LIBRARY OF CONGRESS TRUST FUND BOARD
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

Note 1. Reporting Entity

In 1909, the Library of Congress received its first bequest. Because the Library was not empowered to accept gifts of money, the bequest was accepted by an Act of Congress (Public Law (37 Stat. 319-20) on August 20, 1912. This first bequest was from Mrs. Gertrude Hubbard to benefit the Gardiner Greene Hubbard Collection.

In 1924, the Librarian of Congress requested authority to accept future gifts and bequests of money. The following year, the Congress created the Library of Congress Trust Fund Board (2 U.S.C. 154-163 et seq.) as a quasi-corporation with perpetual succession and all the usual powers of a trustee, including the power to "invest, or retain investments" and, specifically, the authority "to accept, receive, hold, and administer such gifts, bequests, or devises of property for the benefit of, or in connection with, the library, its collections, or its services, as may be approved by the Board and by the Joint Committee on the Library."

Note 2. Summary of Significant Accounting Policies

The accompanying combined financial statements report the financial position of the Library of Congress Trust Fund Board (TFB) and the results of its operations for the fiscal years 1998 and 1997. The statements were 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 in this note. The combined financial statements include the assets, liabilities, fund balances, and financial operations of all funds governed by the TFB, each of which is considered a separate accounting entity.

A. Basis of Accounting

The TFB’s financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

The Fund's financial statements have been prepared in accordance with the Statement of Financial Accounting Standards (SFAS) number 116 and 117. These statements provide for the form and content of financial statements for not-for-profit organizations and recognize net assets based on the existence of applicable restrictions limiting their use.

Permanently restricted net assets result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. 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.

Three exceptions to the standards cited above are as follows: (1) the activity associated with the particular type of net asset is not detailed in the Statement of Activities; (2) the Unrealized Loss on Investment is reported as a component of equity instead of being an element of income or loss; and (3) a Statement of Cash Flows is not presented.

B. Capital Assets

The accompanying combined statement of financial position does not include capital assets. Capital assets with a value of $25,000 or more ($10,000 or more for years prior to fiscal year 1998) are available for the general use of the Library of Congress, and, accordingly, such acquisitions are recorded at cost when purchased as transfers to the Library of Congress general fund. Capital assets, including items for the collections (Heritage Assets) and items purchased to comply with the terms of a specific trust fund, with a value of less than $25,000, are expenses of the Trust Funds.

C. Income Tax

The Library of Congress is an instrumentality of the United States and, as such, is not subject to income taxes.

Note 3. **<u>Cash</u>**

Cash consists of a fund balance with the Department of Treasury in the amount of $1,350,477.

Note 4. **<u>Investments (Net)</u>**

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

! a permanent loan with the U. S. Treasury

! a pool of U.S. Treasury market-based securities

! a private investment pool consisting of six mutual funds and one money market fund. The mutual funds recommended by the Trust Fund Board's investment committee and approved by the TFB are:

- Vanguard Money Market
- Vanguard Index Trust - Small Capitalization Stock Fund
- CGM Mutual Fund
- Mutual Beacon Fund
- Fidelity Fifty
- Fidelity Stock Selector
- Robertson Stephens Funds - The Emerging Growth Fund

The TFB also approved the Vanguard 500 Index mutual fund as an available investment, but no investment in the fund was made as of September 30, 1998.

Under 2 U.S.C. 158, up to $10,000,000 of the Library's trust funds may be invested with the U.S. Treasury as a permanent loan at a floating rate of interest, adjusted monthly, but no less than four percent per annum. The permanent loan is an interest-bearing investment recorded at cost which is market value. At September 30, 1998, $10,000,000 (including the G.M. Hubbard Fund) was invested in the permanent loan to the U.S. Treasury at an interest rate of 5 percent.

Treasury securities are intended to be held to maturity, are valued at cost, and are adjusted for the amortization of discounts and premiums. Interest is computed using the straight-line method which approximates the effective interest method.

Mutual and money market 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.

During 1998, an unrealized loss on mutual fund investments of $2,079,819 resulted from the overall drop in the stock market at the end of the fiscal year.

