

**World Service Office, Inc.
Auditor's Report
1994**

World Service Office, Inc. Auditor's Report 1994

The attached auditor's report is for the 1994 fiscal year. At WSC-95 it was explained, that in order to reduce the cost of the independent audit, it was necessary to allow the audit to be conducted outside of the regular United States income tax period. The income tax period has three significant dates--March 15, the date of corporate filings, April 15, the date of individual filings and May 15, the date of most "non-profit" filings. The audit was conducted during the last quarters of 1995 and this is the first opportunity we have had for distribution.

The audit begins with letters to our vendors and customers to verify our Accounts Payable and Accounts Receivable. Letters are sent to our banks to verify our bank balances. A physical count of our Inventory is monitored and audited to verify the amounts indicated on our statements. The valuation of each inventory item is reviewed to be sure that the value of our inventory is accurately stated. All capitalized expenditures are reviewed to be sure that are assets are appropriately valued and stated. Transactions are reviewed in context with our financial policy and any deviations concerning expenditures and/or commitments are reviewed and discussed (significant deviations would be noted as "exceptions" in the auditor's report). The minutes of the Board of Directors are reviewed to be sure that board resolutions and direction, regarding finances, are followed. Then the audit is done on a multitude of daily transactions.

The auditor finally prepares a report that is formatted to meet the regulations for reporting "non-profit" corporations. As explained to previous Conferences, this is why it looks "different". Although this report both in format and timing has little value to you in determining our current financial position, it does have a value to our banks, vendors and financial rating organizations (such as Dun & Bradstreet) on whom we rely to conduct our daily business.

WORLD SERVICE OFFICE, INC.
Financial Statements and
Supplementary Information with
Independent Auditor's Report
December 31, 1994

WORLD SERVICE OFFICE, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Balance Sheet	2
Statement of Revenue, Expenses and Changes in Fund Balance	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Combining Balance Sheet of all Branch Offices	9
Combining Statement of Revenue, and Expenses of all Branch Offices	10
Combining Statement of Cash Flows	11

INDEPENDENT AUDITOR'S REPORT

Board of Directors
World Service Office, Inc

We have audited the accompanying balance sheet of World Service Office, Inc. (a nonprofit corporation) as of December 31, 1994, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of World Service Office, Inc. at December 31, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the World Service Office, Inc. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Edwards, Eichel & Beranek

Pasadena, California
January 18, 1996

Edwards, Eichel & Beranek
Certified Public Accountants

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WORLD SERVICE OFFICE, INC.

Balance Sheet
December 31, 1994

ASSETS	Operating Fund	Plant Fund	Total
Current assets			
Cash	\$ 237,176	\$ --	\$ 237,176
Accounts receivable, trade net of allowance for doubtful accounts of \$23,740	395,463	--	395,463
Due from related entities (Notes 2 and 3)	36,056	--	36,056
Inventory	406,371	--	406,371
Prepaid expenses	23,578	501	24,079
Total current assets	1,098,644	501	1,099,145
Leasehold improvements and equipment			
Furniture, equipment, dies	--	331,205	331,205
Leasehold improvements	--	44,742	44,742
	--	375,947	375,947
Less accumulated depreciation	--	225,522	225,522
Net leasehold improvements and equipment	--	150,425	150,425
Other assets			
Deposits	16,819	--	16,819
Trademarks & copyrights (net of accumulated amortization of \$25,454)	122,547	--	122,547
Total other assets	139,366	--	139,366
Total assets	\$1,238,010	\$150,926	\$1,388,936
LIABILITIES AND FUND BALANCES			
Current liabilities			
Accounts payable	\$ 255,897	\$ --	\$ 255,897
Accrued expenses (Note 2)	77,679	--	77,679
Total current liabilities	333,576	--	333,576
Fund balances			
Plant fund	--	150,926	150,926
Unrestricted	920,400	--	920,400
Total fund balances	920,400	150,926	1,071,326
Cumulative foreign currency translation adjustment (Note 1)	(15,966)	--	(15,966)
Total fund balances	904,434	150,926	1,055,360
Total liabilities and fund balances	\$1,238,010	\$150,926	\$1,388,936

The accompanying notes are an integral part of theses financial statements.

