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Independent Auditors' Report

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, 2008, 2007 and 2006, 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 the audits 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, 2008, 2007 and 2006, 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.

*Miller, Kaplan, Arase & Co., LLP*

MILLER, KAPLAN, ARASE & CO., LLP

October 13, 2008



## Narcotics Anonymous World Services Consolidated Statement of Financial Position

	30-Jun-08	30-Jun-07	30-Jun-06
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 1,468,842	\$ 3,674,754	\$ 2,496,575
Investments - at fair value	1,089,303	1,042,822	988,966
Accounts receivable (net of allowance for uncollectible accounts of \$78,820, \$62,442, and \$63,597, respectively)	901,062	711,906	681,869
Publication inventory	878,024	904,920	850,381
Prepaid expenses	128,513	139,965	115,763
Total current assets	4,465,744	6,474,367	5,133,554
<b>Property and equipment:</b>			
Furniture and equipment	2,439,580	2,271,860	2,223,519
Leasehold improvements	853,944	832,297	831,821
	3,293,524	3,104,157	3,055,340
Less: accumulated depreciation and amortization	(2,286,812)	(2,010,319)	(1,922,416)
Total property and equipment - net	1,006,712	1,093,838	1,132,924
<b>Other assets:</b>			
Deposits	158,620	497,229	65,517
Trademarks, software and copyrights (net of accumulated amortization of \$936,155, \$857,500, and \$746,643, respectively)	373,272	340,275	346,564
Total other assets	531,892	837,504	412,081
<b>Total assets</b>	<b>\$ 6,004,348</b>	<b>\$ 8,405,709</b>	<b>\$ 6,678,559</b>
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 424,818	\$ 535,540	\$ 280,906
Accrued salaries, vacation and tax withholdings payable	259,758	258,034	150,613
Current portion of capital lease obligations	84,462	76,239	80,836
Deferred convention revenue	-	1,041,561	-
Total current liabilities	769,038	1,911,374	512,355
Capital leases payable, less current portion	580,549	665,011	615,834
Total liabilities	1,349,587	2,576,385	1,128,189
<b>Unrestricted net assets</b>	4,654,761	5,829,324	5,550,370
<b>Total liabilities and net assets</b>	<b>\$ 6,004,348</b>	<b>\$ 8,405,709</b>	<b>\$ 6,678,559</b>



**Narcotics Anonymous World Services  
Consolidated Statement of Financial Position**

	1-Jul-07 to 30-Jun-08	1-Jul-06 to 30-Jun-07	1-Jul-05 to 30-Jun-06
<b>Revenues, gains and other support:</b>			
Sales of publications and program materials	\$ 8,772,453	\$ 8,433,771	\$ 7,973,244
Less discounts and cost of sales	<u>2,886,680</u>	<u>2,713,402</u>	<u>2,637,693</u>
Net sales of publications and program materials	5,885,773	5,720,369	5,335,551
Convention registration and other revenue	2,160,006	-	1,819,718
Conference contributions	980,673	879,863	764,393
Interest	61,619	77,190	42,358
Other	<u>84,534</u>	<u>121,200</u>	<u>114,299</u>
<b>Total revenues, gains and other support</b>	<b><u>9,172,605</u></b>	<b><u>6,798,622</u></b>	<b><u>8,076,319</u></b>
<b>Expenses:</b>			
Literature production and distribution	2,019,887	1,794,731	1,790,448
World Service Conference support	1,988,420	1,725,176	2,007,681
Fellowship development	2,527,017	2,528,737	2,225,739
Events	<u>3,811,844</u>	<u>471,024</u>	<u>2,114,695</u>
<b>Total expenses</b>	<b><u>10,347,168</u></b>	<b><u>6,519,668</u></b>	<b><u>8,138,563</u></b>
<b>Change in net assets</b>	(1,174,563)	278,954	(62,244)
<b>Unrestricted net assets:</b>			
Beginning of year	<u>5,829,324</u>	<u>5,550,370</u>	<u>5,612,614</u>
End of year	<b><u>\$ 4,654,761</u></b>	<b><u>\$ 5,829,324</u></b>	<b><u>\$ 5,550,370</u></b>



