

FINANCIAL STATEMENTS



STATEMENT OF FINANCIAL POSITION

ASSETS

Cash	\$ 40,185
Investments: (Note 2)	
U.S. Treasury Market Based Securities	3,232,857
Growth and Income Pool	722,187
Total investments	<u>3,955,044</u>
Receivables:	
Pledges (Note 3)	935,691
Accounts	<u>2,296</u>
Total Receivables	<u>937,987</u>
Property, Plant and Equipment (Note 4)	<u>169,073</u>

Total assets **\$ 5,102,289**

LIABILITIES AND NET ASSETS

Accounts payable	\$ 21,108
Accrued payroll and annual leave	<u>67,886</u>
Total liabilities	<u>88,994</u>

Net assets (Note 5)

Unrestricted-Undesignated	1,992,162
Unrestricted-Council designated for projects	484,243
Temporarily donor restricted for projects	<u>2,536,890</u>
Total net assets	<u>5,013,295</u>

Total liabilities and net assets **\$ 5,102,289**

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

STATEMENT OF ACTIVITIES

CHANGES IN UNRESTRICTED NET ASSETS

Revenues

Membership contributions	\$ 1,321,051
Interest	3,547
Net unrealized gain/loss and realized gain on investments (Note 2)	60,622
Imputed financing for cost subsidies (Note 6)	46,781
Dividends	4,867
Net assets released from restrictions	<u>398,093</u>
Total revenues	<u>\$ 1,834,961</u>

Expenses (see Schedule B)

Personnel costs	793,524
Travel and transportation and subsistence/support persons	52,645
Other services	106,308
Books and library materials	243,394
Exhibit opening events, receptions, and Madison Council meetings	313,463
Contractual and personnel services	160,265
Office supplies, printing and materials	<u>21,770</u>
Total expenses	<u>\$ 1,691,369</u>

Increase/decrease in unrestricted net assets	<u>\$ 143,592</u>
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	\$ 169,705
Temporarily restricted donations	55,858
Net assets released from restrictions	<u>(398,093)</u>
Increase/decrease in temporarily restricted net assets	<u>(172,530)</u>

Decrease in net assets	<u>(28,938)</u>
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Net assets at beginning of year	<u>5,042,233</u>
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Net assets at end of year	<u>\$ 5,013,295</u>
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STATEMENT OF CASH FLOWS

Cash flows from operating activities:

Donations Received	\$ 1,495,623
Interest Received	3,805
Cash paid to others	(910,468)
Cash paid to employees	<u>(727,338)</u>
Net cash provided by (used by) operating activities	<u>\$ (138,378)</u>

Cash flows from investing activities:

Investment in U.S. Treasury Market Based Securities	\$ (2,213,797)
Redemption of Investment in U.S. Treasury Market Based Securities	2,318,854
Purchases of Plant, Property, & Equipment	<u>(9,000)</u>
Net cash provided by (used by) investing activities	<u>\$ 96,057</u>

Net Increase (decrease) in Cash	<u>(42,321)</u>
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Cash at beginning of year	<u>82,506</u>
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Cash at end of year	<u>\$ 40,185</u>
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Reconciliation of Changes in Net Assets to Net Cash From Operating Activities

Change in Net Assets	<u>\$ (28,938)</u>
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Adjustments to reconcile changes in net assets to net cash provided from operating activities

Non-cash gain on mutual fund investments	(60,622)
Decrease in investment discount	258
Increase in pledges receivable	(55,857)
Increase in accrued payroll and annual leave	19,404
Increase in accounts receivable	(2,220)
Decrease in accounts payable	<u>(10,403)</u>

Total Adjustments	<u>(109,440)</u>
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Net Cash provided by (used by) Operating Activities	<u>\$ (138,378)</u>
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 | REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

A. Description of Fund

The James Madison National Council Fund (JMNC 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 JMNC 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.

