



LIBRARY OF CONGRESS
BICENTENNIAL
1800-2000

The President of the Senate
The Speaker of the House of Representatives

SIRS:

It is my pleasure to submit to you the Library's fiscal year 1999 financial statements and accompanying opinion of the independent auditors, Clifton Gunderson L.L.C.

On April 24, 2000, the Library will be 200 years old. It is the oldest Federal cultural institution in the United States and the largest and most inclusive library in human history. I am pleased to report that the Library is meeting the recognized test of accountability at the same time its Bicentennial is being celebrated. For the fourth consecutive year, the independent auditors have issued an unqualified "clean" opinion on the Library's Consolidated Financial Statements.

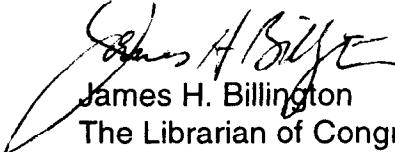
The net cost of the Library's seven major programs totals \$436.1 million. The net cost includes \$47.1 million in costs incurred by three other agencies (i.e., Architect of the Capitol, Government Printing Office, and Office of Personnel Management) in support of the Library's programs. The net cost also includes \$77.3 million in earned revenue from copyright registration fees, cataloging distribution sales, and other fee-based and reimbursable programs.

The Library continues to improve its financial and management systems while placing great emphasis on ensuring the security of our staff and collections. We recognize that we need to improve further our computer and collections controls as documented in the accountability reports. We are executing corrective measures as part of our strategic planning process.

The Library will use its Bicentennial in the year 2000 more to leave a legacy for the future than to celebrate its past. The cover of this report presents the images of the Library's Bicentennial coins. We invite the Congress and the nation to join with us in celebrating the Library's 200th birthday.

I am proud of the Library's stewardship of its financial affairs, and I commend the enclosed report to your attention.

Sincerely,



James H. Billington
The Librarian of Congress

Enclosure

THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL YEAR 1999

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FINANCIAL STATEMENTS FOR FISCAL YEAR 1999

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**THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1999**

MANAGEMENT S DISCUSSION AND ANALYSIS

INTRODUCTION

The Management s Discussion and Analysis (MDA) is designed to provide a high level overview of the Library -- in short, it provides a description of who we are, what we do, and how we accomplished our mission during fiscal year 1999.

THE LIBRARY OF CONGRESS AND ITS MISSION

The Library of Congress, an agency in the Legislative branch of the government, is the world's largest and most comprehensive library maintaining a collection of 119 million items -- many of them unique and irreplaceable -- in more than 450 languages. It directly serves not only the Congress but the entire nation with the most important commodity of our time: **information**.

The Library's mission is to make its resources available and useful to the Congress and the American people and to sustain and preserve a universal collection of knowledge and creativity for future generations.

STRATEGIC PLAN AND PRIORITIES

The Library's challenge, under its 1997-2004 strategic plan, is to sustain past gains while becoming a more efficient and effective operation. The Library has a proven record of making knowledge and information accessible to users everywhere -- evidenced by the exponential rate of growth in the Library's Internet transactions and the wide public acclaim of its website.

The Library's vision for the 21st century is to "lead the nation in ensuring access to knowledge and information and in promoting its creative use for the Congress and its constituents." The strategic plan maps the changes that will ensure that the Library -- the research and information arm of the national legislature and the world's foremost storehouse of knowledge -- continues its worthy tradition of collecting, preserving, sharing, and fostering creativity and learning in support of the Congress, the public and the democratic ideal. Open access is the basic principle of our public library system -- and is more important than ever in helping prevent a division between information "haves" and "have-nots" in the electronic age. The Congress, through its

library, is ensuring that the tools of learning -- and of learning about America -- will be universally accessible in the next millennium.

The Library's strategic plan priorities are:

1. to make knowledge and creativity available to the United States Congress;
2. to acquire, organize, preserve, secure, and sustain for the present and future of the Congress and the nation a comprehensive record of American history and creativity and a universal collection of human knowledge;
3. to make its collections maximally accessible to the Congress, the U. S. Government, and the public; and
4. to add interpretive and educational value to the basic resources of the Library.

BRIEF HISTORY

The Library of Congress is a living monument to the remarkable wisdom of the Founding Fathers who saw access to an ever-expanding body of knowledge as essential to a dynamic democracy. The Library's three buildings are named for Thomas Jefferson, John Adams, and James Madison. With the support of these Presidents, the Congress established the Library in 1800 as soon as it moved to the new capital city of Washington and established the Joint Committee on the Library as the first Joint Committee of the Congress in 1802.

Jefferson, in particular, took a keen interest in the new institution. After the British burned the Capitol and the Library during the War of 1812, Congress accepted Jefferson's offer to "recommence" the Library and purchase his multi-lingual 6,487-volume collection (then the finest in America) at a price of \$23,950. It contained volumes in many languages on everything from architecture to geography and the sciences. Anticipating the argument that his collection might seem too wide-ranging for Congress, Jefferson said that there was "no subject to which a Member of Congress might not have occasion to refer."

Jefferson's ideals of a "universal" collection and of sharing knowledge as widely as possible still guide the Library. With Congressional blessing and support, the Library has grown to serve the Congress and the nation more broadly in ways that no other library has ever done -- largely as a result of four milestone laws: (1) the copyright law of 1870, which stipulated that two copies of every book, pamphlet, map, print, photograph, and piece of music registered for copyright in the United States be deposited in the Library; (2) the 1886 authorization of the first separate Library of Congress building that contained openly accessible reading rooms and exhibition space for the general public; (3) the 1902 law that authorized the Library to sell its cataloging records inexpensively to the nation's libraries and thus massively help to subsidize

the entire American library system; and (4) the law in 1931 that established the program in the Library to create and supply free library materials to blind and physically handicapped readers throughout the country. Congress thus established the basis both for the continued growth of the collections and for the extension of the Library's services to citizens everywhere.

In 1914, Congress created the Legislative Reference Service (LRS) as a separate entity within the Library of Congress to provide specialized services to "Congress and committees and Members thereof." In 1946, the Congress granted LRS further statutory status within the Library and directed it to employ specialists to cover broad subject areas. Congress renamed the LRS the Congressional Research Service (CRS) in 1970 and enhanced its analytical capabilities by defining its policy role for the Congress and emphasizing research support to the committees of Congress.

More recently, a series of Congressional statutes have created within the Library of Congress the American Folklife Center (1976), the American Television and Radio Archives (1976), the National Center for the Book (1977), the National Film Preservation Board (1988), and the National Film Preservation Foundation (1996) -- further extending the Library of Congress' national role.

THE LIBRARY OF CONGRESS TODAY

The core of the Library is its incomparable collections -- and the specialists who interpret and share them. The Library's 119 million items include almost all languages and media through which knowledge and creativity are preserved and communicated.

The Library has more than 27 million items in its print collections, including 5,700 volumes printed before the year 1500; 12 million photographs; 4 million maps, 2 million audio recordings; 800,000 motion pictures, including the earliest movies ever made; 4 million pieces of music; 53 million pages of personal papers and manuscripts, including those of 23 Presidents of the United States as well as hundreds of thousands of scientific and government documents.

New treasures are added each year. Notable acquisitions during fiscal year 1999 include: **Harry Blackmun Papers and Ruth Bader Ginsberg Papers** more than 600,000 new items of these Supreme Court Justices; **Marian Carson Collection** 10,000 papers and documents relating to the early history of the U.S.; **Bronislava Nijinska Collection** multi-medial collection of the noted ballet choreographer; **Carte de Canada et des Etats Unis de l'Amerique** the first map (1778) to recognize the independence of the U.S.; **Persian Manuscript Celestial Globe** ca. 1650; **The First American Haggadah** published in New York City, 1837; 337 issues of the important Revolutionary American newspaper **Claypoole's Daily Advertiser**, 1791-1793; the extraordinary **J. Arthur Wood, Jr. Collection of Cartoon and Caricature** 40,000 works by more than 3,000 artists; **Victor Hammer Archives** the

works of one of the great hand-press printers, print makers, and type designers of the 20th century; and *Politica* by Aristotle (Cologne, 1492) -- the earliest printed version of Aristotle's work to become available in the West.

Every workday, the Library's staff adds more than 10,000 new items to the collections after organizing and cataloging them and finds ways to share them with the Congress and the nation -- by providing on-line access across the nation, by assisting users in the Library's reading rooms, and by featuring the Library's collections in cultural programs. Major annual services include delivering **more than 545,000** congressional research responses and services, processing **more than 600,000** copyright claims, and circulating **more than 22 million** audio and braille books and magazines free to blind and physically handicapped individuals all across America. We annually catalog **more than 250,000** books and serials and provide the bibliographic record inexpensively to the Nation's libraries, saving them an estimated \$268 million annually.

