



THE LIBRARY OF CONGRESS

101 INDEPENDENCE AVENUE, S.E.

WASHINGTON, D.C. 20540-1300

OFFICE OF THE ASSOCIATE LIBRARIAN FOR STRATEGIC INITIATIVES

I am pleased to report that several important milestones were achieved in fiscal 2003

American Memory, the most successful outreach initiative in the history of the Library of Congress, now offers more than 8.5 million digital items ranging from papers of the U.S. presidents, Civil War photographs and early films of Thomas Edison to papers documenting the women's suffrage and civil rights movements, Jazz Age photographs and the first baseball cards.

This public-private partnership has enabled the Library to share its rare and unique resources far beyond the walls of its reading rooms on Capitol Hill. The more than \$45 million raised and deposited into the National Digital Library Trust Fund (NDLTF), together with the \$15 million appropriated by the U.S. Congress, transformed the vision of a National Digital Library (NDL) into a viable program used by millions of people every day.


In fiscal 2003, seven new multimedia historical collections were added to the American Memory Web site, bringing the total to 123. Seven existing collections were expanded with approximately 344,000 digital items.

One of the seven new American Memory collections this fiscal year was the result of a Library of Congress-Ameritech award. The new presentation brings the total number of collections made available through this program from other institutions to 23 and concludes the Ameritech funded work. Thirty-three institutions received \$1.75 million of support to digitize 23 projects, solidifying the National Digital Library Program as a truly *national* initiative.

The Office of Strategic Initiatives, which is responsible for the NDL Program, also oversees the Library's Information Technology Services, as well as the National Digital Information Infrastructure and Preservation Program (NDIIPP). NDIIPP is a national project to develop a technical infrastructure for the collection and preservation of digital materials within a network of collaborative institutions. These institutions are committed to fulfilling various roles and responsibilities so that, together, the important national collections of knowledge and information continue to be available to future generations, no matter which format they are created in.

The Library will continue to fulfill its mission of making its resources as widely available as possible by adding new materials to American Memory for lifelong learners; we also remain committed to making these materials useful to teachers and their students as they incorporate these primary sources into their classrooms.

Please find enclosed the NDLTF financial statements and independent auditors report for fiscal 2003.

A handwritten signature in black ink that reads "Laura E. Campbell". The signature is written in a cursive style with a vertical line through the middle of the name.

Laura E. Campbell
Associate Librarian for
Strategic Initiatives

NATIONAL DIGITAL LIBRARY TRUST FUND

STATEMENT OF FINANCIAL POSITION

September 30, 2003

ASSETS

Cash	\$	121,072
Investments (Note 2):		
U.S. Treasury Market Based Securities		16,546,690
U.S. Treasury Permanent Loan		55,574
Growth and Income Pool		51,108
Total Investments		<u>16,653,372</u>
Receivables:		
Pledges (Note 3)		1,453,300
Accrued interest		72,036
Accounts		21
Total Receivables		<u>1,525,357</u>
Total assets	\$	<u><u>18,299,801</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$	144,618
Total liabilities		<u>144,618</u>

NET ASSETS (Note 4)

Temporarily Restricted		<u>18,155,183</u>
Total liabilities and net assets	\$	<u><u>18,299,801</u></u>

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

NATIONAL DIGITAL LIBRARY TRUST FUND

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2003

CHANGES IN UNRESTRICTED NET ASSETS

REVENUE

Interest	\$ 425,145
Net unrealized loss and realized gain on investments (Note 2)	9,836
Net assets released from restrictions	<u>521,420</u>
Total revenue	<u>956,401</u>

EXPENSES

Digitizing and other services	599,679
Professional and consultant services	231,085
Personnel costs	98,592
Printing, publishing, and photoduplication	12,471
Services of the Library and other agencies	10,000
Books and library materials	3,480
Tuition & training	3,240
Travel and transportation	3,078
Entertainment	3,048
Awards to other archival institutions (Ameritech)	<u>(8,272)</u>
Total expenses (Note 6)	<u>956,401</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Donations (Note 3)	(442,800)
Net assets released from restrictions	<u>(521,420)</u>
Changes in Temporarily Restricted Net Assets	<u>(964,220)</u>

