

**The James Madison Council
Library of Congress**

2001 Annual Report

James Madison National Council Fund

Statement of Financial Position

SEPTEMBER 30, 2001

ASSETS

Cash	\$ 42,544
Investments: (Note 2)	
U.S. Treasury Market Based Securities	5,126,698
U.S. Treasury Permanent Loan	561,787
Growth and Income Pool	563,496
Total investments	6,251,981
Receivables:	
Pledges (Note 3)	398,721
Accrued interest	24,653
Accounts	24,269
Total receivables	447,643
Total assets	\$ 6,742,168

LIABILITIES AND NET ASSETS

Accounts payable	\$ 1,345,517
Accrued payroll and annual leave	22,102
Total liabilities	1,367,619
Net assets (Note 4)	
Unrestricted-Undesignated	3,400,313
Unrestricted-Council designated for projects	254,996
Temporarily donor restricted for projects	1,719,240
Total net assets	5,374,549
Total liabilities and net assets	\$ 6,742,168

These financial statements should be read only in connection with the accompanying notes to financial statements.

James Madison National Council Fund
Statement of Activities

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001

CHANGES IN UNRESTRICTED NET ASSETS

Revenues	
Membership contributions	\$ 855,979
Miscellaneous gifts	21,062
Interest	250,968
Net unrealized loss and realized gain on investments (Note 2)	(216,226)
Imputed financing for cost subsidies (Note 5)	19,811
Royalties	5,311
Net assets released from restrictions	2,180,810
Total revenues	3,117,715
Expenses (see Schedule B)	
Personnel costs	483,283
Travel and transportation and subsistence/support persons	38,310
Other services	955,430
Books and library materials	38,661
Exhibit opening events, receptions, and Madison Council meetings	253,745
Professional and consultant services	1,365,908
Office supplies and materials	6,472
Equipment—Automation (ADP)	4,091
Printing, publishing, and photoduplicating	108,175
Total expenses	3,254,075

OTHER CHANGES

Transfer to other funds (Note 6)	24,645
Decrease in unrestricted net assets	(161,005)

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	1,394,461
Net assets released from restrictions	(2,180,810)
Decrease in temporarily restricted net assets	(786,349)
Decrease in net assets	(947,354)
Net assets at beginning of year	6,321,903
Net assets at end of year	\$ 5,374,549

These financial statements should be read only in connection with the accompanying notes to financial statements.

James Madison National Council Fund
Statement of Cash Flows

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES:

Donations received	\$ 2,852,768
Interest received	256,001
Cash paid to others	(1,703,779)
Cash paid to employees	(472,781)
Transfer to other funds	(24,645)
Net cash provided by operating activities	907,564

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in U.S. Treasury Market Based Securities	(4,206,905)
Investment in U.S. Treasury Permanent Loan	(29,671)
Redemption of Investment in U.S. Treasury Market Based Securities	3,034,120
Redemption of Investment in U.S. Treasury Permanent Loan	29,671
Net cash used by investing activities	(1,172,785)
Net Decrease in Cash	(265,221)
Cash at beginning of year	307,765
Cash at end of year	\$ 42,544

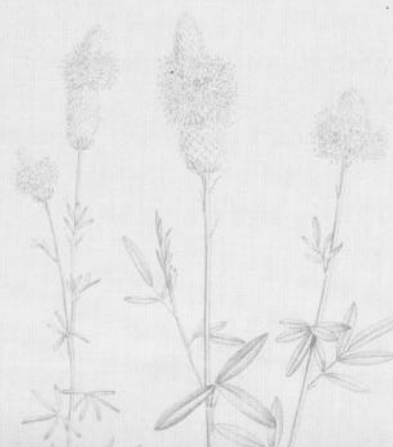
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (947,354)
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ADJUSTMENTS TO RECONCILE CHANGES IN NET ASSETS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES

Non-cash loss on mutual fund investments	216,225
Decrease in pledges receivable	575,956
Decrease in accrued interest receivables	5,033
Decrease in accrued payroll and annual leave	(9,309)
Increase in accounts receivable	(24,225)
Increase in accounts payable	1,091,238
Total Adjustments	1,854,918
Net Cash from Operating Activities	\$ 907,564

These financial statements should be read only in connection with the accompanying notes to financial statements.