WORLD SERVICE OFFICE, INC.
Statements of Revenue, Expenses and Changes in Fund Balance
Year ended December 31, 1994

	<u>Operating Fund</u>	<u>Plant Fund</u>	<u>Total</u>
<u>Operating Revenues:</u>			
Net sales of publications and program materials (Note 4)	\$4,306,123	\$ --	\$4,306,123
Less direct costs of sales	<u>1,520,007</u>	<u>--</u>	<u>1,520,007</u>
Gross Profit	2,786,116	--	2,786,116
<u>Operating Expenses:</u>			
Salaries and wages including payroll taxes	1,478,362	--	1,478,362
Employee health benefits	133,016	--	133,016
Contract labor	17,540	--	17,540
Occupancy	161,647	--	161,647
Travel	164,418	--	164,418
Telephone	80,727	--	80,727
Postal	51,147	--	51,147
Office expense	94,317	--	94,317
Depreciation and amortization	12,593	68,391	80,984
Retirement contribution	41,019	--	41,019
Equipment leases	--	70,671	70,671
Computer software and supplies	--	32,450	32,450
Other operating expenses	<u>242,740</u>	<u>19,490</u>	<u>262,230</u>
Total operating expenses	<u>2,477,526</u>	<u>191,002</u>	<u>2,668,528</u>
Excess (deficit) of revenues over (under) expenses	<u>308,590</u>	<u>(191,002)</u>	<u>117,588</u>
<u>Nonoperating Revenue:</u>			
Interest	2,007	--	2,007
Other	<u>14,322</u>	<u>--</u>	<u>14,322</u>
Total nonoperating revenue	<u>16,329</u>	<u>--</u>	<u>16,329</u>
<u>Capital Additions:</u>			
Transfer from operating fund	<u>(183,890)</u>	<u>183,890</u>	<u>--</u>
Excess of revenue over (under) expenses	141,029	(7,112)	133,917
Fund Balance, beginning of year	<u>779,371</u>	<u>158,038</u>	<u>937,409</u>
Fund Balance, end of year	<u>\$ 920,400</u>	<u>\$150,926</u>	<u>\$1,071,326</u>

The accompanying notes are an integral part of these financial statements.

WORLD SERVICE OFFICE, INC.
Statement of Cash Flows
Year Ended December 31, 1994

	<u>Operating Funds</u>	<u>Plant Funds</u>	<u>Total All Funds</u>
<u>Cash flows from operating activities:</u>			
Excess of revenues over (under) expenses	\$ 324,919	\$(191,002)	\$ 133,917
Adjustment to reconcile net revenues over expenses to net cash provided by operating activities			
Depreciation and amortization	12,593	68,391	80,984
Increase in amounts advanced to related entities	(25,816)	--	(25,816)
Increase in accounts receivable	(53,176)	--	(53,176)
Decrease in inventory	64,604	--	64,604
Increase in prepaid expenses	(7,424)	--	(7,424)
Increase in accounts payable	52,490	--	52,490
Increase accrued expenses	2,990	--	2,990
Other	499	--	499
Net cash provided (used by) operating activities	<u>371,679</u>	<u>(122,611)</u>	<u>249,068</u>
<u>Cash flows from investing activities:</u>			
Purchase of equipment	--	(61,279)	(61,279)
Payments to secure copyrights and trademarks	<u>(44,140)</u>	<u>--</u>	<u>(44,140)</u>
	<u>(44,140)</u>	<u>(61,279)</u>	<u>(105,419)</u>
<u>Transfer:</u>			
Plant acquisitions	<u>(183,890)</u>	<u>183,890</u>	<u>--</u>
Net increase in cash	143,649	--	143,649
<u>Cash</u>			
Beginning of year	<u>93,527</u>	<u>--</u>	<u>93,527</u>
End of year	<u>\$ 237,176</u>	<u>\$ --</u>	<u>\$ 237,176</u>
<u>Supplementary data:</u>			
Interest paid	<u>\$ 2,608</u>	<u>\$ --</u>	<u>\$ 2,608</u>

The accompanying notes are an integral part of these financial statements.

WORLD SERVICE OFFICE, INC.
Notes to Financial Statements
December 31, 1994

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

World Service Office, Inc. ("WSO") was incorporated on January 25, 1977 and operates its United States and world center in Chatsworth, California, which provides communications and information for the Fellowship of Narcotics Anonymous ("NA"). The WSO achieves its purpose by maintaining correspondence with NA groups and service committees, by printing and distributing World Service Conference - approved literature, and by maintaining the archives and files of Narcotics Anonymous.