Decrease in Net Assets (964,220)

Net Assets at Beginning of year 19,119,403

Net Assets at End of year \$ 18,155,183

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

NATIONAL DIGITAL LIBRARY TRUST FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2003

Cash flows from operating activities:	
Donations Received	\$ 500,000
Interest Received	420,202
Cash paid to others	(857,919)
Cash paid to employees	(24,508)
Net cash provided by operating activities	<u>37,775</u>
Cash flows from investing activities:	
Investment in U.S. Treasury Market Based Securities	(2,936,559)
Investment in U.S. Treasury Permanent Loan	(40,800)
Redemption of Investment in U.S. Treasury Market Based Securities	1,204,477
Redemption of Investment in U.S. Treasury Permanent Loan	1,448,118
Net cash used by investing activities	<u>(324,763)</u>
Net Decrease in Cash	(286,990)
Cash at beginning of year	<u>408,059</u>
Cash at end of year	<u><u>\$ 121,071</u></u>
Reconciliation of Changes in Net Assets to Net Cash From Operating Activities	
Change in Net Assets	<u>\$ (964,220)</u>
Adjustments to reconcile changes in net assets to net cash provided from operating activities	
Non-cash gain on mutual fund investments	(9,835)
Decrease in pledges receivable	942,800
Increase in accrued interest receivables	(4,944)
Decrease in accrued payroll and annual leave	0
Decrease in accounts receivable	141
Increase in accounts payable	73,834
Total Adjustments	<u>1,001,996</u>
Net Cash from Operating Activities	<u><u>\$ 37,775</u></u>

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

NATIONAL DIGITAL LIBRARY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

A. DESCRIPTION OF FUND

The National Digital Library Trust Fund (NDLTF) supports the mission and strategic objectives of the National Digital Library Program (NDLP). The Program is a public-private partnership created to digitize American history and cultural materials, to build a broad-based national coalition of digital archives and libraries, to provide access to electronic materials, to develop a catalog for electronic materials, to promote standards and practices for the use of digital materials, and to provide other related future services. The NDLP is an unsurpassed on-line resource for the study of American history and culture. Making priceless treasures of American history accessible to all Americans in their own local communities is central to the Library's goal of enriching education in America and widening access to the documentary record of America's knowledge and creativity.

The National Digital Library Trust Fund consists of the following sub-accounts during fiscal year 2003:

- NDLP General Trust
- Scott Trust
- Ameritech Trust
- McCormick Tribune Trust
- Pew Charitable Trust

The NDLTF is the primary private sector source of funding for the NDLP. The program also receives funding from appropriated funds, a gift fund, and an endowment fund.

The NDLTF was approved by the Library of Congress Trust Fund Board and the Joint Committee on the Library in September 1994 and operates on a fiscal year beginning October 1 and ending September 30.

Significant accounting policies followed by the NDLTF are presented below.

B. BASIS OF PRESENTATION

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

The NDLTF adopted financial reporting standards applicable to not-for-profit organizations. The financial statements are prepared in accordance with Financial Accounting Standards No. 117, and recognize 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. Any excess assets not used by the NDLTF to satisfy specific donor restrictions are refunded to the donor or used for other NDLTF restricted activities.

Unrestricted net assets result from the expiration of donor-imposed restrictions on contributions. These assets are available to the Fund for use in support of current operations. The Library of Congress provides support services to the NDLTF and 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 NDLTF.

C. USE OF ESTIMATES

The preparation of the NDLTF'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 may differ from these estimates.

D. DONATIONS AND REVENUE RECOGNITION

The NDLTF records as donation revenue amounts received in the form of cash, promises or pledges to give. All donations are temporarily restricted for the purpose of the NDLTF and are not available for the support of general Library activities. Unconditional promises or pledges to give are recognized as a pledges 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. CAPITAL ASSETS

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.

F. INCOME TAX

The NDLTF 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.