## Narcotics Anonymous World Services Consolidated Statement of Functional Expenses

Year Ended 30 June 2008

	Literature Production & Distribution	World Service Conference Support	Fellowship Development	Events	Total
<b>Expenses:</b>					
Salaries, wages and payroll taxes	\$ 1,093,143	\$ 595,335	\$ 878,828	\$ 368,540	\$ 2,935,846
Employee health benefits	109,538	65,723	97,019	40,685	312,965
Retirement contribution	22,075	13,245	19,552	8,200	63,072
Contract labor	10,331	5,306	7,832	3,284	26,753
Convention expense	-	-	-	3,058,948	3,058,948
Occupancy	175,399	105,239	155,353	65,148	501,139
Travel	14,072	172,000	237,467	3,133	426,672
Conferences	-	538,939	-	-	538,939
Worldwide workshops	10,069	74,500	209,482	-	294,051
Telephone	23,257	14,146	20,599	24,312	82,314
Postage	25,529	15,875	22,611	38,765	102,780
Office expense	51,615	32,724	45,717	19,171	149,227
Depreciation and amortization	124,303	74,581	110,096	46,169	355,149
Professional fees	78,755	17,753	26,207	27,490	150,205
Equipment leases	43,467	26,080	38,499	16,145	124,191
Computer expense	63,820	38,292	56,527	23,705	182,344
Insurance	16,498	9,898	14,612	6,128	47,136
Interest expense	63,381	38,028	56,137	23,542	181,088
Developmental literature	-	-	141,347	-	141,347
Free publications	-	83,571	98,428	-	181,999
Free literature	227	136	141,659	84	142,106
Public information	-	-	30,221	-	30,221
Other operating expenses	94,408	67,049	118,824	38,395	318,676
<b>Total expenses</b>	<b>\$ 2,019,887</b>	<b>\$ 1,988,420</b>	<b>\$ 2,527,017</b>	<b>\$ 3,811,844</b>	<b>\$ 10,347,168</b>



## Narcotics Anonymous World Services Consolidated Statement of Functional Expenses

Year Ended 30 June 2007

	Literature Production & Distribution	World Service Conference Support	Fellowship Development	Events	Total
<b>Expenses:</b>					
Salaries, wages and payroll taxes	\$ 1,016,468	\$ 712,612	\$ 849,653	\$ 219,265	\$ 2,797,998
Employee health benefits	113,888	84,603	100,872	26,031	325,394
Retirement contribution	23,658	17,574	20,954	5,407	67,593
Contract labor	4,962	3,686	4,395	1,134	14,177
Convention expense	-	-	-	63,291	63,291
Occupancy	149,599	111,131	132,502	34,194	427,426
Travel	20,476	258,408	291,575	398	570,857
Conferences	-	37,598	-	-	37,598
Worldwide workshops	-	108,595	239,073	-	347,668
Telephone	25,043	19,215	22,181	11,531	77,970
Postage	10,503	8,575	18,548	5,411	43,037
Office expense	50,563	37,561	44,785	11,557	144,466
Depreciation and amortization	143,394	106,520	127,005	32,776	409,695
Professional fees	35,652	23,158	27,611	7,125	93,546
Equipment leases	16,389	12,175	14,516	3,746	46,826
Computer expense	33,288	24,729	29,485	7,609	95,111
Insurance	16,498	12,255	14,612	3,771	47,136
Interest expense	65,526	48,676	58,037	14,977	187,216
Developmental literature	-	-	140,889	-	140,889
Free publications	-	30,788	104,339	-	135,127
Free literature	175	130	50,411	40	50,756
Public information	-	-	39,935	-	39,935
Other operating expenses	68,649	67,187	197,359	22,761	355,956
<b>Total expenses</b>	<b>\$ 1,794,731</b>	<b>\$ 1,725,176</b>	<b>\$ 2,528,737</b>	<b>\$ 471,024</b>	<b>\$ 6,519,668</b>



## Narcotics Anonymous World Services Consolidated Statement of Functional Expenses

Year Ended 30 June 2006

	<u>Literature Production &amp; Distribution</u>	<u>World Service Conference Support</u>	<u>Fellowship Development</u>	<u>Events</u>	<u>Total</u>
<b>Expenses:</b>					
Salaries, wages and payroll taxes	\$ 1,001,574	\$ 711,093	\$ 847,842	\$ 218,797	\$ 2,779,306
Employee health benefits	109,212	81,130	96,732	24,963	312,037
Retirement contribution	20,802	15,453	18,425	4,755	59,435
Contract labor	3,288	5,573	2,913	752	12,526
Convention expense	-	-	-	1,693,008	1,693,008
Occupancy	139,168	103,382	123,264	31,810	397,624
Travel	15,301	149,947	137,814	1,786	304,848
Conferences	-	417,216	-	-	417,216
Worldwide workshops	-	123,233	63,223	-	186,456
Telephone	22,139	17,179	19,608	9,649	68,575
Postage	11,554	9,152	14,938	6,668	42,312
Office expense	46,677	35,044	41,342	10,669	133,732
Depreciation and amortization	161,320	119,838	142,884	36,873	460,915
Professional fees	56,822	37,262	44,428	14,663	153,175
Equipment leases	6,722	4,994	5,954	3,498	21,168
Computer expense	42,518	31,585	37,659	9,743	121,505
Insurance	23,920	17,769	21,186	5,467	68,342
Interest expense	55,000	40,857	48,714	12,572	157,143
Developmental literature	-	-	144,252	-	144,252
Free publications	-	25,957	146,556	-	172,513
Free literature	334	248	52,443	77	53,102
Public information	-	-	21,372	-	21,372
Other operating expenses	74,097	60,769	194,190	28,945	358,001
<b>Total expenses</b>	<b>\$ 1,790,448</b>	<b>\$ 2,007,681</b>	<b>\$ 2,225,739</b>	<b>\$ 2,114,695</b>	<b>\$ 8,138,563</b>