Basis of Presentation

Financial statement presentation follows the recommendations of the American Institute of Certified Public Accountants in its Industry Accounting Guide, Audits of certain Nonprofit Organizations and SOP 78-10 - Accounting Principles and Reporting Practices for Certain Nonprofit Organizations. The financial statements are presented on a combined basis for United States and the foreign branch offices in Canada and Europe. All significant interbranch balances have been eliminated.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the Organization are reported in two self-balancing fund groups as follows:

Operating fund, which include unrestricted and restricted resources, represent the portion of expendable fund that is available for support of the Organization's operations.

Plant funds represent resources restricted for plant acquisitions and funds expended for plant. Separating plant (furniture, equipment and leasehold improvements) from current operating funds enables a reader to differentiate between equity available for current operations and amounts invested in facilities and equipment that cannot be so used.

WORLD SERVICE OFFICE, INC.
Notes to Financial Statements
(continued)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporary Cash Investments

Temporary cash investments are carried at cost which approximates market.

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.

Leasehold Improvements and Equipment and Depreciation

Leasehold Improvements and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range as follows:

	<u>Years</u>
Leasehold improvements	5
Furniture and equipment	7
Automobiles	5

Undepreciated balances of leasehold improvements were expensed with the facilities move in 1995 -- see Note 5.

Income Tax Status

The entity qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable provisions of the California Revenue and Taxation Code and, therefore, has no provision for federal income taxes.

Copyrights and Trademarks

Beginning in 1992, WSO has capitalized the cost of acquiring and defending its copyrights and trademarks. Such amounts are being written off the approximate economic life of the copyright or trademark which is estimated to be ten years.

Translation of Foreign Branch Financial Statements

Foreign branch operations are translated through out the year to United States currency. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of fund balance until the branch operation is sold or substantially liquidated.

WORLD SERVICE OFFICE, INC.
Notes to Financial Statements
(continued)

Note 2. WORLD CONVENTION CORPORATION

The World Convention Corporation "WCC" is an affiliated entity to WSO. Such entity is a separate legal entity and has its own Board of Directors. WCC's function is the planning, financing, organizing and promoting the annual convention for Narcotics Anonymous.

The following is the condensed summarized financial information of WCC.

Total assets	\$297,094
Liabilities	
Current	36,559
Long term	--
Total liabilities	36,559
Total fund balance	260,535
Total revenues	878,889
Total expenses	801,506
Net increase in fund balance	\$ 84,868

Included in accounts receivable other on the balance sheet of WSO is a receivable from WCC in the amount of \$6,009. Such amount represents disbursements made on behalf of WCC which are reimbursed as funds are available. Additionally under the caption of accrued liabilities is a prepayment by WCC for the services of a WSO employee serving as convention manager.

Note 3 WORLD SERVICE CONFERENCE

The World Service Conference "WSC" is a separate entity from WSO. The WSC is the fellowship-wide service and decision-making body of Narcotics Anonymous. Included in accounts receivable on the balance sheet of WSO is a receivable from WSC in the amount of \$30,046. Such amount represents disbursements made on behalf of WSC which are reimbursed in the following month after review by the WSC treasurer.

Note 4 NET SALES OF PUBLICATIONS AND PROGRAM MATERIALS

Literature and publications are sold at discount to group, area, and regional service committees and offices for resale to members at a suggested list price. Included in net sales are discounts in the amount of \$1,300,624.

WORLD SERVICE OFFICE, INC.
Notes to Financial Statements
(continued)

Note 5 COMMITMENTS & CONTINGENCIES

WSO has leased equipment and facilities under various operating leases. In the spring of 1995, facilities were moved from Van Nuys to a new location in Chatsworth. Existing facilities leases were set to expire in 1995 or where they had expired in 1994 were continued on a month-to-month basis. Equipment leases in effect were continued with the exception of telephone, which was enhanced by a voice mail system. Minimum lease payments on non-cancelable lease commitments subsequent to December 31, 1994, were as follows:

<u>December 31</u>	<u>Amount</u>
1995	\$ 97,560
1996	86,115
1997	23,013
1998	--
	<u>\$206,688</u>

Supplementary Information

<u>Eliminations</u>	<u>Total</u>
\$ --	\$ 237,176
--	395,463
--	36,056
--	406,371
--	24,079
--	<u>1,099,145</u>
--	331,205
--	<u>44,742</u>
--	375,947
--	<u>225,522</u>
--	<u>150,425</u>
--	16,819
--	122,547
<u>(650,489)</u>	<u> --</u>
<u>(650,489)</u>	<u>139,366</u>
<u>\$ (650,489)</u>	<u>\$1,388,936</u>
\$ --	\$ 255,897
--	77,679
<u>(650,489)</u>	<u> --</u>
<u>(650,489)</u>	<u>333,576</u>
--	<u>1,055,360</u>
<u>\$ (650,489)</u>	<u>\$1,388,936</u>

