

Notes to Consolidated Financial Statement

Independent Auditors' Report Years Ended June 2015, 2014, and 2013

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 literature distribution facilities in India and Toronto, Canada, and offices in Brussels, Belgium, and Iran. NAWS' Iranian service office is known as Payam Omega. 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 from income tax under Section 501(c)(3) of the Internal Revenue Code and under the 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 NAWS and the Trust are not private foundations 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 U.S. generally accepted accounting principles (GAAP) not-for-profit organizations are required to report information regarding 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 2015, 2014 and 2013, NAWS held no temporarily or permanently restricted net assets.

C. Cash and Cash Equivalents

NAWS considers all funds held in checking, savings and money market accounts to be cash and cash equivalents. Short term investments with initial maturities of 90 days or less are also considered cash equivalents.

D. Investments

NAWS investments are reported at fair value. Investments include certificates of deposit, equities and government securities. See Note 5.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 and amortization are 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 and amortization expense for the years ended 30 June 2015, 2014, and 2013 amounted to \$125,557, \$114,736 and \$106,103, respectively.

G. Trademarks and Copyrights

The cost of acquiring and defending copyrights and trademarks is capitalized and is 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 2015, 2014 and 2013 amounted to \$139,105, \$108,266 and \$82,198, 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. Functional Allocation of Expenses

Based on estimates developed by management, 2015, 2014 and 2013 program service costs totaled \$7,103,875, \$9,147,266 and \$6,131,422, management and general costs totaled \$789,320, \$1,016,364 and \$681,269, respectively.

L. Tax Status

NAWS has adopted guidance on accounting for uncertainty in income taxes issued by the Financial Accounting Standards Board. Management believes that NAWS has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Timely filed information returns for years subsequent to the year ended 30 June 2011 (2010 for state returns) are subject to examination by authorities.

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. NAWS contributions totaled \$74,903, \$76,326 and \$70,988 for the years ended 30 June 2015, 2014 and 2013, respectively.

NOTE 4 - OPERATING AND CAPITAL LEASES

NAWS has entered into various capital lease agreements for the use of office equipment and facilities. 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 2015:

Year ending 30 June,		
	2016	\$ 899,203
	2017	875,147
	2018	686,165
	2019	552,232
	2020	398,132
Thereafter		<u>82,725</u>
Total minimum payments required		<u>\$ 3,493,604</u>

Total payments made under the leases during the years ended 30 June 2015, 2014 and 2013 were \$1,008,338, \$998,575 and \$929,671, respectively.

NOTE 5 - INVESTMENTS

GAAP 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:

Level 1 – Inputs are quoted prices in an active market.

Level 2 – Inputs are 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 tables summarize investments based on the inputs used to value them:

30 June 2015				
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ -	\$ 367,646	\$ 367,646
U.S. Government and Government Agency obligations	-	3,010	-	3,010
Equities	6,800	-	-	6,800
	<u>\$ 6,800</u>	<u>\$ 3,010</u>	<u>\$ 367,646</u>	<u>\$ 377,456</u>
30 June 2014				
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ -	\$ 373,516	\$ 373,516
U.S. Government and Government Agency obligations	-	3,892	-	3,892
Equities	7,130	-	-	7,130
	<u>\$ 7,130</u>	<u>\$ 3,892</u>	<u>\$ 373,516</u>	<u>\$ 384,538</u>
30 June 2013				
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ -	\$ 373,000	\$ 373,000
U.S. Government and Government Agency obligations	-	5,756	-	5,756
Equities	5,840	-	-	5,840
	<u>\$ 5,840</u>	<u>\$ 5,756</u>	<u>\$ 373,000</u>	<u>\$ 384,596</u>

Level 1 investments comprise equities 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.

The following tables reconcile the beginning and ending fair value of the Plan's Level 3 investments:

	Year Ended		
	30 June 2015	30 June 2014	30 June 2013
Balance, 1 July	\$ 373,516	\$ 373,000	\$ 372,390
Purchases/accrued interest	444,907	444,068	442,824
Sales/maturities	(450,777)	(443,552)	(442,214)
Balance, 30 June	<u>\$ 367,646</u>	<u>\$ 373,516</u>	<u>\$ 373,000</u>

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

NAWS places its cash and cash equivalents with high quality financial institutions. Cash in U.S. banks is covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Cash in Canadian accounts is insured up to \$100,000 (Canadian) per bank. At 30 June 2015, deposits in U.S. institutions exceeded insurance limits by \$1,235,124 and deposits in Canadian banks exceeded insurance limits by \$272,752 (Canadian). Cash in other foreign accounts is not insured by the FDIC and totaled approximately \$210,561 (excluding Iran) as of 30 June 2015.

Assets reported in the statement of financial position as of 30 June 2015 include cash of approximately \$368,000 and publication inventory of approximately \$364,000 at Payam Omega. Due to current relations between Iran and the United States, it is unlikely that NAWS could transfer such assets out of Iran; accordingly their use is limited to Iranian operations.

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 31 December 2018. Should the agreement be terminated by NAWS, certain amounts would be payable to the Executive Director as defined in the agreement.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through 19 January 2016, the date these financial statements were available to be issued. There were no material subsequent events that require recognition or additional disclosure in these financial statements.