The James Madison Council of the Library of Congress

1997 Annual Report

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February 15, 1997

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1997 Financial Statements

Statement of Financial Position
James Madison National Council Fund

September 30, 1997

Cash	$ 145,929
Investments: (Note 2)	
U.S. Treasury Market Based Securities	2,319,537
U.S. Treasury Permanent Loan	155,405
Growth and Income Pool	594,749
Total investments	3,069,691
Receivables:	
Pledges (Note 3)	244,088
Accrued interest	18,026
Intra-library	18,000
Other	23
Total receivables	280,137
Total assets	$ 3,495,757
Accounts payable	$ 110,814
Accrued payroll and annual leave	12,448
Total liabilities	123,262
Unrealized Gain on Growth and Income Pool	$ 50,686
Cumulative results of operations (Note 4):	
Designated	1,911,365
Undesignated	1,410,444
	3,321,809
Total liabilities and net position	$ 3,495,757

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

Statement of Operations and Changes in Net Position
James Madison National Council Fund

For the fiscal year ended September 30, 1997

Membership Contributions	$ 854,426
Contributions for specific programs	687,237
Miscellaneous gifts	133,386
Interest	151,413
Gains on Mutual Fund Investments	16,185
Imputed financing for cost subsidies (Note 5)	9,484
Total revenues	$ 1,852,131
Personnel costs	$ 222,007
Travel and transportation, and subsistence/ support persons	109,717
Other services (See Schedule B)	922,457
Exhibit supplies	103,252
Books and library materials	99,677
Printing, publishing, and photoduplicating	96,946
Exhibit opening, receptions, and Madison Council meetings	95,274
Office supplies and materials	23,116
Professional and consultant services	16,140
Other	2,190
Total expenses	1,690,776
Excess of revenues over expenses	161,355
Transfer to other funds (Note 6)	(19,000)
Excess of revenues over expenses & transfers	142,355
Net position, beginning of year	3,179,454
Net position, end of year	$ 3,321,809

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

Notes to Financial Statements

James Madison National Council Fund

September 30, 1997

Note 1. Reporting Entity

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. The purpose of the JMNC Fund is to encourage donations and counsel to promote the Library's collections and programs. A gift of $100,000 from Robert Gwinn, Chairman of the Board of Encyclopædia 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 support 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 103 members of the Council.

Significant accounting policies followed by the JMNC Fund are presented below.

The financial statements are prepared from the Library of Congress' financial management system in accordance with the form and content for entity financial statements specified by the Library's Financial Management Regulations and Directives and the accounting policies summarized herein. The Library provides general administrative support (e.g., indirect personnel, space, financial services) to the JMNC Fund at no cost. Direct personnel costs of Library employees who work on behalf of the JMNC Fund are reflected in the accompanying financial statements.

As a legislative branch agency, the Library of Congress is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the new standards now being developed by the Federal Accounting Standards Advisory Board (FASAB). However, the Library maintains its fund balances with the Department of the Treasury and submits information required to incorporate its financial and budget data into the overall federal government structure. For purposes of financial management and reporting, the Library has issued a regulation (LCR 1510) which adopts the executive branch reporting requirements in a manner consistent with a legislative agency.

The General Accounting Office (GAO), Office of Management and Budget (OMB), and Department of the Treasury established the Federal Accounting Standards Advisory Board (FASAB) for the purpose of considering the recommended accounting principles, standards, and requirements to GAO, Treasury, and OMB. The three principals of FASAB, the Comptroller General, the Secretary of the Treasury, and Director of OMB, decide upon new principles, standards, and requirements after considering FASAB's recommendations. The resulting standards are concurrently issued by GAO and OMB. Pending issuance of a sufficiently comprehensive set of accounting standards, and in accordance with interim guidance agreed to by the three principals, the accompanying financial statements have been prepared in accordance with the following hierarchy of accounting principles and standards which is a comprehensive basis of accounting:

- Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) principals, GAO, OMB, and the Department of the Treasury;
- Form and content requirements included in OMB Bulletin 94-01, dated November 16, 1993, and subsequent issuances;
- Library of Congress Regulations and Financial Services Directives; and

- Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improve the meaningfulness of the financial statements.

Using the above hierarchy, transactions are recorded on an accrual method, where revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

The financial statements do not include capital assets which are purchased for the Library of Congress and other funds. Capital assets are expensed when purchased and ownership is transferred to the Library of Congress.

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.

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 Money Market Prime Fund
  - CGM Mutual Fund
  - Mutual Beacon Fund
  - Fidelity Fifty
  - Fidelity Stock Selector
  - Vanguard Small Capitalization Stock Portfolio

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, 1997. The permanent loan is an interest bearing investment recorded at cost. These accounts are considered held-to-maturity investments as the Council has the ability and intent to hold these securities.

Stock and money market mutual funds are stated at current market value and are considered available for sale. Unrealized gains and losses are recognized and recorded as a component of equity in the statement of financial position (approximately $51,000 at September 30, 1997).

Note 2. Investments

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, 1997, $155,405 of JMNC Fund funds were invested in the U.S. Treasury permanent loan at an interest rate of 6.438 percent. Other investments with U.S. Treasury were as follows:

Investment	Non-Marketable, Market-Based Government Securities
Cost	$ 2,315,188
Unamortized Premium	20,459
Unrealized Discount	(16,110)
Net Investment	**$ 2,319,537**

The JMNC 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, 1997 totaled $594,749.