ENTITY ASSETS	Face Value	Cost	Unamortized Premium	Unrealized Discount	Investment (Net)	Market Value
A. Intragovernmental Investments Non-Marketable, Market-Based	$23,114,000		$312,614	$86,263	$23,340,351	$23,740,657
B. Governmental Securities Private Sector		$16,054,365			$16,054,365	$14,821,882
Total - Entity	$23,114,000	$16,054,365	$312,614	$86,263	$39,394,716	$38,562,539

In addition to the private mutual funds, the Archer M. Huntington Fund for the Hispanic Room and the Chair of Poetry of the English language is held and managed by the Bank of New York. The Bank and the Librarian are co-trustees for this account. Because the Bank of New York controls these funds, assets with a fair value of $5,591,618 at September 30, 1998, are not recorded as assets of the Library of Congress Trust Fund. The trust fund's interest in this endowment is limited to 50 percent of the annual income. For fiscal year 1998, the Library received $105,448 which was included in gifts received by the Library.

Similarly, under the will of Mrs. Leonore Gershwin, the Library is a 37.5 percent beneficiary of the income generated from a trust established by Mrs. Gershwin. The will established the "Library Charitable Trust" which was accepted by the Library of Congress Trust Fund Board in January 1992. The primary purpose of the Trust is to perpetuate the name and works of George and Ira Gershwin through all resources of the Library. The charitable trust does not belong to the Library but is a separate entity administered by trustees. In addition to investing Mrs. Gershwin's initial endowment, the trustees are responsible for augmenting it through licensing and other fees. The trustee remits funds to the Library upon request of the Music Division to carry out the terms of the trust. The balance or principal of the trust will be distributed to the Library in 2033, fifty years after the date of death of Ira Gershwin.

Note 5. <u>Pledges Receivable</u>

At September 30, 1998, the Library had unconditional pledges of contributions totaling $17,883,802 which were discounted through fiscal year 2003 at a market discount rate and included in the statement of financial position at their discounted value of $16,153,148. The amounts due in future years, at September 30, at their current discounted value are:

	Present Value	**Discount**	**Future Value**
FY 1999	$ 6,303,316	$ 285,286	$ 6,588,602
FY 2000	4,194,073	376,127	4,570,200
FY 2001	2,133,030	291,970	2,425,000
FY 2002	1,348,960	251,040	1,600,000
FY 2003	2,173,770	526,230	2,700,000
Totals	$16,153,148	$ 1,730,653	$17,883,802

During fiscal 1998, John W. Kluge, Chairman, James Madison Council made a matching pledge to the National Digital Library Trust Fund. For every dollar the Library raised, up to $2.5 million, Mr. Kluge pledge two dollars. As of September 30, 1998, the Library had raised $2.5 million qualifying it for the matching pledge of $5 million from Mr. Kluge.

Mr. Kluge's pledge included a provision which stipulated that the Library could use his gift or a portion of his gift for support of the Library's Bicentennial celebration when gifts from other donors exceeded the required matching amount of $2.5 million. Furthermore, he indicated that the reallocation amount, if any, should be transferred to the James Madison Council Trust Fund. As of September 30, 1998, this provision was not operative because the amount of the matching gifts had not exceeded $2.5 million.

Note 6. <u>Accrued Interest and Accounts Receivable</u>

The above assets were comprised of the following accounts:

Accounts Receivable	$ 781
Accrued Interest	261,163
Deferred Vouchers	150
Total	$262,094

Note 7. <u>Liabilities</u>

Liabilities include accounts payable for payroll and other program services and expenses that had been received and/or accrued but remained unpaid at the end of the fiscal year and annual and compensatory leave accrued for employees paid from trust funds.

Accounts Payable	$ 827,707
Accrued Employee Leave	152,211
Deferred Credit	249,300
Total	$1,229,218

Note 8. Imputed Financing for Cost Subsidies

The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards Number 5 (SSFAS-5) -- "Accounting for Liabilities of the Federal Government". SSFAS-5 requires those employing agencies recognize the full cost of pensions and other health and life insurance benefits during their employees' active years of service. SSFAS-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 program. As a result of SSFAS-5, an adjustment of $127,537 was recorded as an imputed financing source (reported as a Miscellaneous Revenue) and a corresponding expense in the accompanying financial statements. This adjustment did not change the net assets.

Note 9. Intra-Library Prior Year Receivable

A prior year adjustment was made to the Combined Statement of Activities to reflect an intra-library prior year receivable for the Interpretive Programs gift fund.

Note 10. Subsequent Events

The Library of Congress on December 2, 1998, dissolved the Joanna Jackson Goldman Memorial Lecture Endowment Trust Fund and returned the total bequest, including any accrued interest, to the executors of the estate.

The Library of Congress on March 12, 1999, accepted the proposal from the Executors of the Estate of Alexander Papamarkou for payment of $1,175,337 to satisfy the balance remaining on Mr. Papamarkou's pledge to underwrite the Harissios Papamarkou Chair in Education at the Library of Congress.