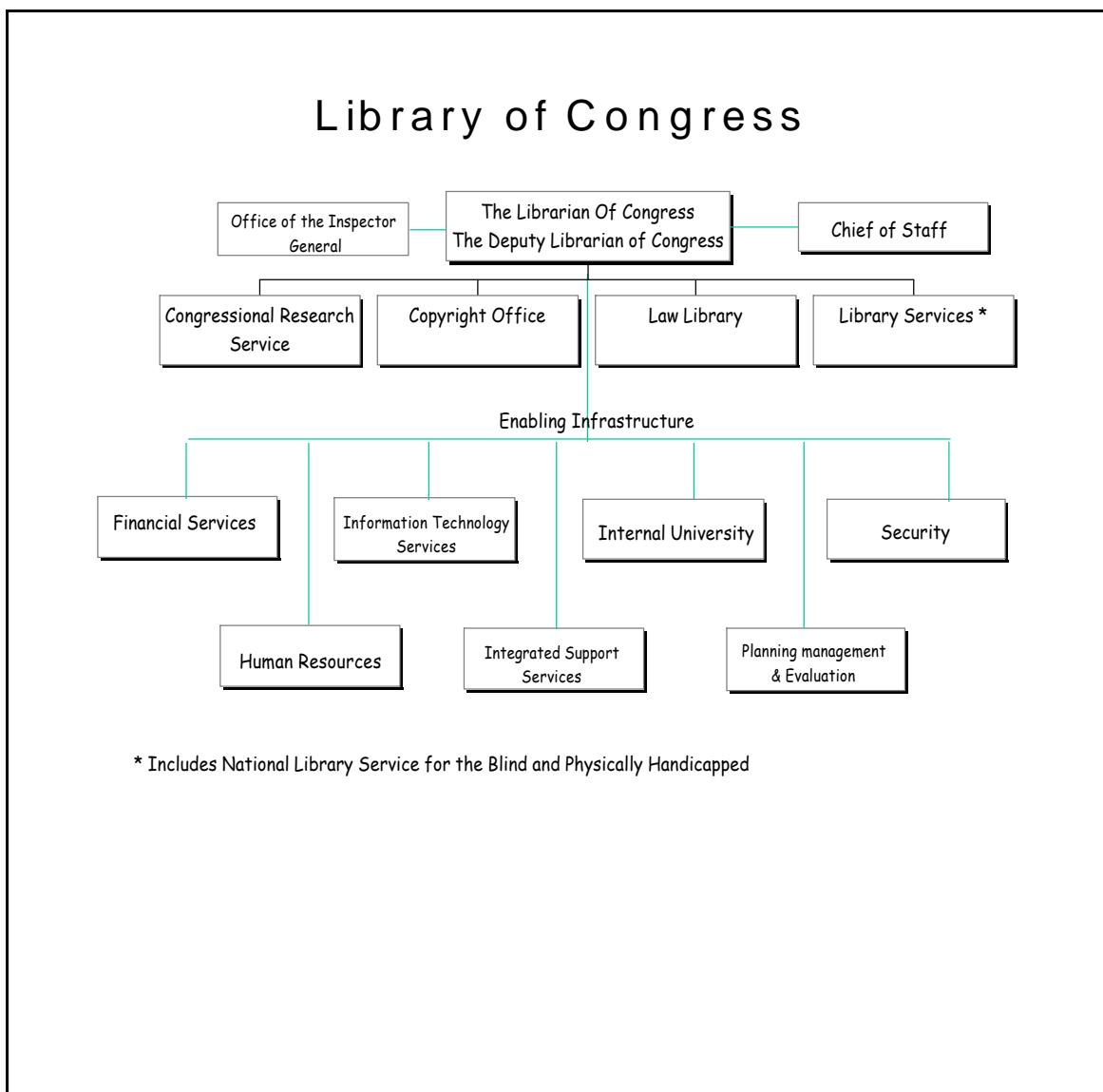
The Library also provides free on-line access, via the Internet, to its automated information files, which contain **more than 75 million** records -- to Congressional offices, Federal agencies, libraries, and the public. Internet-based systems include major world-wide-web (www) services (e.g., Legislative Information System, THOMAS, LC-web, Global Legal Information Network), the Library of Congress On-line Public Access Catalog (catalog.loc.gov), and various file transfer options.

The Librarian of Congress, appointed by the President with the advice and consent of the Senate, directs the Library. The Deputy Librarian of Congress is the Chief Operating Officer who manages the day-to-day operations through four service units and an enabling infrastructure (see organizational chart).

The Library has seven programs:

- ! Library Services
- ! Law Library
- ! Copyright Office
- ! Congressional Research Service
- ! National Library Service for the Blind and Physically Handicapped
- ! Reimbursable Funds
- ! Revolving Funds

The Library's seven programs are funded by four salaries and expenses (S&E) appropriations, a furniture and furnishings appropriation, gifts, reimbursements, and fees from products and services.



OVERVIEW OF FINANCIAL STATEMENTS

For fiscal 1999, the Library has prepared a Consolidated Balance Sheet, Consolidated Statement of Net Costs, Consolidated Statement of Changes in Net Position, and a Combined Statement of Budgetary Resources (see Section 2).

Consolidated Balance Sheet

The purpose of the consolidated balance sheet is to provide financial statement users with information about the Library's assets, liabilities, and net position as of September 30, 1999. In accordance with governmental accounting standards, the value of the Library's collections (our largest asset) is not calculated and reported as a monetary asset. Instead, the Library prepares a Stewardship report (see Section 4), which describes the collections and provides relevant information about their use, preservation, security, etc. The Library's Net Position consists of: (1) the portion of the Library's appropriations that are unexpended; (2) the cumulative balances of gift, trust, reimbursable and revolving funds; and (3) the cumulative amount of prior period adjustments.

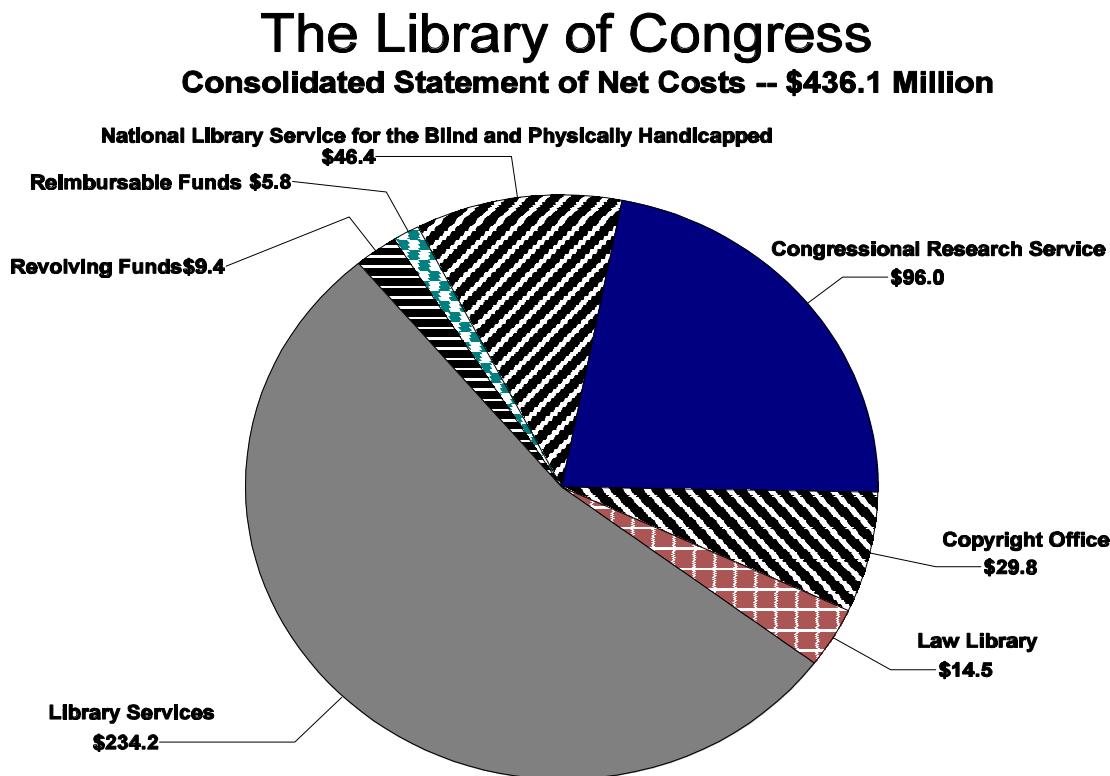
Assets	Liabilities and Net Position	
Entity Assets \$ 304.1	Liabilities Covered by Budgetary Resources \$ 847.5	
Non-Entity Assets 774.9	Liabilities Not Covered by Budgetary Resources 38.6	
	Net Position 192.9	
Total Assets \$ 1,079.0	Total Liabilities and Net Position	\$ 1,079.0

The Library's assets total more than one billion dollars. Entity assets increased by \$10.9 million during fiscal 1999 primarily as a result of additional donations to the Library's gift and trust funds. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 71 percent of all assets and total \$775 million. Non-entity (custodial) assets increased by \$70 million during fiscal 1999 because current year royalty receipts were in excess of multiple, prior-year royalty distributions to Copyright owners. The Library made royalty distributions totaling \$321.7 million in October 1999. The Library is authorized to invest the royalty funds in U.S. Treasury securities until the funds are distributed.

The Library's liabilities total \$886.1 million with custodial and deposit account activities (i. e., funds held for future distribution to copyright owners) as the major item. Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various operating expenses. The accompanying Balance Sheet does not include the acquisition and improvement costs of the Library's buildings and grounds. By law, these buildings and grounds are under the structural and mechanical care of the Architect of the Capitol.