James Madison National Council Fund
 SEPTEMBER 30, 2001

Note 1. Reporting Entity and Summary of Significant Accounting Principles

A. Description of Fund

The James Madison National Council Fund (the Fund) was initiated by the Librarian of Congress, accepted through a poll vote by the Library of Congress Trust Fund Board in July 1989 and reaffirmed October 7, 1989. A gift of \$100,000 from Robert Gwinn, Chairman of the Board of Encyclopedia Britannica, established the Fund. The Fund is reported in the Library of Congress gift and trust funds.

The James Madison National Council is an advisory board of business people and philanthropists that contribute ideas, expertise, and financial backing to support the Library's collections and programs. The Council is open to persons from the private sector interested in advancing the Library's outreach mission. There are 105 members of the Council.

Significant accounting policies followed by the Fund are presented below.

B. Basis of Accounting and Presentation

The Fund's financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles.

The Fund adopted financial reporting standards applicable to not-for-profit organizations. The financial statements are prepared in accordance with Statement of Financial Accounting Standard No. 117 (SFAS No. 117), and recognizes net assets based on the existence of applicable restrictions limiting their use.

Temporarily restricted net assets result from donor-imposed restrictions that permit the Fund to use or expend the assets after the restriction has been satisfied. When a donor-imposed restriction is satisfied, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unrestricted net assets result from the receipt of unrestricted contributions, the expiration of donor-imposed restrictions on contributions, and changes in other assets and liabilities. These assets are available to the Fund for use in support of current and future operations. The Library of Congress provides support services to the James Madison National Council. The cost of these services are, by their nature, indirect, difficult to quantify, and financed with appropriated funds of the Library. To the extent that these services are provided, they are not considered operating expenses of the James Madison National Council.

C. Use of Estimates

The preparation of the Fund's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

D. Contributions and Revenue Recognition

The Fund records as contribution revenue, amounts received in the form of cash, promises or pledges to give. Unconditional promises or pledges to give are recognized as a contribution receivable. Multi-year pledges or promises due over a period of time are discounted to their present value, based upon prevailing interest rates, and recognized in the period of initial pledge.

E. Income Tax

The Fund operates for the benefit of the Library of Congress which is an instrument of the United States and, as such, is not subject to income tax.



F. Investment Policy

The Library of Congress Trust Fund Board determines the investment policy for the Library's trust funds. The policy provides three options for investment:

- a permanent loan with the U.S. Treasury
- a pool of U.S. Treasury market-based securities
- a private investment pool consisting of five stock funds and one money market fund. The funds recommended by the Library of Congress Trust Fund Board's investment committee and approved by the Board are:

Vanguard Money Market Prime Fund
Fidelity Fifty Fund
Fidelity Stock Selector
Vanguard Total Stock Market Index Fund - Admiral Shares
Vanguard Institutional Index Fund
RS The Emerging Growth Fund

Investments in U.S. market-based securities are stated at cost net of any unamortized premium or discount, which approximates market value at September 30, 2001. The permanent loan is an interest bearing par value investment which equals the market value. Stock and money market mutual funds are stated at current market value.

Note 2. Investments

A. U.S. Treasury

An act of Congress approved March 3, 1925, and subsequently amended, permits up to \$10 million of trust funds to be invested with the United States Treasury as a perpetual loan, at a floating interest rate, adjusted monthly, but no less than four percent per annum. At September 30, 2001, \$561,787 were invested in the U.S. Treasury permanent loan at an interest rate of five percent. Other investments with U.S. Treasury were as follows:

Investment	Non-Marketable, Market Based Government Securities
Par	\$ 5,094,647
Unamortized Premium	41,643
Unamortized Discount	(9,592)
Amortized Cost	<u>\$ 5,126,698</u>

B. Mutual Funds

The Fund invested \$500,000 in the growth and income pool (non-Treasury mutual fund investments) in 1996. Market value of the growth and income pool as of September 30, 2001, totaled \$563,496.

The net loss on investments of \$216,226 consists of the following: \$4,287 realized gain of mutual fund capital gains distributions; \$15,036 realized gain of money market dividends; and \$235,549 unrealized loss on the growth and income pool.