G. 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 NDLTF 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
 - 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, 2003. 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, 2003, \$55,574 of NDLTF funds was invested in the U.S. Treasury permanent loan at an interest rate of four percent. Other investments with U.S. Treasury were as follows:

Investment	Par	Unamortized Premium	Unamortized Discount	Amortized Costs
NDL General Trust	\$16,027,535	\$ 57,264	(\$19,936)	\$16,064,863
Scott Trust *	476,050	1,702	(592)	477,160
McCormick Tribune Trust	3,184	11	(4)	3,191
Pew Charitable Trust	1,473	5	(2)	1,476
Total Trusts	\$16,508,242	\$ 58,982	(\$20,534)	\$16,546,690

* The investments are accrued in the General Trust Fund

B. Mutual Funds

Since inception, the NDLTF invested \$62,424 in the growth and income pool (non-Treasury mutual fund investments). Market value of the growth and income pool as of September 30, 2003 totaled \$51,108.

The gain on investments of \$9,835 consists of the following: \$737 realized gain of money market dividends, and \$9,098 unrealized uncapitalize gain on the growth and income pool.

NOTE 3 - PLEDGES

Contributions of unconditional promises to give (pledges) to the NDLTF 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 \$1,500,000 at September 30, 2003, were discounted through fiscal year 2006 at a market discount rate and are included in the statement of financial position at their discounted present value of \$1,453,300. The amounts due in future years at their current discounted value are: \$494,850 in fiscal 2004; \$485,600 in fiscal 2005; and \$472,850 in fiscal 2006.

The decrease in donations for fiscal year 2003 is due to a \$494,850 adjustment in pledges receivable. This decrease was recorded due to uncertainty arising in collecting the final payments from two pledges established in prior years. The donated revenue will be restored in future fiscal years, if pledge commitments are reconfirmed or cash is received.

NOTE 4 - NET ASSETS

Net assets includes undelivered orders of \$425,558 which are funds that have been obligated for goods and services not yet received for NDLTF operations and designated projects. All assets are temporarily restricted for the purpose of supporting the objectives of the National Digital Library Program.

NOTE 5 - RETIREMENT PLANS

Employees of the NDLTF participate in two different retirement plans. Civil Service employee participates 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 2003, the NDLTF paid approximately \$1,462 to fund retirement benefits, excluding FICA Taxes.

NOTE 6 - EXPENSES BY FUNCTIONAL CLASSIFICATION

As permitted by Financial Accounting Standards No. 117, the NDLTF has elected to present its operating expenses by natural classification in its Statement of Activities for the fiscal year ended September 30, 2003. The functional breakdown of these expenses is as follows:

National Digital Library Program	\$ 956,401
Fund-raising	\$ _____ -
Total Expenses	<u>\$ 956,401</u>

NATIONAL DIGITAL LIBRARY TRUST FUND
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

September 30, 2003

	NDLP General Trust	Scott Trust	Ameritech Trust	McCormick Tribune Trust	Pew Charitable Trust	Consolidated
ASSETS						
Cash	\$ 117,579	\$ 3,457	\$ -	\$ 23	\$ 11	\$ 121,072
Investments (Note 2)						
U.S. Treasury Market Based Securities	16,064,863	477,160	-	3,191	1,476	16,546,690
U.S. Treasury Permanent Loan	55,574	-	-	-	-	55,574
Growth and Income Pool	51,108	-	-	-	-	51,108
Total Investments	<u>16,171,545</u>	<u>477,160</u>	<u>-</u>	<u>3,191</u>	<u>1,476</u>	<u>16,653,374</u>
Receivables:						
Pledges (Note 3)	1,453,300	-	-	-	-	1,453,300
Accrued Interest	72,036	-	-	-	-	72,036
Accounts	21	-	-	-	-	21
Total Receivables	<u>1,525,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,525,357</u>
Total Assets	<u>\$ 17,814,481</u>	<u>\$ 480,617</u>	<u>\$ -</u>	<u>\$ 3,214</u>	<u>\$ 1,487</u>	<u>\$ 18,299,801</u>

LIABILITIES & NET ASSETS						
Accounts payable	\$ 73,728	\$ 70,890	\$ -	\$ -	\$ -	\$ 144,618
Total Liabilities	<u>73,728</u>	<u>70,890</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>144,618</u>
NET ASSETS (Note 4)						
Temporarily restricted	17,740,755	409,727	-	3,214	1,487	18,155,183
Total Liabilities and Net Assets	<u>\$ 17,814,483</u>	<u>\$ 480,617</u>	<u>\$ -</u>	<u>\$ 3,214</u>	<u>\$ 1,487</u>	<u>\$ 18,299,801</u>