Note 3. Pledges

Contributions of unconditional promises to give (pledges) to the JMNC 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 revenue. Outstanding pledges of $272,900 at September 30, 1997 were discounted through fiscal year 2000 at a market discount rate and are included in the statement of financial position at their discounted present value of $244,088. The amounts due in future years at their current discounted value are: $83,895 in fiscal 1998; $85,885 in 1999; and $74,308 in 2000.

Note 4. Cumulative Results of Operations

A portion of the cumulative results of operations is specifically designated for specific projects and programs. $1,911,365 is designated for projects such as the Library's Bicentennial Celebration, the Permanent Treasures Exhibit, and the African American Odyssey Exhibit.

The cumulative results of operations includes undelivered orders of $225,454 which are funds that have been obligated for goods and services not yet received for JMNC Fund operations and designated projects.

Note 5. Imputed Financing for Cost Subsidies

The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards Number 5 (SFFAS-5) —"Accounting for Liabilities of the Federal Government". SFFAS-5 requires that employing agencies recognize the full cost of pensions and other health and life insurance benefits during their employees' active years of service. SFFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. As a result of SFFAS-5, an adjustment of $9,484 was recorded as an imputed financing source and a corresponding expense in the accompanying financial statements. This adjustment did not change JMNC Fund's net position.

Note 6. Transfer to Another Fund

The JMNC Fund transferred $19,000 to the DeWitt Wallace Reader's Digest Gift Fund for the film preservation project.

Independent Auditors' Report

The Steering Committee
James Madison National Council Fund

We have audited the accompanying statement of financial position of the James Madison National Council Fund (JMNC Fund) as of September 30, 1997, and the related statement of operations and changes in net position for the year then ended.

In our opinion, the JMNC Fund's financial statements are presented fairly, in all material respects, in conformity with the comprehensive basis of accounting described in Note 1 to the financial statements.

We noted:

- No material weaknesses in internal control
- No instances of noncompliance with selected provisions of applicable laws and regulations tested

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the JMNC Fund as of September 30, 1997, and the results of its operations for the year then ended, in conformity with the comprehensive basis of accounting described in Note 1 to the financial statements.

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

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 internal control over financial reporting and its operation that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements.*

Management's Responsibility
Management is responsible for:

- preparing the financial statements in conformity with the comprehensive basis of accounting described in Note 1 to the financial statements;
- establishing and maintaining an effective internal control structure; and
- complying with applicable laws and regulations.

In fulfilling these responsibilities, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

(1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
(2) funds, property, and other assets are safeguarded from unauthorized use or disposition; and
(3) transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. Accordingly, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are presented in accordance with the comprehensive basis of accounting as described in Note 1 to the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered JMNC 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 internal control.

As part of obtaining reasonable assurance about whether JMNC Fund's financial statements are free of material misstatement, we performed tests of its 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. 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.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall financial statement presentation;
- obtained an understanding of the design of significant internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of the internal controls;
- tested compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements; and
- performed other procedures as we considered necessary in the circumstances.

Our audits were conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*.

This report is intended solely for the use of the JMNC Fund Steering Committee. However, this report is a matter of public record and its distribution is not limited.

Clifton Gunderson L.L.C.

Greenbelt, Maryland
January 12, 1998

Supplemental Information

James Madison National Council Fund

Schedule A.
Schedule of Designations and Funding for Outreach Programs

Designations, beginning of fiscal year	$ 1,712,530
Funds uncommitted during the year	(144,857)
Designations, during the fiscal year*	1,715,006
Total designations	**$ 3,282,679**

JMNC Fund projects and program expense	$ 341,801
Members' specific projects expense	1,010,513
Transferred to other funds for specific projects	19,000
Total funding	**1,371,314**
Net designations, end of fiscal year	**$ 1,911,365**

*$1,258,497 as designations and $456,509 as JMNC Fund commitments.

Schedule B.
Schedule of Expenditures

	JMNC Fund Projects and Programs	Members' Specific Projects	Operations	Total
Personnel costs	$ 60,576	$ 53,696	$ 107,735	$ 222,007
Travel and transportation and subsistence/support persons	49,556	15,461	44,700	109,717
Other services*	19,361	185,100	47,764	252,225
Exhibit supplies	—	103,252	—	103,252
Books and library materials	59,500	33,302	6,875	99,677
Printing, publishing, and photoduplicating	42,849	38,640	52,957	134,446
Exhibit opening, receptions and Madison Council meetings	7,451	47,935	39,888	95,274
Office supplies and materials	1,163	—	21,953	23,116
Professional and consultant services	1,540**	—	14,600	16,140
Exhibition design cost, labor, lighting, security, and advertising	—	369,274	—	369,274
Visitor's film production	99,605	—	—	99,605
Cooperative program costs (Montana Heritage)	—	163,853	—	163,853
Tuition and training	200	—	1,273	1,473
Equipment and equipment rental	—	—	695	695
Long distance telephone	—	—	22	22
Totals	$ 341,801	$ 1,010,513	$ 338,462	$ 1,690,776

*$252,225 plus $37,500 of printing, publishing, and photoduplicating; Exhibition design costs, labor, lighting, security and advertising ($369,274); Visitor's film production ($99,605); and Cooperative program costs ($163,853) were part of Other Services on Statement of Operation and Changes in Net Position equaling $922,457.

**Net cost (Total expenses paid in FY97 were $21,240; a credit of $19,700 was posted to the account as an adjustment for prior year payments incorrectly made from the Madison Council Fund.)