Consolidated Statement of Net Costs

The purpose of the Consolidated Statement of Net Costs is to provide financial statement users with information about the costs and earned revenues for the Library's seven programs for the fiscal year ended September 30, 1999. In other words, the statement presents the net costs of our programs -- \$436.1 million. Net costs include allocated management support costs (e.g., human resources, financial services, facility services). The net costs for each of the Library's seven programs are:



Library Services - With net program costs of \$234.2 million, Library Services is the Library's largest program and is responsible for traditional library activities of acquisitions, cataloging, research and reference, and preservation. Specifically, Library Services provides the following major services:

- ▶ **Acquisitions** - Library Services acquired nearly 4 million items in fiscal year 1999 from purchases, gifts, exchanges, and transfers from other federal agencies.
- ▶ **Cataloging** - The Library produces bibliographic records and related products for libraries and bibliographic utilities in all 50 states and territories -- cataloging that saves America's libraries in excess of \$268 million annually (the money it would cost them if they had to catalog the books and other materials).
- ▶ **Research and Reference** - The Library makes available to scholars and other researchers vast information resources, many of which are unique, covering almost all formats, subjects, and languages -- responding to nearly one million information requests a year from all over the nation, including more than 600,000 in person in the 20 reading rooms in Washington open to the public. In addition, the Library responds to more than 52,000 free interlibrary loan requests from every state in the nation and to more than 30,000 requests for book loans from the Congress each year.
- ▶ **On-line Services** - The Library provides free, on-line access via the Internet to its automated information files, which contain more than 75 million records -- to Congressional offices, Federal agencies, libraries, and the public. Internet-based systems include major world-wide-web (www) services (e.g., THOMAS, LC-web), the Library of Congress On-line Public Access Catalog (catalog.loc.gov), and various file transfer options.
- ▶ **American Creativity** - The Library manages the nation's largest, most varied, and most important archival collections -- motion pictures, sound recordings, maps, prints, photographs, manuscripts, music, and folklore -- covering a wide range of ethnic and geographic communities; provides reference assistance to researchers and the general public; conducts field research; and promotes the preservation of American culture throughout the United States.
- ▶ **Preservation** - The Library develops and manages a program to preserve the diverse materials and formats in the Library's collections. The program provides a full range of prospective and retrospective preservation treatment for approximately 500,000 items a year; conducts research into new technologies; emphasizes prevention techniques including proper environmental storage and training for emergency situations; conserves and preserves materials; and reformats materials to more stable media. The Library plays a key role in developing national and international standards that support the work of Federal, state, and local agencies in preserving the nation's cultural heritage.

- **Reading Promotion and Outreach** -The Library promotes books, reading, and literacy through the Library's Center for the Book, its 37 affiliated State Centers for the Book and more than 75 national organizational partners, and encourages knowledge and use of its collections through other outreach programs (cable TV programs, lectures, publications, conferences and symposia, exhibitions, poetry readings -- all primarily supported by private funding) and through use of the Library's home page on the www. The Library also gives some 61,000 surplus books annually to qualified libraries and non-profit educational institutions through its nation-wide donation program.

Law Library - The Law Library of Congress, with net program costs of \$14.6 million, supplies legal research to the Congress on more than 200 foreign jurisdictions and, within available resources, to the Judiciary and Executive agencies, as well as reference assistance to the public in American and foreign law -- serving more than 100,000 users annually.

Copyright Office - The Copyright Office, with net program costs of \$29.8 million, administers the U.S. copyright laws, provides copyright expertise to the Congress and executive branch agencies, and actively promotes international protection for intellectual property created by U.S. citizens. The office annually processes approximately 620,000 claims (representing more than 900,000 works transferred to the Library) of which more than 590,000 claims are registered for copyright. The Office also records approximately 16,500 documents with more than 200,000 titles and responds annually to more than 430,000 requests for information. The Copyright Office convenes and supports Copyright Arbitration Royalty Panels for the purpose of (a) distributing hundreds of millions of dollars in royalties that are collected under various compulsory license provisions of the copyright law and (b) adjusting the royalty rates of these license provisions. A significant part of the Copyright Office is funded by registration fees and authorized deductions from royalty receipts (\$18.2 million). The Copyright Office increased statutory fees for registration and recordation services on July 1, 1999. (The basic filing fee for registering a claim increased from \$20 to \$30.) Copies of works received through the copyright system form the core of the Library's immense Americana collections, which provide the mint record of American creativity.

Congressional Research Service - The Congressional Research Service (CRS), with net program costs of \$96 million, provides non-partisan analytical research and information services to all Members and committees of the Congress. CRS works directly and exclusively for the Congress in support of its legislative functions. By maintaining a cost-effective, shared pool of expertise, CRS provides timely and balanced analyses of legislative proposals and public policy issues through provision of reports, tailored confidential memoranda, individual consultations and briefings -- a comprehensive source of information and analysis on almost any legislatively relevant subject. CRS delivers more than 545,000 research responses and services annually; of these, approximately 102,000 are responses to requests for tailored analyses, information and research.

National Library Service for the Blind and Physically Handicapped (NLS/BPH) - The NLS/BPH, which is part of Library Services, manages a free national reading program for blind and physically handicapped people -- circulating at no cost to users approximately 22.5 million items a year. This program consists of three segments:

1. The Library of Congress selects and produces full-length books and magazines in braille and on recorded disc and cassette and contracts for the production of talking book machines. The NLS/BPH's fiscal 1999 net program costs for this segment were \$46.4 million.
2. A cooperating network of 138 regional and subregional (local) libraries distribute the machines and library materials provided by the Library of Congress.
3. The U.S. Postal Service receives an appropriation to support postage-free mail for magazines, books, and machines which are sent directly to readers. Reading materials (books and magazines) and playback machines are sent to a total estimated readership of 761,000 comprised of over 500,000 audio and braille readers registered individually, in addition to an estimated 200,000 eligible individuals located in 36,000 institutions.

Reimbursable Funds - The net program costs for the Library's Reimbursable Funds are nearly zero (when intra-Library net revenues of \$4.4 million are included and imputed costs of \$.9 million and allocated administrative overhead of \$.4 million are excluded) because of the Library's goal of full cost recovery. Two major reimbursable programs make up the major portion of the reimbursable revenues: the Federal Library and Information Network (FEDLINK) and the Federal Research Division (FRD). The Library also provides accounting services for four Legislative agencies under cross-servicing agreements (i.e., the Congressional Budget Office, the Office of Compliance, the John C. Stennis Center, and the Capitol Preservation Commission).

- ▶ **Federal Library Services** - The Library coordinates services and programs on behalf of all Federal libraries and information centers, providing education and training programs and administering a cost-effective book, serial, and technical processing and database procurement program for approximately 1,300 Federal offices. This procurement program saves Federal agencies an estimated \$6.6 million annually in contract cost avoidance benefits and \$14 million more in products and services discounts. In fiscal 1999, FEDLINK revenues of \$46.4 million consist of \$42.1 million for payment of member services and \$4.3 million for administrative costs.
- ▶ **Federal Research Division (FRD)** - The Federal Research Division provides customized research services that the Library is uniquely able to perform as a result of its collections and subject and language expertise of its staff. A popular FRD product, available on-line via the Library's homepage, is the country study series of books.

Revolving Funds - Under the authority of 2 U.S.C. 160, the Library of Congress operates eleven gift revolving fund activities to provide, in various formats, duplication and preservation services, exhibits and other special programs, and retail marketing, to other Government agencies, libraries, other institutions, and the general public. Under the authority of 2 U.S.C. 182, the Library operates a Cooperative Acquisitions Program revolving fund under which the Library acquires foreign publications and research materials on behalf of participating institutions on a cost-recovery basis. Through these activities, the Library is able to further its programs dealing with the acquisition of library materials, reader and reference services, and support for public programs.

Although the revolving gift funds were created by gifts which donors designated to be used for self-sustaining activities, the General Accounting Office (GAO) believes that the Library has exceeded its authority by operating revolving funds with gift monies which generate revenues exceeding the original gifts. Therefore, as recommended by GAO, the Library has requested specific statutory authority to operate the gift revolving funds. The revolving fund legislation has been submitted to the Congress annually since 1991.

After reflecting earned revenue of \$6.3 million, revolving fund net program costs totaled \$9.4 million. The net program costs were primarily the result of the elimination of \$1.9 million of intra-Library net revenues, \$3.9 million in administrative overhead, and \$1.8 million in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds. The other \$1.8 million of net program costs were the result of ordinary business operations. The major funds are: Photoduplication Service, Cooperative Acquisitions, Recording Laboratory, and the Constance Green Fund.

- ▶ **Photoduplication Service** - The Photoduplication Service provides preservation microfilming services for the Library's collections and reprographic services to other libraries, research institutions, government agencies, and individuals in the United States and abroad. Earned revenues were \$4.7 million in fiscal year 1999 and intra-Library transactions of \$2.1 million were eliminated during consolidation.
- ▶ **Cooperative Acquisitions Program** - The Cooperative Acquisitions Program, which is operated by the Library's six overseas field offices, acquires foreign publications and research materials on behalf of participating institutions on a cost-recovery basis. Earned revenues were \$1.8 million in fiscal year 1999.
- ▶ **Recording Laboratory** - The Recording Laboratory provides preservation services for the Library's collections and audio and video duplication services for the general public. Audio and video products are also produced for sale to the general public. Earned revenues for fiscal year 1999 were \$.5 million of which \$.3 million was for intra-Library transactions which were eliminated in the consolidated statements.

