

Financial Statements

North Carolina Library Association, Inc.

Raleigh, North Carolina

Years Ended December 31, 2002 and 2001

North Carolina Library Association, Inc
CONTENTS
Years Ended December 31, 2002 and 2001

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5-6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8-11
COMPLIANCE SECTION	
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	12-13

Independent Auditor's Report

To the Members of the
North Carolina Library Association, Inc
Goldsboro, North Carolina

We have audited the accompanying statements of financial position of North Carolina Library Association (a not-for-profit organization) as of December 31, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 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 that our audits provide 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 North Carolina Library Association as of December 31, 2002 and 2001, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2003 on our consideration of North Carolina Library Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Pittard Perry & Crone, Inc.

Goldsboro, North Carolina

October 22, 2003

North Carolina Library Association, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31,

	2002	2001
ASSETS		
Current assets		
Cash and cash equivalent	\$ 54,077	\$ 65,148
Restricted cash and cash equivalent	4,501	4,919
Short-term investments	75,000	75,000
Restricted short-term investments	58,500	58,500
Receivables:		
State grant	3,774	2,255
Sales tax	567	11,873
Student loans	2,200	2,200
Other	-	15,597
	198,619	235,492
Property and equipment		
Computer equipment	6,055	304
Less accumulated depreciation	2,596	5
	3,459	299
TOTAL ASSETS	\$ 202,078	\$ 235,791
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,504	\$ -
Accrued liabilities	388	
	1,892	
TOTAL LIABILITIES	1,892	-
NET ASSETS		
Unrestricted	137,185	172,372
Temporarily restricted	4,501	4,919
Permanently restricted	58,500	58,500
	200,186	235,791
TOTAL NET ASSETS	200,186	235,791
TOTAL LIABILITIES AND NET ASSETS	\$ 202,078	\$ 235,791

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES

Year ended December 31, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Library Services and Technology grant	\$ 255,493	\$ -	\$ -	\$ 255,493
Conferences and workshops	-	-	-	-
Membership dues	22,550	-	-	22,550
Contributions	576	-	-	576
Donated facilities	2,844	-	-	2,844
Interest earnings	1,644	4,164	-	5,808
Endowment	-	-	-	-
Other	24,834	-	-	24,834
Net assets released from restrictions				
Satisfaction of donor's restrictions	4,582	(4,582)	-	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	312,523	(418)	-	312,105
EXPENSES				
Program services				
Library Services Technology Grant	234,873	-	-	234,873
Professional Development	58,088	-	-	58,088
Scholarships	4,500	-	-	4,500
Supporting services				
Management and general	50,249	-	-	50,249
TOTAL EXPENSES	347,710	-	-	347,710
CHANGE IN NET ASSETS	(35,187)	(418)	-	(35,605)
NET ASSETS AT BEGINNING OF YEAR	172,372	4,919	58,500	235,791
NET ASSETS AT END OF YEAR	\$ 137,185	\$ 4,501	\$ 58,500	\$ 200,186

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES

Year ended December 31, 2001

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Library Services and Technology grant	\$ 830,918	\$ -	\$ -	\$ 830,918
Conferences and workshops	131,463	-	-	131,463
Membership dues	27,095	-	-	27,095
Contributions	93	-	-	93
Donated facilities	2,844	-	-	2,844
Interest earnings	4,941	2,594	-	7,535
Endowment	-	-	-	-
Other	1,359	-	-	1,359
Net assets released from restrictions				-
Satisfaction of donor's restrictions	4,500	(4,500)	-	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,003,213	(1,906)	-	1,001,307
EXPENSES				
Program services				
Library Services Technology Grant	797,608	-	-	797,608
Professional Development	125,794	-	-	125,794
Scholarships	2,000	-	-	2,000
Supporting services				-
Management and general	49,662	-	-	-
TOTAL EXPENSES	975,064	-	-	925,402
CHANGE IN NET ASSETS	28,149	(1,906)	-	26,243
NET ASSETS AT BEGINNING OF YEAR	144,223	6,825	58,500	209,548
NET ASSETS AT END OF YEAR	\$ 172,372	\$ 4,919	\$ 58,500	\$ 235,791

The accompanying notes are an integral part of this statement

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, donations, and fees	\$ 328,838	\$ 998,700
Cash paid for program and management expenses	(340,384)	(972,215)
Interest Earnings Received	5,808	7,535
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(5,738)	34,020
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of short-term investments	-	(1,572)
Proceeds from sale of short-term investments	-	4,308
Proceeds from student loans	-	100
Loans to students	-	(1,600)
Purchase of fixed assets	(5,751)	(304)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,751)	932
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,489)	34,952
BEGINNING CASH AND CASH EQUIVALENTS	70,067	35,115
ENDING CASH AND CASH EQUIVALENTS	\$ 58,578	\$ 70,067
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (35,606)	\$ 26,243
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation	2,591	5
(Increase) decrease in accounts receivable - state grant	(1,518)	21,227
(Increase) decrease in accounts receivable - sales tax	11,306	(2,891)
(Increase) decrease in accounts receivable - other	15,598	(10,564)
Increase (decrease) in accounts payable	1,504	-
Increase (decrease) in other accrued liabilities	387	-
Total adjustments	29,868	7,777
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (5,738)	\$ 34,020