Significant accounting policies followed by the JMNC 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 Financial Accounting Standards 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 JMNC 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 of the JMNC Fund funds:

- 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 Institutional Index Fund
 - Diamond Hill Investments
 - Dodge & Cox Income Fund
 - Dodge & Cox Stock Fund
 - Harbor Capital Appreciation
 - Artio International Equity
 - Lazard Emerging Markets Equity
 - Allianz Capital Appreciation Fund
 - Neuberger & Berman Equity
 - Pimco Funds
 - Vaughn Nelson Investment Management

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, 2010. 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. Other investments with U.S. Treasury were as follows:

Investment	Par	Unamortized Premium	Unamortized Discount	Amortized Cost
Non-Marketable, Market Based Government Securities	\$3,232,404	\$ 0	\$ (453)	\$3,232,857

B. Mutual Funds

The JMNC Fund invested \$500,000 in the growth and income pool (non-Treasury mutual fund investments) in 1996 and has reinvested capital gains distributions and dividends since then. Market value of the growth and income pool as of September 30, 2010, totaled \$722,187.

The net gain on investments of \$60,622 consists of the following: \$27,914 of mutual fund capital gains distributions and \$32,708 unrealized gain on the growth and income pool.

NOTE 3 | PLEDGES

Contributions of unconditional promises to give (pledges) to the JMNC Fund are recognized as temporarily restricted 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 \$1,089,360 at September 30, 2010, were discounted through fiscal year 2018 at a market discount rate and are included in the statement of financial position at their discounted present value of \$935,691. The amounts due in future years at their current discounted value are: \$44,559 in fiscal year 2011; \$44,332 in 2012; and \$846,800 in fiscal year 2018. The Library regularly monitors the status of all pledges and adjusts accordingly; therefore no allowance for uncollectible pledges has been established.

NOTE 4 | PROPERTY, PLANT, & EQUIPMENT

Property, plant, & equipment of \$169,073 represents design services for exhibit space in the Jefferson Building that are being paid for by the Madison Council. The Library occasionally acquires property and equipment by direct gift or by purchase from funds donated for a specific purpose or project. Because property is generally not restricted for use to gift and trust activities, capitalized property and equipment acquired through gifts are recognized as donated revenue in the gift and TFB funds and transferred to the Library's appropriated fund, once the costs are complete and the property is placed in service. The work is not yet complete and will likely transfer to the Library's appropriated funds in fiscal year 2011.

NOTE 5 | NET ASSETS

The JMNC Net Assets of \$5,013,295 are classified as Unrestricted-Undesignated, Unrestricted-Council Designated for Projects or Temporarily Donor Restricted for Projects. Of this total amount, \$1,992,162 is classified as Unrestricted-Undesignated. The balance of \$3,021,133 consisting of \$484,243 (Unrestricted-Council Designated for Projects) and \$2,536,890 (Temporarily Donor Restricted for Projects) is earmarked for initiatives such as the purchase of special acquisitions including overseas rare publications, the Junior Fellows Summer Internship Program, the addition of materials to the World Digital Library website, seed money for the 2012 Civil War in American Memory Exhibition and an amount that is restricted to be used at the discretion of the Librarian of Congress for projects that arise that do not have funding or the time horizon to raise money for the project (see Schedule A).

Ending Net Assets includes undelivered orders of \$223,932 which are funds that have been obligated for budgetary purposes, for goods and services not yet received for JMNC Fund operations and designated projects.

NOTE 6 | IMPUTED FINANCING FOR COST SUBSIDIES

An adjustment of \$46,781 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 incurred by the Office of Personnel Management during the employees' active years of service.

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, 2010. The functional breakdown of these expenses is as follows (see Schedule B):

Fiscal Year 2010 Expenses by Functional Classification	Amount
JMNC Fund Projects and Programs	\$ 278,174
Members' Specific Projects	398,093
Supporting Activities—Fundraising	1,015,102
Total Expenses	\$ 1,691,369

NOTE 8 | RETIREMENT PLANS

Employees of JMNC 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 year 2010, the JMNC Fund paid approximately \$68,832 to fund retirement benefits, excluding FICA taxes.

