

2007 Financial Statements

JAMES MADISON NATIONAL COUNCIL FUND

Statement of Financial Position

SEPTEMBER 30, 2007

ASSETS

Cash	\$ 24,751
Investments: (Note 2)	_____
U.S. Treasury Market Based Securities	3,685,083
Growth and Income Pool	925,011
Total investments	<u>4,610,094</u>
Receivables:	
Pledges (Note 3)	880,740
Accrued interest	<u>6,706</u>
Total receivables	<u>887,446</u>
Total assets	\$ <u>5,522,291</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 277,661
Accrued payroll and annual leave	<u>48,578</u>
Total liabilities	<u>326,239</u>

Net assets (Note 4)

Unrestricted-Undesignated	2,060,104
Unrestricted-Council designated for projects	180,441
Temporarily donor restricted for projects	<u>2,955,507</u>
Total net assets	<u>5,196,052</u>

Total liabilities and net assets	\$ <u>5,522,291</u>
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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, 2007

CHANGES IN UNRESTRICTED NET ASSETS

Revenues	
Membership contributions	\$ 1,130,950
Miscellaneous gifts	36,185
Temporarily restricted donations	79,000
Interest	191,783
Net unrealized gain and realized gain on investments (Note 2)	131,295
Imputed financing for cost subsidies (Note 5)	31,921
Dividends	13,452
Net assets released from restrictions	<u>185,851</u>
Total revenues	<u>1,800,437</u>

Expenses (see Schedule B)

Personnel costs	683,654
Travel and transportation and subsistence/support persons	52,211
Other services	66,451
Books and library materials	81,100
Exhibit opening events, receptions, and Madison Council meetings	198,637
Contractual and personnel services	752,906
Office supplies, printing and materials	<u>17,244</u>
Total expenses	<u>1,852,203</u>
Decrease in unrestricted net assets	<u>(51,766)</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	268,168
Net assets released from restrictions (185,851)	
Increase in temporarily restricted net assets	<u>82,317</u>
Increase in net assets	<u>30,551</u>
Net assets at beginning of year	<u>5,165,501</u>
Net assets at end of year	\$ <u>5,196,052</u>

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, 2007

Cash flows from operating activities:

Donations Received	\$ 1,344,590
Interest Received	182,362
Cash paid to others	(1,230,888)
Cash paid to employees	<u>(669,198)</u>
Net cash provided by (used by) operating activities	\$ (373,134)

Cash flows from investing activities:

Investment in U.S. Treasury Market Based Securities	\$ (2,543,520)
Investment in U.S. Treasury Permanent Loan	0
Redemption of Investment in U.S. Treasury Market Based Securities	2,838,437
Redemption of Investment in U.S. Treasury Permanent Loan	<u>0</u>
Net cash provided by (used by) investing activities	\$ 294,917

Net Increase (decrease) in Cash (78,217)

Cash at beginning of year 102,968

Cash at end of year **\$ 24,751**

Reconciliation of Changes in Net Assets to Net Cash From Operating Activities

Change in Net Assets **\$ 30,551**

Adjustments to reconcile changes in net assets to net cash provided from operating activities

Non-cash gain on mutual fund investments	(131,295)
Decrease in investment discount	(15,242)
Decrease in pledges receivable	(183,165)
Increase in accrued interest receivables	5,821
Decrease in accrued payroll and annual leave	(17,465)
Decrease in accounts receivable	135
Decrease in accounts payable	<u>(62,474)</u>
Total Adjustments	<u>(403,685)</u>
Net Cash provided by (used by) Operating Activities	\$ (373,134)

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



Cornice of the entryway of the Church of St. Nicholas the Wonderworker in Yaroslavl.

Notes to Financial Statements

SEPTEMBER 30, 2007

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. There are 94 members of the Council.

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
 - Vanguard Capital Opportunity Fund
 - Fidelity Blue Chip Growth Fund
 - Fidelity Capitol Appreciation Fund
 - Fidelity Growth Company Fund
 - Fidelity Dividend 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, 2007. 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	Non-Marketable, Market Based Government Securities
Par	\$ 3,706,371
Unamortized Premium	\$ 0
Unamortized Discount	\$ (21,288)
Amortized Cost	\$ 3,685,083

B. MUTUAL FUNDS

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, 2007, totaled \$925,011.