Note 3. Pledges

Contributions of unconditional promises to give (pledges) to the Fund are recognized as revenue in the period received. They are recorded at their present value using a market discount rate. Accretion of the discount in subsequent years is also recorded as contribution revenue. Outstanding pledges of \$430,000 at September 30, 2001, were discounted through fiscal 2005 at a market discount rate and are included in the statement of financial position at their discounted present value of \$398,721. The amounts due in future years at their current discounted value are: \$126,841 in fiscal 2002; \$94,530 in fiscal 2003; \$90,850 in fiscal 2004; \$86,500 in fiscal 2005.

Note 4. Net Assets

The Net Assets of \$5,374,549 are classified as Unrestricted-Undesignated, Unrestricted-Council Designated for Projects or Temporarily Donor Restricted for Projects. Of this total amount, \$3,400,313 is classified as Unrestricted-Undesignated. The balance of \$1,974,236 consisting of \$254,996 (Unrestricted-Council Designated for Projects) and \$1,719,240 (Temporarily Donor Restricted for Projects) is earmarked for initiatives such as the outreach program for the Hebraic section, Illustrated Guides to the Special Collections, public relations, special acquisitions, and numerous curatorial projects.

Ending Net Assets includes undelivered orders of \$392,407 which are funds that have been obligated for goods and services not yet received for the Fund's operations and designated projects.

Note 5. Imputed Financing for Cost Subsidies

An adjustment of \$19,811 was recorded as an imputed financing source and a corresponding expense in the accompanying financial statements. This adjustment recognizes the full cost of pensions and other health and life insurance benefits during the employees' active years of service.

Note 6. Transfer to Other Funds

The Fund transferred \$24,645 to the Clapp Fund, a gift revolving fund of the Publishing Office of the Library of Congress, to cover the cost of publication of a book featuring the more than 200 initiatives supported by the Council in conjunction with the Madison Council's tenth anniversary.

Note 7. Expenses by Functional Classification

As permitted by SFAS No. 117, the Library has elected to present its operating expenses by natural classification in its Statements of Activities for the period ending September 30, 2001. The functional breakdown of these expenses is as follows (see Schedule B):

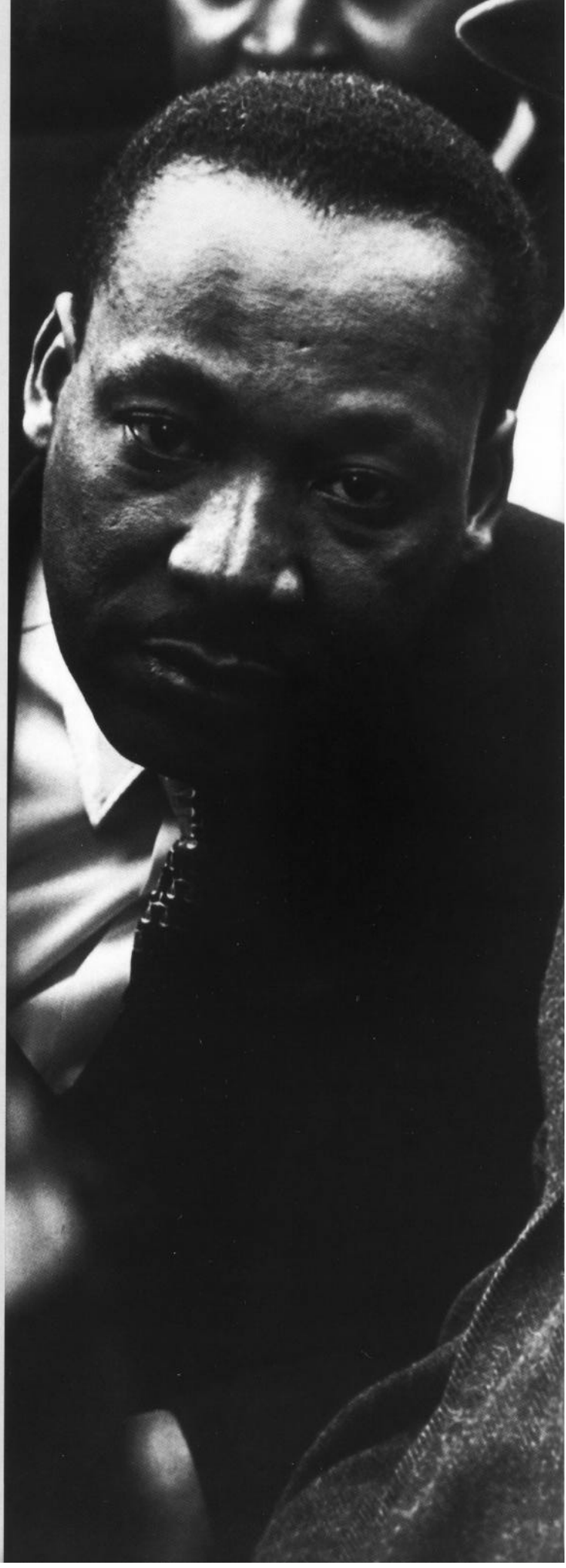
Fiscal Year 2001 Expenses by Functional Classification	Amount
Fund Projects and Programs	\$ 395,969
Members' Specific Projects	1,908,547
Supporting Activities—Fundraising	949,559
Total Expenses	<u>\$ 3,254,075</u>