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

INDEPENDENT AUDITOR'S REPORT



We have audited the accompanying statement of financial position of the James Madison National Council Fund (the Fund) as of September 30, 2010 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.



LIBRARY OF CONGRESS

February 25, 2011

To the Steering Committee
James Madison National Council Fund

We contracted with the independent public accounting firm of Kearney & Company to audit the Fund's financial statements. The firm is responsible for the attached auditor's report and the opinion and conclusions expressed in that report.

We reviewed Kearney & Company's report and related documentation. Our review was not intended to enable us to express, and we do not express, an opinion on the Fund's financial statements, conclusions on internal control, or compliance with laws and regulations. Our review disclosed no instances in which Kearney & Company did not materially comply with U.S. generally accepted government auditing standards.

Karl W. Schornagel
Inspector General

SUMMARY

As stated in our opinion on the financial statements, we concluded that the Fund's financial statements for the year ended September 30, 2010 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our consideration of internal control over financial reporting (including the safeguarding of assets) disclosed no material weaknesses. The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

The following sections discuss our opinion on the Fund's financial statements, our consideration of the Fund's internal control over financial reporting, our tests of the Fund's compliance with certain provisions of applicable laws and regulations, and Fund management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying statement of financial position of the Fund as of September 30, 2010 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. 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 statement of financial position as of September 30, 2010 and the related statements of activities and cash flows for the year then ended September 30, 2010, including accompanying notes, present fairly, in all material respects, the financial position of the Fund as of September 30, 2010, and its activities and cash flows for the year then ended, in conformity with GAAP.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report. The information contained in Schedules A and B is not a required part of the Fund's financial statements. Such information is subject to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information 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 work, we considered the Fund's internal control over financial reporting and compliance by obtaining an understanding of the design effectiveness of the Fund's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the Fund's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting and compliance.

We limited our internal control testing to those controls necessary to achieve OMB Bulletin No. 07-04 control objectives that provide reasonable, but not absolute assurance, that:

1. Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition
2. Transactions are executed in compliance with laws governing the use of budget authority; Government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, as amended; and other laws and regulations that could have a direct and material effect on financial statements. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to

merit attention by those charged with governance. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not note any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to these provisions; we did not test compliance with all laws and regulations applicable to the Fund. Providing an opinion on compliance with certain provisions was not an objective of our audit and accordingly, we do not express such an opinion.

The results of our testing disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the requirements of OMB Bulletin No. 07-04, as amended.

This report is intended solely for the information and use of the Steering Committee, the Fund's management, those charged with governance, the Library of Congress Office of Inspector General, OMB, the Government Accountability Office, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.