The net gain on investments of \$131,295 consists of the following: \$12,153 realized gain of mutual fund capital gains distributions and \$119,142 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 \$1,271,693 at September 30, 2007, were discounted through fiscal year 2017 at a market discount rate and are included in the statement of financial position at their discounted present value of \$880,740. The amounts due in future years at their current discounted value are: \$89,357 in fiscal year 2008; \$41,347 in 2009; \$39,698 in 2010; \$38,000 in 2011; \$36,338 in 2012; and \$636,000 in fiscal year 2017. The Library regularly monitors the status of all pledges and adjusts accordingly; therefore no allowance for uncollectible pledges has been established.

Note 4 - Net Assets

The JMNC Net Assets of \$5,196,052 are classified as Unrestricted-Undesignated, Unrestricted-Council Designated for Projects or Temporarily Donor Restricted for Projects. Of this total amount, \$2,060,104 is classified as Unrestricted-Undesignated. The balance of \$3,135,948 consisting of \$180,441 (Unrestricted-Council Designated for Projects) and \$2,955,507 (Temporarily Donor Restricted for Projects) is earmarked for initiatives such as the rebuilding of Jefferson's library, the purchase of overseas rare publications and other rare publications that may become available, international digitization of the Library's collections, a summer internship program, funds to make copies of films for donors who give the original version to the Library, 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.

Ending Net Assets includes undelivered orders of \$325,743 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 5 - Imputed Financing for Cost Subsidies

An adjustment of \$31,921 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 6 - 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, 2007. The functional breakdown of these expenses is as follows (see Schedule B):

Fiscal Year 2007 Expenses by Functional Classification	Amount
JMNC Fund Projects and Programs	\$ 182,450
Members' Specific Projects	181,329
Supporting Activities - Fundraising	1,488,424
Total Expenses	<u>\$ 1,852,203</u>

Note 7 - 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 2007, the JMNC Fund paid approximately \$57,096 to fund retirement benefits, excluding FICA taxes.

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

Independent Auditor's Report



TO THE STEERING COMMITTEE JAMES MADISON NATIONAL COUNCIL FUND

We have audited the accompanying statement of financial position of the James Madison National Council Fund (the Fund) as of September 30, 2007, 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.



OFFICE OF THE INSPECTOR GENERAL

March 14, 2008

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 have concluded that the Fund's financial statements for the year ended September 30, 2007, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting (including 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 management's and our responsibilities.

Opinion on Financial Statements

We have audited the accompanying statement of financial position of the Fund as of September 30, 2007, 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*. 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 an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of 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, 2007, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying supplemental information contained in Schedules A and B is presented for the purpose 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. 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 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the design effectiveness of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of the Fund's controls in order to determine our auditing procedures for the purpose of expressing an 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.

We limited our control testing to those controls necessary to achieve the following OMB control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to allow the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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, and other laws and regulations that could have a direct and material effect on the financial statements; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to allow the preparation of performance information in accordance with criteria stated by management. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Funds's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

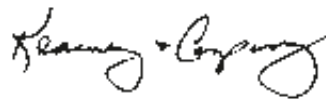
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control. Our consideration of internal control was for the limited purpose described in the second paragraph of this report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted no matters involving internal control and its operations that we consider to be material weaknesses.

Compliance and Other Matters

The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. 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 laws and regulations, including laws governing the use of budgetary authority, laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin No. 07-04, and other laws, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions, and did not test compliance with all laws and regulations applicable to the Fund. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

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



February 27, 2008
Alexandria, Virginia

Supplemental Information

SCHEDULE A

Schedule of Net Assets Available for Designation

Total Net Assets	\$ <u>5,196,052</u>
Net assets restricted by donors for projects	(2,955,507)
Net assets designated by the Council for projects	<u>(180,441)</u>
Total restricted or designated net assets	<u>(3,135,948)</u>
Net Assets Available for Designation	\$ <u>2,060,104</u>

SCHEDULE B

Schedule of Expenditures

	Fund Projects and Programs	Members' Specific Projects	Supporting Activities— Fundraising	Total
Personnel costs	\$ 81,324	\$ (234,293)	\$ 836,623	\$ 683,654
Travel and transportation and subsistence/support persons	198	0	52,013	52,211
Other services	946	2,920	62,585	66,451
Books and library materials	0	80,064	1,036	81,100
Exhibit Opening Events, Receptions, and Madison Council Meetings	3,096	61,245	134,296	198,637
Contractual and personnel services	96,349	271,393	385,164	752,906
Office supplies, printing and materials	<u>537</u>	<u>0</u>	<u>16,707</u>	<u>17,244</u>
Totals	\$ <u>182,450</u>	\$ <u>181,329</u>	\$ <u>1,488,424</u>	\$ <u>1,852,203</u>