## Narcotics Anonymous World Services Consolidated Statement of Cash Flowss

	Year Ended		
	30-Jun-08	30-Jun-07	30-Jun-06
<b>Cash flows from operating activities:</b>			
Change in net assets	\$ (1,174,563)	\$ 278,954	\$ (62,244)
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation and amortization	355,149	409,695	460,915
(Increase) decrease in assets:			
Accounts receivable	(189,156)	(30,037)	(59,821)
Publication inventory	26,896	(54,539)	(190,223)
Prepaid expenses	11,452	(348,823)	228,517
Deposits	338,609	(107,091)	(26,257)
Increase (decrease) in liabilities:			
Accounts payable	(110,722)	254,634	32,476
Accrued salaries and withholdings payable	1,724	107,421	(829)
Deferred revenue	(1,041,561)	1,041,561	(1,043,580)
<b>Net cash provided (used) by operating activities</b>	<b><u>(1,782,172)</u></b>	<b><u>1,551,775</u></b>	<b><u>(661,046)</u></b>
<b>Cash flows from investing activities:</b>			
Purchases of investments	(46,481)	(53,856)	(25,420)
Purchases of property and equipment	(167,719)	(107,454)	(93,917)
Purchases of leasehold improvements	(21,648)	(476)	(23,006)
Payments to secure copyrights and trademarks and purchase software	(111,653)	(104,567)	(62,347)
<b>Net cash (used) by investing activities</b>	<b><u>(347,501)</u></b>	<b><u>(266,353)</u></b>	<b><u>(204,690)</u></b>
<b>Cash flows from financing activities:</b>			
Repayment of capital lease obligations	(76,239)	(107,243)	(117,971)
<b>Net cash (used) by financing activities</b>	<b><u>(76,239)</u></b>	<b><u>(107,243)</u></b>	<b><u>(117,971)</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,205,912)</b>	<b>1,178,179</b>	<b>(983,707)</b>
Cash and cash equivalents:			
Beginning of year	<u>3,674,754</u>	<u>2,496,575</u>	<u>3,480,282</u>
<b>End of year</b>	<b><u>\$ 1,468,842</u></b>	<b><u>\$ 3,674,754</u></b>	<b><u>\$ 2,496,575</u></b>

Supplemental disclosures of cash flow information: Interest paid during the years ended 30 June 2008, 2007 and 2006 amounted to \$181,088, \$187,216 and \$157,143, respectively.

**Non-cash investing and financing activities:** During the years ended 30 June 2007 and 2006, NAWS entered into lease obligations for the purchase of equipment in the amounts of \$463,780 and \$312,780, respectively. NAWS also retired, without payment, lease obligations in the amount of \$311,955 and \$98,144 during the years ended 30 June 2007 and 2006.



## 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>

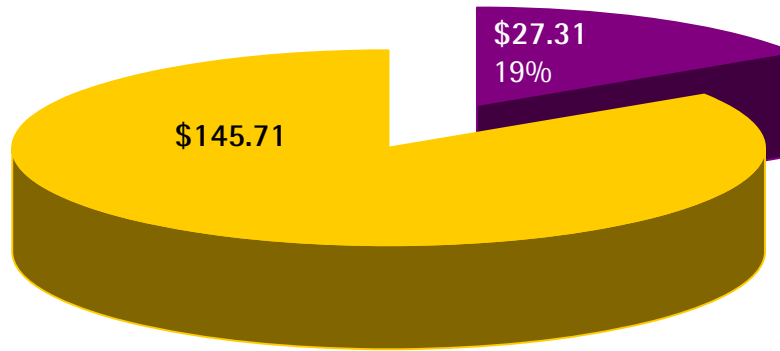
## Note 6 – Concentration of Credit Risk

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

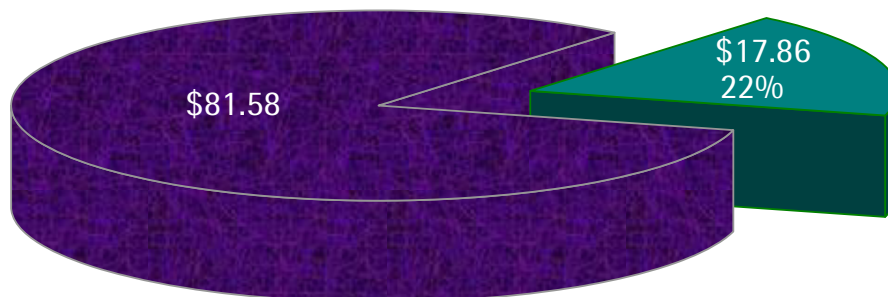
NAWS has entered into an employment agreement with its Executive Director for employment services. The agreement provides for compensation and benefits and expires on 31 December 2009. Should the agreement be terminated by NAWS, certain amounts would be payable to the Executive Director as defined in the agreement.

### US & Canada Meetings/Groups Contributions Actual vs. Required



- Actual dollars received per group/meeting in USA & Canada
- Required dollars to cover Fellowship Services from contributions per meeting/group in USA & Canada

### Worldwide Meetings/Groups Contributions Actual vs. Required



- Actual dollars received per meeting/group worldwide
- Required dollars to cover Fellowship Services from contributions per meeting/group worldwide