaneous verbal translations

continued on next page

for the proceedings (even in more than one language other than English) were what once seemed like impossible dreams becoming reality. Of course the generous donations (SOA Income/"Fellowship Donations") provided by our membership of \$697,993 that exceeded our conservative budget by 27 percent helped to fund this achievement. The "impossible dream" of donations reaching \$1,000,000 may, in fact, be a reality one day.

Reserve funds

At one time, the dream of having \$1,000.000 in reserve funds was thought to be a cure for all of our financial challenges. That has become a reality (SOFP Assets/"Reserve Accounts") and it is *not* a cure. Our annual total expenses (not including event specific) were \$7,250,020 (SOA Expense/"Total Expense All Sources"). This is \$604,138 per month or about \$28,000 per working day. Of course some of this expense is "capitalized" and "depreciated" or "amortized" ("depreciation" and "amortization" are included in the allocations for Overhead), but even capital goods wear out and need to be replaced (SOFP Assets/"Equipment Furniture & Improvements"). Our expenses were about 5 percent above our budget, but our income did exceed our expenses by \$439,994 or about 5.7 percent of our income (not including event specific) of \$7,690,013 (SOA Income/"Income All Sources"). As of 30 June 2004, we had approximately \$1,312,503 in reserve funds or 42.9 operating days in banks. As we indicated last year, we are getting data on comparably sized organizations and, as a result, are evaluating a new reserve objective of one year's operating expenses or approximately 237 reserve days, but we are far from that target at this point.

Literature Sales

Now to the "nuts and bolts"—total literature sales (SOA Income/"Total Literature Production Income less discounts") were \$6,953,131, exceeding the budgeted amount of \$6,173,983 by \$779,148 or 12.6 percent. You may notice that while sales exceeded our budget expectations, the cost of goods sold (SOA Literature Production and Distribution/"Recovery Literature" and "Other Inventory Expense") was only slightly more than budgeted (\$24,601 or 1.2 percent). The budget included an anticipated percentage increase for cost of goods; however, throughout the year we were able to keep many of our unit costs from rising by monitoring purchases very closely, skillful vendor negotiations, and by using our cash (SOFP/"Checking Accounts") to purchase or order the production of larger quantities during more opportune times (price fluctuations). One production printing of our Basic Text can be well over \$100,000.

Primarily, the increase in sales was the Basic Text, Softcover English; Basic Text, Softcover Translated; the new Basic Text, Commemorative (SOA Income/"Recovery Literature Income"); Keytags and Chips, and Group/Area Materials (SOA Income/"Other Inventory Income"). Keytags and chips are an indicator of increased levels of activity in groups since groups tend to be the predominant users of keytags and chips. In some places this increased group

activity ties to an influx of addicts referred to our meetings (e.g., drug courts, etc). The increased sales of our translated Basic Text may be an indication of the growth of membership outside the United States, and the increase in area/group materials may be a reflection of the run up to the World Service Conference. We believe that the increase in sales of our paperback Basic Text is due to two primary factors. First, the legally mandatory treatment of addicts in California and a few additional US states coupled with the increasing growth in Drug Courts and second, that our consistent presence at professional events has helped to keep us in the “purchasing mind” of agencies that treat or deal with addicts (SOA Expense Literature Distribution & Development/“Marketing” and Fellowship Development/“Professional Events”).

Overall, our expenses exceeded our budget by only 5 percent (SOA Expenses/“Total Expense All Sources”). This fiscal year had been budgeted to reflect an excess of expense over income (SOA Expense/“Excess Revenue/Expense”); however, as mentioned above, the income actually exceeded the expenses. While we kept most expenses at or under budget, there are some notable exceptions.

Some of these intentionally exceeded our budget. Public Relations Round Tables exceeded our budgeted amount by 73 percent (SOA Expense Fellowship Development/“Variable”). Another item that is 31.9 percent over budget is the combination of Developmental Subsidies and Allowances (SOA Income/“Other Inventory Income”) and Developmental Literature (SOA Expense/“Fixed Operational Expense”) at \$318,121. This is literature that is either given away or provided at a drastically reduced rate in order to better fulfill the fellowship’s primary purpose. We are continuing to make decisions to upgrade our technology platforms in several areas based upon our available cash.

Some were not intentional. Overhead can be expected to increase with increases in growth and sales since many of these type expenses are variable depending on activity. It is when growth or sales slow or decrease that it becomes difficult to cut the fixed expenses. Personnel expense has increased with some increases in benefit costs and other factors. A more complete list of individual allocated expenses has been provided.



REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated statements of financial position of Narcotics Anonymous World Services, Inc. (the Organization) as of June 30, 2004 and 2003, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 18, 2004

Lindquist LLP

NARCOTICS ANONYMOUS WORLD SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,503,136	\$ 1,815,535
Investments - at fair value	809,366	913,343
Accounts receivable (net of allowance for uncollectible accounts of \$25,023 and \$12,381, respectively)	615,609	877,780
Publication inventory	667,230	664,838
Prepaid expenses	50,801	1,091,366
Total current assets	<u>4,646,142</u>	<u>5,362,862</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	1,845,282	993,629
Leasehold improvements	715,947	548,811
	<u>2,561,229</u>	<u>1,542,440</u>
Less accumulated depreciation and amortization	<u>(1,411,465)</u>	<u>(1,231,675)</u>
Total property and equipment - net	<u>1,149,764</u>	<u>310,765</u>
OTHER ASSETS		
Deposits	-	2,576
Trademarks and copyrights (net of accumulated amortization of \$512,394 and \$404,927, respectively)	447,932	492,427
Total other assets	<u>447,932</u>	<u>495,003</u>
Total assets	<u>\$ 6,243,838</u>	<u>\$ 6,168,630</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 445,194	\$ 158,656
Accrued salaries and withholdings payable	148,908	130,666
Current portion of note payable	-	60,000
Current portion of capital leases obligations	95,341	-
Deferred revenue	-	1,282,286
Total current liabilities	<u>689,443</u>	<u>1,631,608</u>
NOTE AND CAPITAL LEASES PAYABLE, LESS CURRENT PORTION	<u>601,206</u>	<u>27,931</u>
Total liabilities	1,290,649	1,659,539
UNRESTRICTED NET ASSETS	4,953,189	4,509,091
Total liabilities and net assets	<u>\$ 6,243,838</u>	<u>\$ 6,168,630</u>

See accompanying notes to consolidated financial statements.

NARCOTICS ANONYMOUS WORLD SERVICES, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
REVENUES, GAINS AND OTHER SUPPORT		
Sales of publications and program materials	\$ 6,953,228	\$ 6,493,341
Less discounts and cost of sales	<u>2,455,751</u>	<u>2,086,973</u>
Net sales of publications and program materials	4,497,477	4,406,368
Convention registration and other revenue	2,484,665	1,702,134
Conference contributions	697,993	703,367
Interest	19,483	26,233
Other	<u>16,612</u>	<u>90,811</u>
Total revenues, gains and other support	<u>7,716,230</u>	<u>6,928,913</u>
EXPENSES		
Literature production and distribution	1,403,935	1,271,556
World Service Conference support	1,681,880	1,323,702
Fellowship development	1,445,620	1,243,649
Events	<u>2,740,697</u>	<u>1,711,761</u>
Total expenses	<u>7,272,132</u>	<u>5,550,668</u>
CHANGE IN NET ASSETS	444,098	1,378,245
UNRESTRICTED NET ASSETS		
Beginning of year	<u>4,509,091</u>	<u>3,130,846</u>
End of year	<u>\$ 4,953,189</u>	<u>\$ 4,509,091</u>

See accompanying notes to consolidated financial statements.

NARCOTICS ANONYMOUS WORLD SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 444,098	\$ 1,378,245
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	284,539	211,750
(Increase) decrease in assets:		
Accounts receivable	262,171	(356,595)
Claims receivable	-	292,801
Publication inventory	(2,392)	(101,998)
Prepaid expenses	1,040,565	(441,715)
Deposits	2,576	59,016
Increase (decrease) in liabilities:		
Accounts payable	286,538	(280,519)
Accrued salaries and withholdings payable	18,242	28,217
Deferred revenue	(1,282,286)	343,931
Net cash provided by operating activities	<u>1,054,051</u>	<u>1,133,133</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	111,400	-
Purchase of investments	(7,423)	(231,208)
Purchase of property and equipment	(115,411)	(85,310)
Purchases of leasehold improvements	(167,136)	-
Payments to secure copyrights and trademarks	(62,973)	(100,678)
Net cash used by investing activities	<u>(241,543)</u>	<u>(417,196)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable	-	100,000
Repayment of capital lease obligations	(36,977)	-
Repayment of note payable	(87,931)	(145,402)
Net cash used by financing activities	<u>(124,908)</u>	<u>(45,402)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	687,600	670,535
CASH AND CASH EQUIVALENTS		
Beginning of year	1,815,536	1,145,000
End of year	<u>\$ 2,503,136</u>	<u>\$ 1,815,535</u>

Supplemental disclosures of cash flow information: Interest paid the years ended June 30, 2004 and 2003 amounted to \$65,629 and \$6,305, respectively.

Non-cash investing and financing activities: During the year ended June 30, 2004, NAWS entered into lease obligations for equipment in the amount of \$733,524.

See accompanying notes to consolidated financial statements.

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.