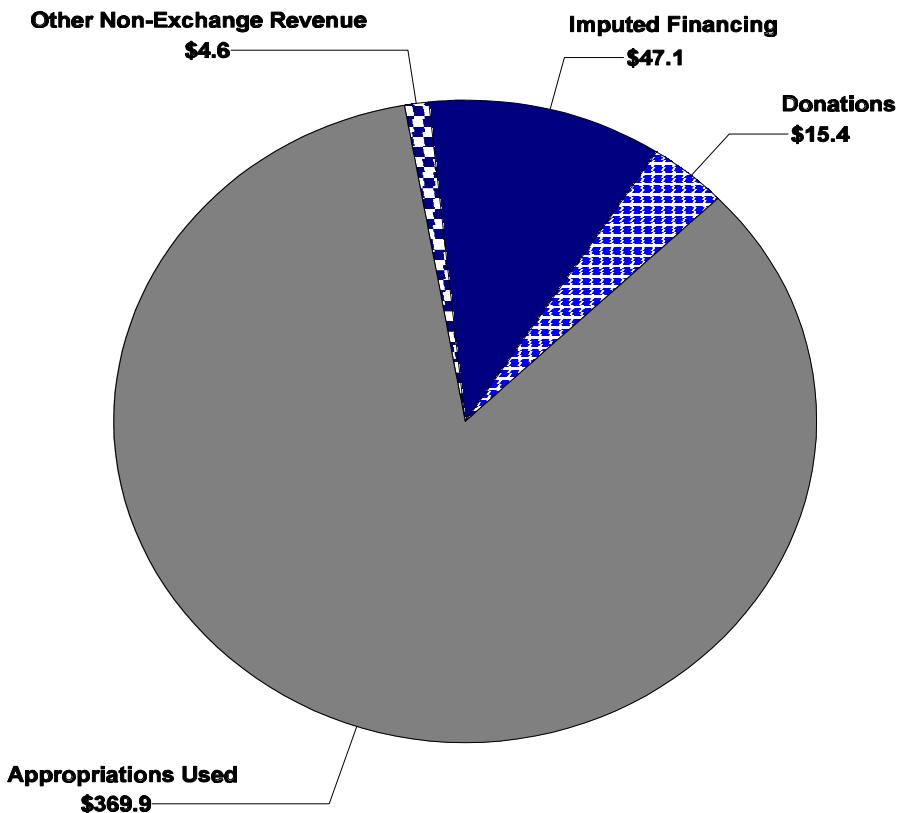
- ▶ **Constance Green Fund** - The Constance Green Fund supports the Library's retail marketing sales shop activities. Earned revenues for fiscal year 1999 were \$1.6 million.

Consolidated Statement of Changes in Net Position

The purpose of the Consolidated Statement of Changes in Net Position is to provide financial statement users with information about the Library's financing sources and the components of the changes in net position. The Library's financing sources totaled \$437.0 million for the year ended September 30, 1999.

The Library of Congress

Consolidated Statement of Changes in Net Position -- \$437.0 Million



The major source of the Library's funding is from Congressional appropriations for five programs: Library Services, Law Library, Copyright Office, Congressional Research Service, and National Library Service for the Blind and Physically Handicapped. Appropriations used during the fiscal year ended September 30, 1999, totaled \$369.9 million or 84.6 percent of all financing. In addition to appropriations made directly to the Library, other government agencies (i.e., the Architect of the Capitol, the Office of Personnel Management, Government Printing Office) used Congressional appropriations and other financing sources to provide support for the Library's programs totaling an estimated \$47.1 million (imputed financing). The support provided included structural care and maintenance of the Library's buildings and grounds (\$25.6 million), employee benefits (\$20.9 million), and acquisitions exchange services (\$.6 million).

During fiscal year 1999, the Library also received more than 750 gifts to 72 different Library funds. Twelve new gift and trust funds were established. At year's end, outstanding pledges totaled \$13.5 million. During fiscal year 1999, the Library celebrated the completion of the fund-raising for the first phase of the National Digital Library. Major gifts included \$2.5 million from the AT&T Corporation and \$1 million from the William and Flora Hewlett Foundation. The total raised for the NDL is now \$48 million, which exceeds the original goal of \$45 million from the private sector. The Library honored the Founding and Charter Sponsors of the NDL at a celebratory event on April 13, 1999.

The Library's net position increased by \$3 million during fiscal year 1999 primarily because of an increase in the amount of gift and trust funds and the amount of unexpended appropriations.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources and the related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. The Budgetary Resources section of the statement presents the total budgetary resources available to the Library. The Status of Budgetary Resources section of the statement presents information about the status of budgetary resources at the end of the period. Finally the Outlays section presents the total outlays of the Library and reconciles obligations incurred to total outlays.

The Library's budgetary resources were \$1.5 billion, of which \$564.7 million were entity funds and \$946.6 million were non-entity funds. Total outlays of \$290.2 million were incurred with the outlays of entity funds (\$358.9 million) being offset with the negative outlays of non-entity funds (\$68.7 million).

KEY PERFORMANCE MEASURES

Since 1995, the Library's collections have increased from 108.4 million to 119 million -- an increase of 10.6 million or 9.7 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has decreased from 4,180 to 3,923 -- a decrease of 257 FTE's or 6.2 percent. The Library's Internet transactions have grown dramatically from 92.9 million in fiscal 1995 to 728.2 million in fiscal 1999. Internet-based systems include major world-wide-web services (e.g., THOMAS, LC-Web) and various file transfer options. These Internet-based systems now record more than three million transactions daily. This rapid growth will almost certainly continue to increase because the Library has begun to put online American history collections as the core of a National Digital Library. This program seeks to make millions of items from the Library's unique collections as well as other institutions locally available in electronic form throughout the country by the year 2000.

THE LIBRARY OF CONGRESS COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS							
For the Fiscal years 1995, 1996, 1997, 1998, and 1999							
	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	CHANGE 1995 - 1999	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	\$348,230,000	\$352,399,000	\$361,896,000	\$377,207,000	\$391,660,000	\$43,430,000	12.5%
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	4,180	4,114	4,010	3,958	3,923	-257	-6.2%
SIZE OF LIBRARY COLLECTIONS	108,433,370	111,080,666	113,026,742	115,505,695	118,993,629	10,560,259	9.7%
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	22,491,071	20,970,523	19,952,205	19,090,657	19,793,689	-2,697,382	-12.0%
CRS - Requests & Services Provided Congress	492,000	487,000	531,162	560,423	545,663	53,663	10.9%
Loans of Collections to Congress	36,368	31,026	30,708	30,614	26,193	-10,175	-28.0%
Copyright Claims Registered	609,195	550,422	569,226	558,645	594,501	-14,694	-2.4%
Copyright Inquiries	500,746	432,397	421,150	395,456	436,627	-64,119	-12.8%
Services to the Blind & Physically Handicapped (BPH) - Readership	772,100	776,000	764,800	761,600	764,600	-7,500	-1.0%
BPH - Books & Magazines; Total Circulated	22,909,400	22,908,900	22,437,900	22,553,100	22,665,000	-244,000	-1.1%
BPH - New Braille & Audio Books & Magazines Titles	2,328	2,568	2,691	2,764	2,647	319	13.7%
Print Materials Cataloged	276,348	289,509	289,154	274,890	205,893	-70,455	-25.5%
National Coordinated Cataloging Operation (NACO) - LC Contribution	124,911	115,714	118,054	186,515	80,176	-44,735	-35.8%
National Coordinated Cataloging Operation - Outside Contribution	96,655	106,182	146,858	173,721	133,011	36,356	37.6%
Exhibits, Displays, & Publications (Funded by Appropriations)	27	15	14	14	14	-13	-48.1%
Regular Tours	47,300	47,847	56,716	60,465	64,489	17,189	36.3%
Reference Service	1,145,757	1,129,952	1,094,588	1,101,717	967,387	-178,370	15.6%
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65	0	0.0%
Items Circulated	2,289,981	2,175,075	2,070,798	2,105,278	1,767,565	-522,416	-22.8%
Preservation Treatment - Original Format	339,636	274,086	309,597	354,027	472,027	132,391	39.0%
Mainframe Computer Transactions	197,216,679	204,297,492	247,691,844	270,259,005	331,103,221	133,886,542	67.9%
Machine Readable Cataloging (MARC) Records	26,100,661	26,320,667	27,519,078	28,093,497	28,890,000	2,789,339	10.7%
Internet Transactions (i.e., LOCIS, MARVEL, world-wide-web, and THOMAS public transactions)	92,873,807	134,416,660	345,221,229	615,149,938	728,226,616	635,352,809	684.1%

Other noteworthy workloads include the following:

- ▶ The number of Congressional requests and services annually provided by the Congressional Research Service (CRS) increased from some 492,000 in 1995 to 545,000 in 1999.
- ▶ The annual number of registrations in the Copyright Office decreased by 14,694 from some 609,195 in 1995 to 594,501 in 1999, and the number of copyright inquiries answered annually decreased by 64,119 from 1995 to 1999.
- ▶ The number of information requests handled by reference staff decreased from 1.1 million in 1995 to 1 million in 1999, while the number of Internet transactions increased from 93 million to 728 million.
- ▶ The number of free reading materials delivered across the country each year to the blind and physically handicapped remained relatively stable at 22.7 million in 1999.
- ▶ The number of print materials cataloged decreased significantly and the size of the arrearage increased during 1999 because resources were diverted from these workloads towards the implementation of the Library of Congress Integrated Library System (LCILS).

MAJOR ACCOMPLISHMENTS IN FISCAL YEAR 1999

The Library's major accomplishments during fiscal year 1999 included implementation of the Library of Congress Integrated Library System (LCILS), administration of the Russian Leadership Program, and certification of mission-critical automated systems as Year 2000 (Y2K) compliant.

LC also improved physical and collections security measures, received the Library's third consecutive clean financial statements audit opinion, and delivered objective, timely, nonpartisan legislative support to the Congress on a wide range of issues. Highlights of these and other major achievements are listed below:

Congressional Research Service

The Congressional Research Service (CRS) provided information to Congress on matters ranging from agriculture to taxation and trade, from China to Kosovo, from space and technology to welfare and related issues.

CRS addressed a range of defense issues, among them budget priorities, medical care costs, military intelligence and law enforcement, base closings, acquisition reform, budget process

procedures, the cost to the United States of the Kosovo military operation, and long-term defense policy.