Note 8. Retirement Plans

Employees of the Fund participate in two different retirement plans. Civil Service employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS is the system in effect for most employees hired after December 31, 1983.

In fiscal 2001, the Fund paid approximately \$26,687 to fund retirement benefits, excluding FICA taxes.

This information is an integral part of the accompanying financial statements.





**To the Steering Committee
James Madison National Council Fund**

We have audited the James Madison National Council Fund (the Fund) for the fiscal year 2001.

In our opinion:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

We found:

- No material weaknesses in internal control over financial reporting; and
- No reportable noncompliance with selected provisions of laws and regulations tested.

Each of these conclusions is described in more detail below. This report also discusses the scope of our work.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying statement of financial position of the Fund as of September 30, 2001, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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 the Fund as of September 30, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information contained in Schedules A and B is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Fund'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. 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 material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Fund in a separate letter dated January 18, 2002.

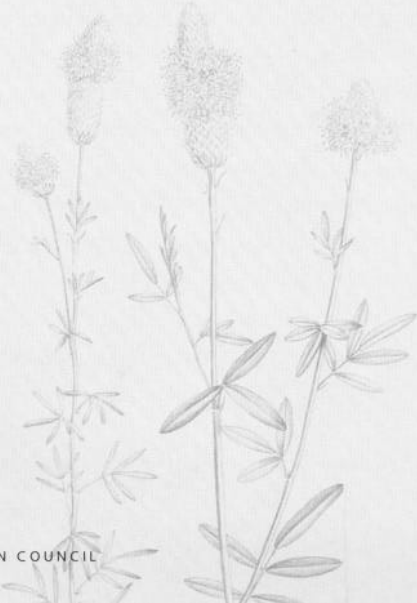
COMPLIANCE

As part of obtaining reasonable assurance about whether the Fund'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*.

This report is intended solely for the information and use of the Steering Committee, management and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Calverton, Maryland
January 18, 2002



SCHEDULE A
SCHEDULE OF NET ASSETS AVAILABLE FOR DESIGNATION

Total Net Assets	\$ 5,374,549
Net assets restricted by donors for projects	(1,719,240)
Net assets designated by the Council for project	(254,996)
Total restricted or designated net assets	(1,974,236)
Net Assets Available for Designation	\$ 3,400,313

SCHEDULE B
SCHEDULE OF EXPENDITURES

	Fund Projects and Programs	Members' Specific Projects	Supporting Activities— Fundraising	Total
Personnel costs	\$ 1,717	\$ 82,904	\$ 398,662	\$ 483,283
Travel and transportation and subsistence/ support persons	—	6,255	32,055	38,310
Other services	945	770,024	184,461	955,430
Books and library materials	—	38,661	—	38,661
Exhibit Opening Events, Receptions, and Madison Council Meetings	3,228	185,559	64,958	253,745
Professional and consultant services	389,308	755,281	221,319	1,365,908
Office supplies and materials	323	587	5,562	6,472
Equipment—Automation (ADP)	—	4,091	—	4,091
Printing, publishing, and photoduplicating	448	65,185	42,542	108,175
Totals	395,969	1,908,547	\$ 949,559	\$ 3,254,075
Unliquidated Obligations not included in expenses	9,000	243,252		
Expenses including unliquidated obligations	\$ 404,969	\$ 2,151,799		