WORLD SERVICE OFFICE, INC.
Combining Statement of Revenue, and Expenses of all Branch Offices
Year Ended December 31, 1994

	<u>United States</u>	<u>Europe</u>	<u>Canada</u>	<u>Total</u>
<u>Operating Revenues</u>				
Net sales of publications and program materials	\$4,103,359	\$ 49,301	\$ 153,463	\$4,306,123
Less direct costs of sales	<u>1,430,281</u>	<u>35,473</u>	<u>54,253</u>	<u>1,520,007</u>
Gross Profit	2,673,078	13,828	99,210	2,786,116
<u>Operating Expenses:</u>				
Salaries and wages including payroll taxes	1,407,039	69,735	1,588	1,478,362
Employee health benefits	133,016	--	--	133,016
Contract labor	6,092	11,448	--	17,540
Occupancy	139,896	11,533	10,218	161,647
Travel	124,524	37,662	2,232	164,418
Telephone	59,696	19,030	2,001	80,727
Postage	46,769	3,460	918	51,147
Office Expense	86,710	7,607	--	94,317
Depreciation and amortization	77,460	1,690	1,834	80,984
Retirement contribution	41,019	--	--	41,019
Equipment leases	69,746	726	199	70,671
Computer software and supplies	30,916	1,534	--	32,450
Other operating expenses	<u>246,582</u>	<u>11,669</u>	<u>3,979</u>	<u>262,230</u>
Total operating expenses	<u>2,469,465</u>	<u>176,094</u>	<u>22,969</u>	<u>2,668,528</u>
Excess (deficit) of revenue over (under) expenses	<u>203,613</u>	<u>(162,266)</u>	<u>76,241</u>	<u>117,588</u>
<u>Nonoperating Revenues:</u>				
Interest	2,003	4	--	2,007
Other	<u>13,926</u>	<u>--</u>	<u>396</u>	<u>14,322</u>
Total nonoperating revenue	<u>15,929</u>	<u>4</u>	<u>396</u>	<u>16,329</u>
Excess (deficit) of revenue over (under) expenses	<u>\$ 219,542</u>	<u>\$ (162,262)</u>	<u>\$ 76,637</u>	<u>\$ 133,917</u>

WORLD SERVICE OFFICE, INC.
Combining Statement of Cash Flow
Year Ended December 31, 1994

	<u>United States</u>	<u>Europe</u>	<u>Canada</u>	<u>Total</u>
<u>Cash Flows from Operating Activities</u>				
Excess of revenues over (under) expenses	\$ 219,542	\$(162,262)	\$ 76,637	\$ 133,917
Adjustment to reconcile net revenues over expenses to net cash provided by operating activities				
Depreciation	64,867	1,690	1,834	68,391
Amortization	12,593	--	--	12,593
Increase in amounts advanced to related entities	(25,816)	--	--	(25,816)
Increase in accounts receivable trade	(47,350)	(8,186)	2,360	(53,176)
Decrease (increase) in inventories	68,827	(932)	(3,291)	64,604
Increase in prepaid expenses	(6,513)	--	(911)	(7,424)
Increase in advances to branch operations	(103,534)	170,452	(66,918)	--
Increase in payables	49,972	--	2,518	52,490
Increase in deferred revenues	12,246	92	(9,348)	2,990
Other	501	--	(2)	499
Net cash provided by operating activities	<u>245,335</u>	<u>854</u>	<u>2,879</u>	<u>249,068</u>
<u>Cash Flows from Investing Activities</u>				
Purchase of equipment	(49,937)	(11,342)	--	(61,279)
Payments to secure copyrights	(44,140)	--	--	(44,140)
Cash used in investing activities	<u>(94,077)</u>	<u>(11,342)</u>	<u>--</u>	<u>(105,419)</u>
Net increase in cash	151,258	(10,488)	2,879	143,649
<u>Cash</u>				
Beginning of the year	50,670	21,306	21,551	93,527
End of the year	<u>\$ 201,928</u>	<u>\$ 10,818</u>	<u>\$ 24,430</u>	<u>\$ 237,176</u>