On the domestic front, CRS assisted the Congress as it considered matters relating to agriculture, education, banking and finance, proposed election campaign finance reforms, impeachment, proposed managed health care reforms, space and technology, Social Security, taxation, trade, welfare, children, and families.

CRS continued to prepare expert testimony for the Congress on topics related to the Y2K problem. Regarding Congress's oversight function, CRS planned and produced a three-day workshop on oversight for congressional staff that resulted in an updated congressional oversight manual, a video for broadcast on the congressional cable network, and a committee print of the proceedings.

CRS implemented the following technology to provide better services to the Congress:

- ◆ Legislative Information System: CRS focused on creation of a Y2K-compliant legislative information system (LIS) for the exchange of data among the House, Senate, and the Library. This compliance project was a significant undertaking due to the complexities of the LIS.
- ◆ Legislative Alert: To speed legislative analyses to Congress, CRS developed weekly email delivery of reports, issue briefs, and electronic materials relating to issues likely to receive action each week in the House and Senate. With links to the most recent products on the CRS Web site, these weekly summaries of legislative issues make information and analysis readily available to members and staff to support legislative deliberations.
- ◆ Electronic Briefing Books. CRS continued to develop one of its newest products, the electronic briefing book, by adding books for banking and finance, taxation, and the year 2000 computer problem.

Copyright Office

Pursuant to its longstanding role as an expert advisor to the Congress and the Administration on policy and international matters (a role expressly recognized in the 1999 Digital Millennium Copyright Act), the Copyright Office provided policy advice and technical assistance on legislation. For example, the office:

- ◆ assisted in drafting H.R. 354, the Collections of Information Antipiracy Act, which would make it unlawful to misappropriate substantial portions of databases; offered testimony on the bill; and assisted in revisions to accommodate concerns of various interested parties. The bill was reported out of the House Judiciary Committee during the fiscal year.
- ◆ worked closely with the Congress, including the House and Senate Judiciary committees and the House Commerce Committee, in connection with the extension of the satellite compulsory license and the enactment of a related new satellite compulsory license for

- ♦ the retransmission of local television broadcasts. The legislation passed both houses, and a conference was convened before the end of the fiscal year.
- ♦ helped Congress prepare technical corrections to Title 17 of the U.S. Code, primarily to correct technical errors in the Digital Millennium Copyright Act. The legislation was enacted on August 5, 1999.
- ♦ assisted Congress with legislation to increase the minimum and maximum awards of statutory damages pursuant to 17 U.S.C. §504. Similar legislation passed both houses, but the two houses had not passed identical bills by the end of the fiscal year.
- ♦ advised staff of the Senate Judiciary Committee with respect to proposed legislation that would permit suits seeking damages against states for copyright infringement.
- ♦ assisted the House Judiciary Committee in its consideration of the proposed Federal Intellectual Property Security Act, which would make major changes in the way the office records security interests in copyrights. The Register of Copyrights testified on the proposed legislation.
- ♦ in connection with its congressionally mandated report on "Copyright and Digital Distance Education," made and testified on legislative recommendations to update the Copyright Act's current educational exemptions to cover certain educational activities taking place through digital technologies.

CORDS: The Copyright Office continued to develop, test, and enhance the Copyright Office Electronic Registration, Recordation and Deposit System (CORDS) for the digital registration and deposit of copyrighted works via the Internet, using the latest advances in networking and computer technology. The goal is to implement CORDS in 2001.

Developed in collaboration with the Defense Advanced Research Projects Agency and Corporation for National Research Initiatives, CORDS will help the Copyright Office streamline its internal registration, recordation, and deposit processes, as well as provide the Library with copies of new copyrighted works in digital form for its National Digital Library repository. As many as 100,000 works in digital form could be received through CORDS annually by the year 2004.

CARP: The Copyright Office initiated three Copyright Arbitration Royalty Panel (CARP) proceedings to resolve the remaining controversies concerning the distribution of the 1992-1995 satellite royalties, the 1993-1997 cable royalties, and the 1995-1998 DART royalties. In each case, certain parties agreed to settle their claims in accordance with the terms of a private agreement; however, not one of the proceedings has been settled completely.

The Copyright Office also initiated, and in one case concluded, CARP proceedings for setting rates and terms for the statutory licenses governing: 1) the making of digital phono record deliveries, 17 U.S.C. 115; 2) the public performance of sound recordings by means of a digital transmission, 17 U.S.C. 114; and 3) the making of an ephemeral recording, 17 U.S.C. 112. The office concluded the proceeding that set the rates distributors pay for making digital phono records under statutory license. These rates are effective through December 31, 2000.

During the past year, the Copyright Office also assisted the Department of Justice in the preparation of two appellate briefs filed in the United States Court of Appeals for the D.C. Circuit in support of the Librarian's final order setting the rates and terms for digital transmissions by subscription services and his order determining the distribution of the 1991 cable royalty fees in the music category.

National Library Service for the Blind and Physically Handicapped (NLS/BPH)

During fiscal year 1999, the National Library Service for the Blind and Physically Handicapped (NLS/BPH) continued to refine and improve the Library's free, national reading program as highlighted by two major accomplishments:

Web-Braille: Braille readers may now access more than 2,700 Web-Braille digital braille book files created by the Library with a computer or electronic note-taker and a refreshable braille display, which is an electronic device that raises or lowers an array of pins to create a line of braille characters, or a braille embosser.

Digital Audio Development: The 17-member Digital Audio Development (DAD) executive and steering committee initiated work in digital talking book simulation software and digital collection access systems, including a prototype digital recording system at the NLS studio and a digital duplication system at the Multistate Center East. Work also continued on digital talking-book standards under the auspices of the National Information Standards Organization. Expected to be completed in one year, this digital standard will be used by NLS to develop its new talking book.

Library Services

LC ILS: The Library successfully implemented the Library of Congress Integrated Library System (LCILS) cataloging and circulation modules, the Online Public Access Catalog (OPAC), and the acquisitions and serials check-in modules. Through use of a shared bibliographic database, the system integrates all major Library Services functional areas, such as acquisitions, cataloging, serials management, circulation, inventory control, and reference. The LCILS improves bibliographic control and inventory management.

National Digital Library Program: By the end of fiscal year 1999, the National Digital Library Program (NDLP) had made more than 2.5 million Library of Congress digital files available online. Another 85,000 digital files from collaborating institutions also were accessible online, and an additional 2.5 million digital files from LC archives and other repositories were in various stages of production.

Fiscal year 1999 was the third and final year to award Library/Ameritech grants to other archives and institutions to digitize historically significant American history collections; a total of \$615,965 went to 12 recipients. A total of 33 award-winning institutions now have received support to digitize their historical collections and make them available through the NDLP.

In 1999, NDLP held its third American Memory Fellows Institute, welcoming 50 K-12 teachers and school media specialists from 20 states to the Library's existing network of master educators, bringing the reach of the National Digital Library's educational outreach program into 30 states since 1996.

During fiscal year 1999, the National Digital Library Visitors Center hosted more than 500 programs for more than 7,800 visitors. Center staff also answered 5,074 email requests for information.

Arrearage Reduction/Cataloging: The Library concentrated efforts to contain the growth of arrearages during fiscal year 1999, while resources were diverted to implement the LCILS. At year's end the total arrearage stood at 19,793,689 items, a decrease of 50 percent from the 39.7 million-item arrearage at the time of the initial census in September 1989. Even though the number of uncataloged items increased by 3.7 percent from September 1998, the accrual was 1,442,924 items less than had been projected for the year. Staff created catalog records for 205,893 print volumes and inventory records for an additional 55,243 items.

Preservation Efforts: Using the Bookkeeper limited-production contract, the Library completed the mass deacidification treatment of 75,000 volumes selected from three Library classifications: U. S. political science (JK), American literature (PS), and U. S. family history (CS71). The Library bound 183,202 paperback volumes and labeled 156,004 hardcover volumes; introduced a conservation fellow volunteer program, in which five volunteers rehoused 15,101 items; identified and evaluated an improved, commercially-available motion picture container; developed a new time-saving accelerated-aging test that will be used to predict the longevity of paper products; coordinated the preservation microfilming of 1.6 million pages of historically significant U. S. newspapers, adding more than 6,000 titles to the national union list of newspapers; microfilmed 3.3 million papers from the Library's collections; completed housing for 162,242 technical reports in the Publication Board Collection in the Science, Technology, and Business Division; inspected and processed 364 positive and 175 negative reels of microfilm acquired from Moscow's Library of Foreign Literature and Russian State Library, Lithuania, and military archives in Hungary, Poland, and Romania; and identified laser-marking equipment that can be used to place Library property information safely on CDs, audio tapes, and video tapes in the Library's collections.

American Folklife Center (AFC): The Legislative Branch Appropriations Act of 1999 (approved Oct. 21, 1998,) provided the American Folklife Center with permanent authorization and six new trustees for its board of directors. The center continued its mandate to preserve and present American folklife through a number of outreach programs, including the Local Legacies project and the addition of three new online collections.

Sharing the Collections: The Library shared its collections with hundreds of thousands of Americans through onsite exhibitions, 19 online exhibitions, special events, symposia, traveling exhibits, and major publications. The Library presented two major international exhibitions, *Sigmund Freud: Conflict and Culture* and *Charles and Ray Eames: A Legacy of*

Invention, in the northwest gallery of the Thomas Jefferson Building . These exhibitions were scheduled to visit Germany, Denmark, London, Vienna, New York City, Los Angeles, Brazil, and Chicago.