NATIONAL DIGITAL LIBRARY TRUST FUND CONSOLIDATING SCHEDULE OF ACTIVITIES

September 30, 2003

	NDL General Trust	Scott Trust	Ameritech Trust	McCormick Tribune Trust	Pew Charitable Trust	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUE						
Interest	\$ 425,144	-	-	-	-	\$ 425,145
Net unrealized and realized loss on investments (Note 2):	9,836	-	-	-	-	9,836
Net assets released from restrictions	33,482	69,553	147,515	100,314	170,556	521,420
Total revenue	468,462	69,553	147,515	100,314	170,556	956,401
EXPENSES						
Digitizing and other services	446,723	1,252	-	-	151,704	599,679
Professional and consultant services	223,463	7,622	-	-	-	231,085
Personnel costs	38,014	60,578	-	-	-	98,592
Awards to other archival institutions (Ameritech)	7,396	-	(15,668)	-	-	(8,272)
Entertainment	3,048	-	-	-	-	3,048
Services of the Library and other agencies	10,000	-	-	-	-	10,000
Travel and transportation	2,977	101	-	-	-	3,078
Books and library materials	3,480	-	-	-	-	3,480
Printing, publishing, and photoduplicating	12,471	-	-	-	-	12,471
Tuition and Training	3,240	-	-	-	-	3,240
Total expenses	750,811	69,553	(15,668)	-	151,704	956,401
OTHER CHANGES						
Transfer from Other Funds	282,349	-	(163,183)	(100,314)	(18,852)	-
Changes in Unrestricted Net Assets	-	-	-	-	-	-
CHANGES IN TEMPORARY RESTRICTED						
NET ASSETS						
Donations (Note 3)	(442,800)	-	-	-	-	(442,800)
Net assets released from restrictions	(33,482)	(69,553)	(147,515)	(100,314)	(170,556)	(521,420)
Changes in Temporary Restricted Net Assets	(476,282)	(69,553)	(147,515)	(100,314)	(170,556)	(964,220)
Increase (Decrease) in Net Assets	(476,282)	(69,553)	(147,515)	-	-	(964,220)
Net Assets at Beginning of Year	18,217,037	479,280	147,515	103,528	172,043	19,119,403
Net Assets at End of Year	\$ 17,740,755	\$ 409,727	\$ 0	\$ 3,214	\$ 1,487	\$ 18,155,183



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Independent Auditor's Report

To the Librarian of Congress and the National Digital Library Trust Fund

We have audited the accompanying statement of financial position of the National Digital Library Trust Fund (the Fund) as of September 30, 2003, 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.

SUMMARY

As stated 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.

Our consideration of internal control over financial reporting resulted in no material weaknesses.

The results of our tests of compliance with certain provisions of laws and regulations disclosed an instance of noncompliance, described below, that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States:

Noncompliance with Congressional Accountability Act of 1995.

The results of our tests disclosed no other instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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, 2003, 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, 2003, 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 the consolidating schedules of financial position and activities 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

noted other matters involving the internal control over financial reporting that we have reported to management of the Fund in a separate letter dated February 27, 2004.

COMPLIANCE WITH LAWS AND REGULATIONS

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 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 of compliance with the laws and regulations described in the preceding paragraph disclosed an instance of noncompliance, described below, with the following laws and regulations that are required to be reported under Government Auditing Standards.

- During fiscal year 2003, the Fund was not in compliance with the "Congressional Accountability Act (CAA) of 1995." In the CAA, Congress made its facilities and employees subject to the same safety laws that applied outside the Legislative Branch. In 1997, other provisions of the CAA applied fire safety standards to Congressional buildings. The Office of Compliance conducted a year-long fire safety investigation that culminated in a report issued in January 2001 that identified numerous safety hazards in the three Capitol Hill Buildings utilized by the Fund.

The results of our tests disclosed no other 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 Librarian of Congress, management of National Digital Library Fund, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.


February 27, 2004