The accompanying notes are an integral part of this statement

NOTE 1 ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Organization

North Carolina Library Association was incorporated in 1948. North Carolina Library Association operates in eastern, NC for the purpose of promoting libraries, library and information services and librarianship and to champion intellectual freedom and literacy programs. Approximately \$278,043 or 89% and \$858,013 or 86%, for years ended December 31, 2002 and 2001, of the NCLA's revenues consist of grant monies and membership dues.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all unrestricted and temporarily restricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounting Method

The Association records its transactions using the accrual basis method of accounting, whereby revenue and the related assets are recognized when earned and expenses are recognized when the obligation is incurred.

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. Accordingly, actual results could differ from those estimates.

Short-Term Cash Investments

Short-term cash investments of \$133,500 and \$133,500 for both 2002 and 2001, include certificates of deposit with an original maturity in excess of three months and are valued at cost plus accrued interest, which approximates market value.

Program Services

Library Services Technology Grant – To promote library services that provide all users access to information through State, regional, and international electronic networks; to provide linkages among and between libraries; and to promote targeted library services to people of diverse geographic, cultural and socioeconomic backgrounds, to individuals with disabilities, and to people with limited functional literacy or information skills.

Professional Development – This program relates to the NCLA's mission and its underlying business purpose. Professional development for individuals interested and participation in the field of library sciences.

Scholarships – Provides educational assistance to individuals pursuing a degree in the field of library sciences.

NOTE 1 ACCOUNTING POLICIES (continued)

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activity as net assets released from restrictions.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standard (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Association 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.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Association pays for most services requiring specific expertise. However, several individuals volunteer their time and perform a variety of tasks that assist the Association.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Association capitalizes all expenditures for property and equipment in excess of \$250. Purchased property and equipment are carried at cost. Property and equipment depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Type	Years
Machinery and equipment	5-7
Furniture and fixtures	5-7

Donated Facilities and Fixed Assets

Donated facilities were provided to the Association that would have otherwise resulted in rent expense. The State Library for the Blind and Physically Handicapped donated facilities (office space) and other assorted assets for services programs. The amount of \$2,844 is reflected in the financial statement as revenue and expense.

NOTE 1 ACCOUNTING POLICIES (continued)

Income Taxes

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income as of December 31, 2002 and 2001.

NOTE 2 OPERATING LEASE COMMITMENTS

The Association had one non-cancelable operating lease, for a computer, which was purchased at fair market value in 2002. Rental expense for the operating lease for the years ended June 30, 2002 and 2001 was \$848 and \$1,697 respectively.

NOTE 3 CONCENTRATIONS OF CREDIT RISK

The Association is located in Raleigh, North Carolina.

The Association maintains cash balances at two financial institutions located in Goldsboro, North Carolina. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000. The uninsured balance at year-end June 2002 was \$92,078. The financial institutions have a strong credit rating and management believes that credit risk related to these deposits is minimal.

NOTE 4 RESTRICTIONS ON NET ASSETS

Permanently restricted net assets consist of Certificates of deposits to be held indefinitely. The income from the assets is used to provide scholarships to applicable individuals determined by the Board of Directors and is, therefore, classified as temporarily restricted until awarded.

NOTE 5 CASH BALANCES

For cash flow purposes, cash consisted of the following amounts at December 31 (See Note 7):

	<u>2002</u>	<u>2001</u>
Cash	\$ 54,077	\$ 65,148
Restricted cash	4,501	4,919
	<u>\$ 58,578</u>	<u>\$ 70,067</u>

NOTE 6 COMMITMENTS AND CONTINGENT

Federal and State Assisted Programs

The Association has received proceeds from a federal grant that is passed through the state. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of the grant monies to grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 7 RESTRICTED ASSETS

Restricted Cash

Certain cash within the NCLA's control is restricted by donors for specific purposes. These donor restricted assets are to be allocated for scholarships in the area of library sciences (See Note 5).

Compliance Section

**Report On Compliance And On Internal Control Over Financial Reporting Based
On An Audit of Financial Statements Performed In Accordance with
Government Auditing Standards**

To the Board of Directors
North Carolina Library Association, Inc.

We have audited the financial statements of the North Carolina Library Association, Inc. as of and for the year ended December 31, 2002, and have issued our report thereon dated October 22, 2003. We conducted our audit in accordance with auditing standards in the United States of America generally accepted and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the North Carolina Library Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Carolina Library Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the North Carolina Library Association's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the following paragraph.

Item 02-1 – Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among association personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Management Response: The association agrees with this finding.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider Item 02-1 to be a material weakness.

This report is intended solely for the information and use of management, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pittard Perry + Cone, Inc.

Goldsboro, North Carolina
October 22, 2003