American Treasures of the Library of Congress, an unprecedented exhibition of the rarest and most significant items relating to America s past from the Library s collections, remained on view in the Thomas Jefferson s southwest gallery. Six smaller exhibits were mounted during the year in various other galleries and reading rooms of the Library, and ten displays were installed for special events.

Visitors: The Visitor Services Office conducted 3,108 tours for 64,489 visitors; arranged 734 tours for 13,699 congressional constituents; and made 487 appointments with LC staff for 2,180 VIPs, professionals, and students representing 77 different countries. The office assisted 858 first-time readers at a new Researcher Guidance Desk. A cadre of 152 volunteers provided 26,531 hours of service, conducted 1,780 public tours and 52 Spanish-language tours, and responded to inquiries from 179,813 visitors.

Publications: Major publications in fiscal year 1999 included: *Sigmund Freud: Conflict and Culture* (Alfred A. Knopf); *The Declaration of Independence: The Evolution of the Text* (University Press of New England); *David Roberts: Travels in Egypt and Nubia* (Pomegranate); *Language of the Land: The Library of Congress Book of Literary Maps* (Library of Congress); and *I'll Be Home For Christmas* (Delacorte). The Publishing Office won four awards for overall design excellence from the Washington Book Publishers in 1999, for *Gathering History: The Marian S. Carson Collection of Americana*; *Freud: Conflict and Culture*; *Performing Arts: Motion Pictures*; and *Oliphant's Anthem: Pat Oliphant at the Library of Congress*.

The award-winning book, *Eyes of the Nation*, was also released as a multimedia CD-ROM and DVD-ROM by Southpeak Interactive and the History Channel. *Eyes of the Nation* won second place in the American Association of Museums CD-ROM design competition, was named one of the top ten family multimedia products by Family Life magazine, and was the topic of a feature article in *The New York Times*.

Cybercasting: In pursuit of the latest Web technologies, the Library piloted a Web broadcasting program starting with Poet Laureate Robert Pinsky s lecture that opened the 1998-99 poetry season on October 8, 1998. The pilot explored the practicality of a regular Library cybercast program during the year of the Library s Bicentennial.

Digital mapping: Using digital technology, the Geography and Map Division (G&M) continued to work closely with the Congressional Research Service and the Congressional Relations Office to produce customized maps and geographic information for Members of Congress and with the National Digital Library to digitize cartographic materials for electronic access throughout the nation. Working with private-sector partners, G&M continued to expand a collection of large-format images available through the Internet. A new collection, *Mapping*

the National Parks, was introduced on June 2, and an evolving collection of *Places in the News/Contemporary Maps* was inaugurated in April 1999. By the end of the fiscal year, 2,428 maps (8,120 images) were made available to the world through the *Map Collections* homepage, which now averages more than 410,000 computer transactions each month.

Law Library

Global Legal Information Network (GLIN). GLIN is a cooperative international network of nations that contribute the full, authentic texts of statutes and regulations to a database managed by the Law Library. GLIN added several additional types of legal materials to support the requirements of specific GLIN members. At the end of fiscal year 1999, GLIN had 12 member countries participating via the internet; in addition, the Law Library was contributing information about the laws of another 24 nations. GLIN is a critical network for acquiring and making legal information available to the U.S. Congress, the government, and the nation.

Office of the Librarian

Russian Leadership Program: On May 24, 1999, Congress appropriated \$10 million for an Open World Russian Leadership Program to bring emerging political leaders from the Russian Federation to America to observe the workings of democratic institutions.

Administered by the Library, the program brought to America more than 2,100 Russian political, civic, business, and intellectual leaders from 83 of 89 regions between July and September 30. Hosted by more than 50 members of Congress and 800 American families in 400 communities, the Russian guests visited 46 states and the District of Columbia. Program cochairs were Dr. Billington and Russian academician Dmitri Sergeevich Likhachev, who died on September 30, the last day of the program.

Bicentennial Commemoration: In preparation for the Library's Bicentennial on April 24, 2000, The Office of the Librarian coordinated a Bicentennial program that included plans for a commemorative stamp, commemorative coins, exhibitions, publications, symposia, Bicentennial-related activities at libraries nationwide, and several projects, such as Favorite Poem, Local Legacies, and Gifts to the Nation. The Bicentennial theme of Libraries, Creativity, Liberty was reflected in the first two Bicentennial exhibitions, *The Work of Charles and Ray Eames: A Legacy of Invention* and *John Bull and Uncle Sam: Four Centuries of British-American Relations*, with materials from the Library of Congress and the British Library.

The first of the Bicentennial symposia series, Frontiers of the Mind in the Twenty-First Century, was held in June 1999. Appointed in 1999 to an unprecedented third term as Poet Laureate Consultant in Poetry, Robert Pinsky will present the Library the first 50 audio and video segments from a nationwide Favorite Poem project as part of the April 2000 Bicentennial symposium, Poetry in America.

The cornerstone Bicentennial project of 1999, Local Legacies, involved Members of Congress and their constituents in an effort to document the cultural and historical traditions in their communities for the Library's Archive of Folk Culture. Citizens from all 50 states are participating in this grassroots effort to preserve the folk traditions and local histories of our country at the end of the century and millennium. Selections from Local Legacies will be digitized in 2000 and shared with Americans through the Library's popular Web site. Notable among Gifts to the Nation are a \$1 million contribution from Gene and Jerry Jones to recreate Jefferson's library and \$1 million from the Doris Duke Charitable Foundation to purchase the Martha Graham archives.

Management and Support

Strategic Plan (1997 - 2004): Building on the Library's 1997-2004 Strategic Plan, the Planning, Management and Evaluation Directorate (PMED) coordinated the development of Annual Program Performance Plans (AP3s), which established goals and performance measures for each service and support unit. PMED also coordinated the development of an integrated time line for the Library's Planning, Programming, Budgeting, Execution, and Evaluation System (PPBEES), which will improve the linkage between planning and budgeting and the ability to measure the outcome and results of program services.

Year 2000 Century Change: The Library's primary technology focus during fiscal year 1999 was to ready its mission-critical systems for the Year 2000. Ninety-seven percent of the Library's mission-critical information systems were certified Year 2000 compliant at the end of fiscal year 1999.

Internet Access: The Library continued to provide more information to Congress and the public via the Internet and its Internet-based services, such as American Memory and THOMAS. Monthly transactions peaked at more than 75 million in October 1999.

Computer Security: Information Technology Services completed the curriculum for a Library-wide information technology security awareness class and completed work on automation of security administration for the Library's large UNIX server complex, on network subdivisions (i.e., public vs. private), and on full Internet firewall implementation.

Security of Facilities, Staff, and Collections: The Library installed X-ray machines in the James Madison, Thomas Jefferson, and John Adams main lobbies, where visitors were screened electronically beginning in May. LC also awarded a single contract for security guards; expanded police presence by adding new posts and patrols; and gained congressional approval of plans to make major physical security improvements, including the consolidation of the two police command centers, the integration and upgrading of intrusion detection systems, and the installation of improved access controls, such as vehicle barriers, curb walls, perimeter bollards, and secure police shelters.

Offsite Collections Storage: In March 1999, the Library and the Architect of the Capitol (AOC) recommended the firm of Tobey & Davis to the David and Lucile Packard Foundation to be the prime architect to design a National Audio-Visual Conservation Center in Culpeper, Va.

The Library also continued to work closely with the AOC and its contractors to ensure that the first storage module at Fort Meade, Md., meets the necessary environmental requirements to house and preserve the transferred collections and that materials handling will be as efficient as possible. The AOC has advised the Library that construction of Module One will be completed and the building ready for occupancy late in 2000. The module will house 2.2 million items of paper-based material, primarily books, shelved by size in containers.

Financial Statement Audit Opinion: In February 1999, the Library's independent accountants, Clifton Gunderson, LLC, issued an unqualified "clean" audit opinion on the Library's fiscal year 1998 Consolidated Financial Statements. In addition to the third consecutive "clean" audit opinion, the auditors found no material internal control weaknesses, and the number of reportable conditions decreased from six to two.

Human Resources Improvement: Congress approved two reprogramming actions during fiscal year 1999 totaling \$720,000 to accelerate the Library's HR 21 initiative to enable the Library to compete successfully for highly-qualified staff; retain high performers and reward excellence and innovation; train and manage staff to achieve Library missions; and make personnel administration responsive, efficient, and effective. A Strategic Planning Group and a Hiring Improvement Group recommended a new human resources program and a timetable for implementing new systems, programs, and procedures. The Library also issued a Human Resources Strategic Plan to guide the transformation effort and ensure that human resources activities clearly align with the agency mission.

The Library of Congress Internal University developed and published the *Library of Congress Mission Critical Education and Training Matrix*, a training tool that identifies 37 Library mission-critical courses as well as specific courses for service units. To reinforce Facilitative Leadership practices throughout the Library, LCIU developed and conducted the course, Teams in Action. The LCIU also continued to coordinate the quarterly Leadership Lecture Series, a forum for managers and staff to learn from top corporate officers, government officials, and leadership scholars about effective leadership practices and techniques.

STEWARDSHIP REPORTING

The standard for stewardship reporting on selected assets classified as "Heritage Assets" developed by the Federal Accounting Standards Advisory Board (FASAB) is mandatory for fiscal year 1999. The standard applies to entities (1) that control stewardship resources and (2) whose financial statements purport to be in accordance with federal accounting principles and

standards developed by FASAB and accepted by the principals. All stewardship information is deemed "required supplemental stewardship information."