February 16, 2011
Alexandria, Virginia

SUPPLEMENTAL INFORMATION

SCHEDULE A

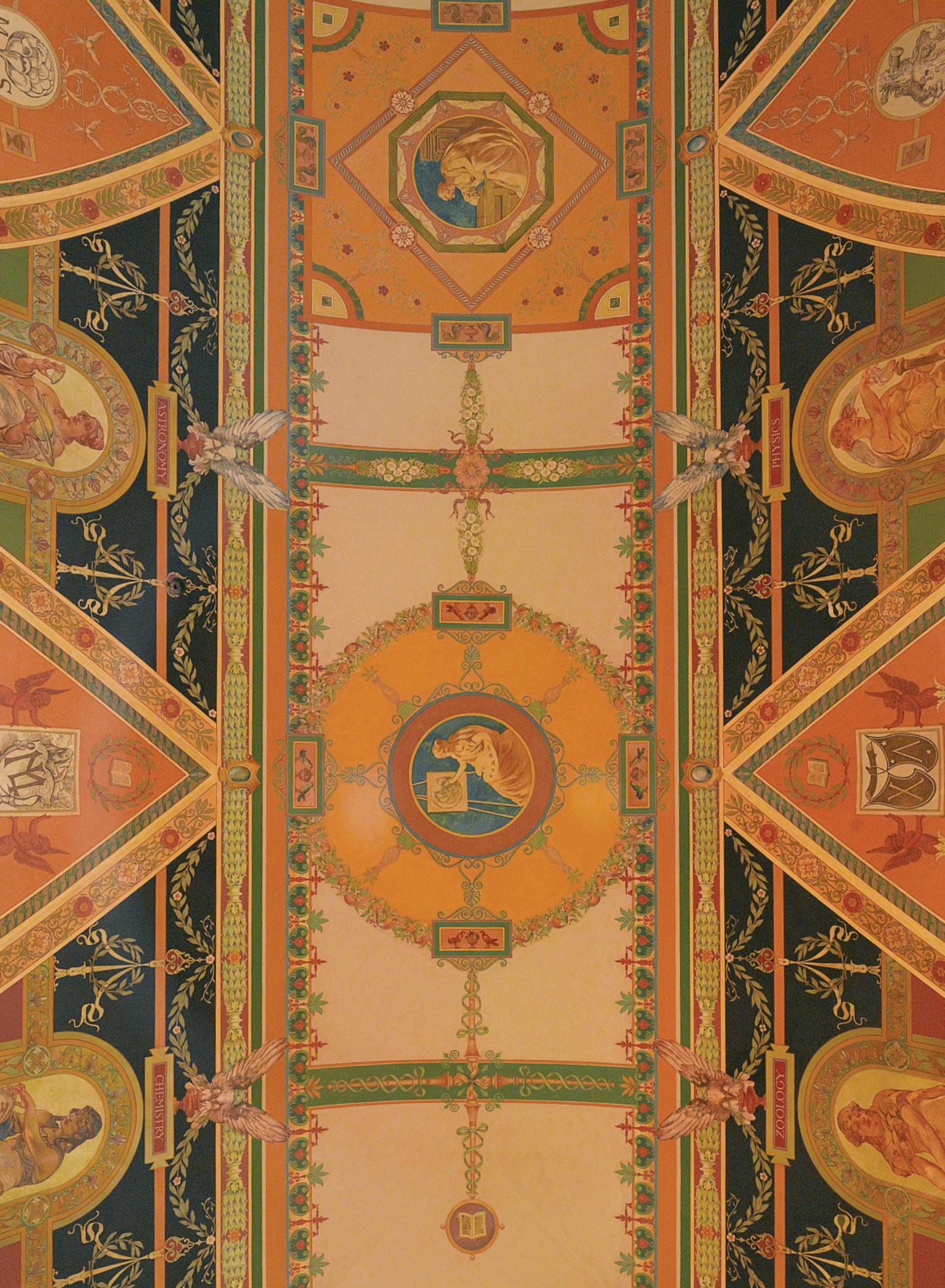
Schedule of Net Assets Available for Designation

Total Net Assets	\$ <u>5,013,295</u>
Net assets restricted by donors for projects	(2,536,890)
Net assets designated by the Council for projects	<u>(484,243)</u>
Total restricted or designated net assets	<u>(3,021,133)</u>
Net Assets Available for Designation	\$ <u>1,992,162</u>

SCHEDULE B

Schedule of Expenditures

	Fund Projects and Programs	Members' Specific Projects	Supporting Activities— Fundraising	Total
Personnel costs	\$ 134,443	\$ 82,496	\$ 576,585	\$ 793,524
Travel and transportation and subsistence/support persons	1,880	175	50,590	52,645
Other services	(37)	0	106,345	106,308
Books and library materials	3,765	230,633	8,996	243,394
Exhibit Opening Events, Receptions, and Madison Council Meetings	25,700	71,660	216,104	313,463
Contractual and personnel services	112,424	13,129	34,712	160,265
Office supplies, printing and materials	0	0	21,770	21,770
Totals	\$ <u>278,174</u>	\$ <u>398,093</u>	\$ <u>1,015,102</u>	\$ <u>1,691,369</u>



ASTRONOMY

PHYSICS

CHEMISTRY

ZOOLOGY