In fiscal year 1995, the Library, in consensus with its independent accountants, determined its collections were within the stewardship resource classification and prepared its first stewardship report. By beginning in fiscal year 1995, the Library initiated developing a data collection and a trial reporting methodology that lead to fulfilling the objectives of the stewardship reporting standard -- to assist in judging the long-term effectiveness of expenditures for "heritage assets," the results of inputs and outcomes, and the financial impact of sustaining current services.

Consistent with the guidelines provided by FASAB, the Library has prepared its fifth stewardship report on its collections that provides the suggested relevant information concerning the asset description, acquisition, preservation, security, use, estimated number of items, and expenditures. The Stewardship Report is included as Section 4 of this report.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The Library's financial statements are the culmination of a systematic accounting process. The statements have been prepared to report the financial position and results of operations of the Library of Congress, pursuant to the hierarchy of accounting principles and standards set forth in Note 1 to the Consolidated Financial Statements. While the statements have been prepared from the books and records of the Library, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

THE LIBRARY OF CONGRESS

Consolidated Balance Sheet

As of September 30, 1999

ASSETS

Entity Assets:

Intragovernmental Assets	
Fund Balance with Treasury (Note 2)	\$ 163,619,265
Investments (Note 5)	35,586,097
Accounts Receivable, Net (Note 6.A)	4,359,014
Other Assets	453,829
Investments (Note 5)	18,879,646
Accounts Receivable, Net (Note 6.A)	381,885
Pledges Receivable - Donations (Note 6.B)	13,473,626
Cash and Other Monetary Assets (Note 3)	1,725,468
Inventory (Note 7)	2,443,353
Property and Equipment, Net (Note 8)	63,145,883
Library Collections (Note 1.M)	
Total Entity Assets	\$ 304,068,066
Non-Entity Assets:	
Fund Balance with Treasury (Note 2)	140,737
Investments, Intragovernmental Securities (Note 5)	774,757,749
Accounts Receivable, Net - Intragovernmental (Note	7,198
Accounts Receivable, Net (Note 6.A)	20,266
Cash and other Monetary Assets (Note 3)	16,779
Total Non-Entity Assets	<u>774,942,729</u>
Total Assets	<u>\$ 1,079,010,795</u>

LIABILITIES

Liabilities Covered by Budgetary Resources:

Intragovernmental liabilities	
Accounts Payable	\$ 3,376,927
Advances from Others	28,969,475
Accounts Payable	21,879,361
Advances From Others	2,313,636
Custodial Liability	774,915,266
Accrued Funded Payroll, Benefits	15,433,392
Other Liabilities (Note 12)	633,782
Total Liabilities Covered by Budgetary Resources	\$ 847,521,839

Liabilities not Covered by Budgetary Resources:

Deposit Account Liability	3,960,676
Accrued Unfunded Annual and Compensatory Leave	17,131,692
Accrued Unfunded Workers' Compensation (Note 10)	11,565,983
Capital Lease Liability (Note 9)	5,939,845
Other Liabilities (Note 12)	31,937
Total Liabilities not Covered by Budgetary Resources	<u>38,630,133</u>
Total Liabilities	<u>\$ 886,151,972</u>

NET POSITION

Balances:

Unexpended Appropriations (Note 13)	70,683,170
Cumulative Results of Operations	<u>122,175,653</u>
Total Net Position	<u>192,858,823</u>
Total Liabilities and Net Position	<u>\$ 1,079,010,795</u>

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

THE LIBRARY OF CONGRESS

Consolidated Statement of Net Costs

For the Fiscal Year Ended September 30, 1999

Net Costs by Program Area:

Library Services:

Program Costs	\$ 239,046,427
Less Earned Revenue	<u>4,868,749</u>
Net Program Costs	\$ 234,177,678

Law Library:

Program Costs	14,562,531
Less Earned Revenue	<u> </u>
Net Program Costs	14,562,531

Copyright Office:

Program Costs	48,039,321
Less Earned Revenue	<u>18,218,923</u>
Net Program Costs	29,820,398

Congressional Research Service:

Program Costs	96,017,808
Less Earned Revenue	<u> </u>
Net Program Costs	96,017,808

National Library Service for the Blind and Physically Handicapped:

Program Costs	46,397,702
Less Earned Revenue	<u> </u>
Net Program Costs	46,397,702

Reimbursable Funds:

Program Costs	53,661,537
Less Earned Revenue	<u>47,897,166</u>
Net Program Costs	5,764,371

Revolving Funds:

Program Costs	15,646,988
Less Earned Revenue	<u>6,281,721</u>
Net Program Costs	9,365,267

Costs not Assigned to Programs

35

Net Costs of Operations

\$ 436,105,790

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

THE LIBRARY OF CONGRESS
Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 1999

Net Costs of Operations	\$ 436,105,790
Financing Sources (Other than Exchange Revenue)	
Appropriations Used	\$ 369,861,197
Imputed Financing (Note 17)	47,069,122
Donations	15,444,571
Other Non-Exchange Revenue	4,629,906
	<hr/>
Total Financing Sources	<u>437,004,796</u>
Net Change in Cumulative Results of Operations	899,006
Increase in Unexpended Appropriations (Note 18)	<u>2,311,847</u>
Change in Net Position	3,210,853
Net Position, Beginning	<u>189,647,970</u>
Net Position, Ending	<u>\$ 192,858,823</u>

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

THE LIBRARY OF CONGRESS

Combined Statement of Budgetary Resources

For the Fiscal Year Ended September 30, 1999

Budgetary Resources

Budget Authority	\$ 376,536,206
Unobligated Balances - Beginning of Period	771,524,710
Spending Authority from Offsetting Collections	363,271,052
Adjustments, net	<u>1,527</u>
Total Budgetary Resources	\$ <u>1,511,333,495</u>

Status of Budgetary Resources

Obligations Incurred, New	\$ 665,231,429
Unobligated Balance - Available	824,644,428
Unobligated Balance - Not Available	<u>21,457,638</u>
Total, Status of Budgetary Resources	\$ <u>1,511,333,495</u>

Outlays

Obligations Incurred, New	\$ 665,231,429
Less: Spending Authority from Offsetting Collections and Adjustments	<u>368,574,865</u>
Subtotal	296,656,564
Obligated Balance, net - Beginning of Period	115,976,948
Less: Obligated Balance, net - End of Period	<u>122,411,560</u>
Total Outlays	\$ <u>290,221,952</u>

The accompanying notes are an integral part of these statements.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1999

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Library of Congress (Library), a legislative branch agency of the federal government, was established in 1800 primarily to provide information and policy analyses to the members and committees of the U.S. Congress. Since then, the Library has been assigned other major missions such as administering the U.S. copyright laws, providing cataloging records to the Nation's libraries, and coordinating a national program to provide reading material for blind and physically handicapped residents of the U.S. and its territories and U.S. citizens residing abroad. The Library also provides services to other federal agencies and administers various gift and trust funds.

The Library's programs and operations are subject to oversight by the Joint Committee on the Library which is comprised of members of the U.S. House of Representatives and Senate. The Library relies primarily on appropriated funds to support its programs and operations. Budget requests are subject to review by the House and Senate Appropriations Committees' Subcommittees on Legislative Branch Appropriations. The Library also receives funds from other agencies for services provided under the Economy Act and other statutes. In addition, the Library receives donations from the public in the form of gifts and trusts. The trust funds are controlled by the Library of Congress Trust Fund Board, which consists of the Librarian of Congress (who is Chairman and Secretary of the Trust Fund Board), the Chairman of the Joint Committee on the Library, the Secretary of the Treasury (or an assistant secretary designated in writing by the Secretary of the Treasury), and ten additional members appointed by the President (2), the U.S. House of Representatives (4), and the U.S. Senate (4).

Entity activities are those for which the Library has the authority to use the assets. Non-entity activities consist primarily of custodial accounts which are not available for use by the Library.

B. Basis of Presentation

The accompanying consolidated statements report the financial position, operations, and changes in net position and the combining statement reports the budgetary resources of the Library for fiscal year 1999. These consolidated and combined financial statements include the accounts of all funds under the Library's control which have been established and maintained to account for the resources of the Library. They were prepared from the Library's financial management system in accordance with the form and content for entity financial statements

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specified by the Library's Financial Management regulations and directives and the accounting policies summarized in this note.

As a legislative branch agency, the Library 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.

All significant intra-agency balances and transactions have been eliminated in consolidation.

The statements include 5 appropriated fund accounts; 11 revolving funds; reimbursable funds (including four major programs); 92 trust funds; and 139 gift funds.

C. Basis of Accounting

Transactions are recorded on the accrual basis and are within budgetary limitations established to facilitate compliance with legal constraints and controls over use of federal funds. 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 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 and recommending accounting principles, standards, and requirements to GAO, Treasury, and OMB. FASAB has issued, and the three sponsoring organizations have approved, a comprehensive set of accounting standards which cover most transactions. The accompanying financial statements are prepared in accordance with these standards. However, transactions that are not addressed by these standards may still be incurred and the following hierarchy shall be viewed as the source of providing generally accepted accounting principles:

- ! Individual FASAB standards agreed to by the Controller General, the Director of OMB, and the Secretary of the Treasury, and published by OMB and the General Accounting Office;

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- ! Interpretations related to the FASAB standards issued by FASAB and Technical Releases issued by the FASAB's Accounting and Auditing Policy Committee;
- ! Requirements contained in OMB's Form and Content Bulletin in effect for the period covered by the financial statements;
- ! 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 four parts of this hierarchy, and (2) if the use of such accounting standards improve the meaningfulness of the financial statements.

D. Revenues and Other Financing Sources

The Library receives the majority of its funding to support its programs through five appropriations that include both annual and no-year funding. The appropriated funds may be used, within statutory limits, for operating and capital expenditures including equipment, furniture and furnishings. The five appropriations are:

- ! Library of Congress, Salaries and Expenses - (annual) 0390101; (no-year) 03X0101
- ! Copyright Office, Salaries and Expenses - (annual) 0390102; (no-year) 03X0102
- ! Congressional Research Service, Salaries and Expenses - (annual) 0390127
- ! National Library Service for the Blind and Physically Handicapped, Salaries and Expenses - (annual) 0390141; (no-year) 03X0141
- ! Furniture and Furnishings - (annual) 0390146; (no-year) 03X0146

Additional amounts are obtained through reimbursements from services performed for other federal agencies as authorized by the Economy Act and the Library's annual appropriation legislation. Also, the Library receives gifts from donors and interest on invested funds. In addition, the Library operates several self-sustaining gift revolving funds which generate revenues from sale of various products and services to the public and federal customers.

Appropriations are recognized as revenues at the time they are expensed. Other revenues are recognized when earned. Reimbursable and revolving fund revenue is recognized when goods have been delivered or services rendered.

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E. Gift and Trust Funds

During fiscal 1999, the Library administered 231 gift and trust funds with combined asset value of approximately \$79 million. Funds are restricted as to their use, which must be in accordance with the terms of the gift agreement. In general, funds are either temporarily restricted (principal may be spent) or permanently restricted (principal may not be spent). Additional restrictions may be imposed on trust funds by the terms of a trust agreement or donor's will. Library fund managers administer and oversee the gift and trust funds to ensure they are used as directed by the donors and in accordance with Library policy.

F. Fund Balance with Treasury

The amount shown as Fund Balance with Treasury represents the balances of the appropriated, reimbursable, gift and trust, revolving, deposit and custodial funds that are on deposit with the U.S. Treasury.

G. Cash and Other Monetary Assets

Cash and other monetary assets are defined as all cash not held by the U.S. Treasury. This category includes deposits in transit, cash on hand and imprest funds.

The Library receives and utilizes foreign currencies in carrying out operations abroad as it conducts business through six overseas offices. Foreign currency balances at year-end are immaterial to the consolidated financial statements.

H. Investments (Net)

Gift and Trust Funds - The Library of Congress Trust Fund Board determines the investment policy for the Library's gift and 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 three stock funds, two index funds and one money market fund. The funds recommended by the Trust Fund Board's investment committee are:

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- ! Vanguard 500 Index Fund
- ! Vanguard Total Stock Market Index Fund
- ! Vanguard Prime Money Market Fund
- ! Fidelity Fifty Fund
- ! Fidelity Stock Selector
- ! Robertson Stephens Funds - The Emerging Growth Fund

The policy for gift funds allows only for investment in U.S. Treasury market-based securities.

Under 2 U.S.C. 158, up to \$10 million of the Library's gift and 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.

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.

Stock 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 balance sheet.

All gift and trust fund investments are obtained and held by the gift and trust funds under conditions set forth in the respective gift and trust instruments.

Custodial Fund - Copyright royalties collected by the Copyright Office on behalf of copyright owners are invested, net of service fees, in U.S. Treasury securities. 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. These investments will be held until distributions are made to copyright owners. Income accrues to the benefit of the copyright owners.

Deposit Funds - Pursuant to Public Law 105-80, funds deposited by copyright applicants are invested, based on the unearned balance available, by the Copyright Office in U.S. Treasury securities. 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. These investments will

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be held until the deposit fees are earned and income accrues to the benefit of the Copyright Office.

I. Accounts Receivable

Accounts receivable generally resulted from billings to other federal agencies under reimbursable interagency agreements for data base retrieval and other library services. The Library has established an allowance for doubtful accounts of \$4,012 against governmental accounts receivable based on past collection experience. The Library does not record allowance for doubtful accounts for intragovernmental accounts receivable in accordance with FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities, which cites that losses on receivables should be recognized when it is more likely than not that the receivable will not be totally collected. Intragovernmental receivables are likely to be totally collected.

J. Pledges Receivable

Contributions of unconditional promises to give (pledges) to the Library and the Library of Congress Trust Fund Board are recognized as donated revenue in the period the pledge is received. They are recorded at their estimated present value using a market-based discount rate. Accretion of the discount in subsequent years is also recorded as donated revenue. Substantially all of the Library's pledges are from major corporations or donors. In the past, the Library has collected all pledges in full, therefore, no allowance for uncollectible pledges has been established.

K. Inventory

The Library's inventories are primarily comprised of bibliographic products, unissued supplies and unused postage that will be consumed in future operations, materials used to reproduce printed materials, sound recordings for both internal and external sales, and sales shop merchandise for resale. Consumable operating supplies are valued at cost using a first-in first-out method of valuation. Sales shop merchandise is valued at cost or market, whichever is lower. The recorded values of inventory and operating materials and supplies are adjusted for the results of periodic physical counts.

L. Property and Equipment

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For fiscal years prior to 1998, the Library capitalized furniture and equipment at cost if the initial acquisition cost was \$10,000 or more. Starting in fiscal year 1998, the Library capitalizes furniture and equipment at cost if the initial acquisition cost is \$25,000 or more. Depreciation is computed on a straight-line basis using estimated useful lives.

The largest category of equipment is for the National Library Service for the Blind and Physically Handicapped lending program which is classified as equipment on loan to the public in Note 8. The Library purchases this unique, specially designed equipment from the manufacturer in large lots with a high bulk value. For financial reporting purposes, the machines are grouped by the aggregate amount purchased and shipped to machine lending agencies during a fiscal year. Each fiscal year group is then accounted for over the estimated useful life of the assets in the aggregate. The value of the equipment does not include any freight or postage costs. These shipping costs are included under the U.S. Postal Service's "free matter for the blind and physically handicapped." The value of this service has not been determined.

Operating equipment is amortized over a 3 to 20 year period. ADP software is software purchased from outside vendors with an estimated useful life of three years or more and a value of at least \$10,000 per item acquired in fiscal years 1997 and prior or at least \$100,000 per item acquired in fiscal years after 1998.

Leased equipment meeting the criteria for capitalization in accordance with Statements of Federal Accounting Standards is included in property and equipment.

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, property accounts are not maintained in the gift and trust funds. Capitalized property and equipment acquired through gifts are recognized as donated revenue in the gift and trust funds and transferred to the Library's appropriated fund. The Library records the donated property and equipment at its fair market value at the time of the gift.

Land and buildings are excluded from the Library's property and equipment accounts because they are under the custody and control of the Architect of the Capitol. This arrangement encompasses four Capitol Hill buildings (the Thomas Jefferson, James Madison, John Adams Buildings, and the Special Facilities Center) and a secondary storage facility at Fort Meade, Maryland. Costs associated with the acquisition and maintenance of these buildings are accounted for by the Architect. However, in accordance with SFFAS No. 4, Managerial Cost Accounting Standards, a current year expense of \$25.6 million was recorded for the

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acquisition and maintenance of these buildings and was offset by an imputed financing source, which represents the amount being financed by the Architect. In fiscal year 1999, the Architect received an appropriation totaling \$19.9 million to fund the structural and mechanical care of these buildings. This appropriation is not reflected in the accompanying consolidated financial statements. The Library does capitalize and depreciate leasehold improvements to all of its facilities as long as the improvement was made using the Library's funding sources.

M. Library Collections

The Library's collections are classified as heritage assets, and their value is not presented on the financial statements. Stewardship information covering the acquisition, use, preservation, and security of the collections is contained in a supplementary Stewardship Report.

N. Liabilities

Liabilities represent the amounts that are likely to be paid by the Library as a result of transactions that have already occurred. Liabilities for which an appropriation has not been enacted, or are the result of deposit account activities, are classified as liabilities not covered by budgetary resources. For accrued unfunded annual leave, compensatory time earned, workers' compensation and capital lease liabilities, it is not certain that appropriations will be enacted to fund these amounts.

Advances From Others are funds received for the reimbursable programs, the Photoduplication Service and the Cooperative Acquisitions Program that have not yet been earned.

Custodial and Deposit Liabilities are customer funds on deposit for Copyright and Cataloging Distribution Service products and services. This category also includes the custodial funds for Copyright royalties.

Accrued Annual and Compensatory Leave - The Library's basic leave policy is contained in Title 5, U.S.C.; the Uniform Annual and Sick Leave Regulations of the Office of Personnel Management; and the decisions of the Comptroller General. Generally, each employee may carry forward a maximum of 240 hours of annual leave per calendar year. Accrued annual leave is accrued as it is earned and adjusted at the end of each fiscal year based on annual leave earned and taken. Annual leave earned in

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excess of the maximum permitted carryover is forfeited. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Employees' compensatory time earned but not taken is also accrued at year-end. An employee may accumulate a maximum of 40 hours of compensatory time during the fiscal year. A maximum of 20 hours may be carried forward from one leave year to the next only when it was earned during the last pay period of the leave year. Exceptions to the accumulation and carry forward rules require the approval of the Librarian or his/her designee.

Sick leave and other types of nonvested leave are expensed as taken.

Capital Lease Liabilities are liabilities resulting from capital leases of equipment.

O. Federal Employee Benefits

Approximately 52 percent of the Library's employees participate in the Civil Service Retirement System (CSRS), to which the Library makes contributions equal to 8.51 percent of pay. A small number of employees under CSRS are also covered by Social Security (FICA) for which the Library's contribution is slightly less. An additional 45 percent of the Library's employees are covered by the Federal Employees Retirement System (FERS) to which the Library makes employer contributions equal to 10.7 percent of pay, in addition to matching employee Thrift Savings Plan (TSP) contributions up to an additional 5 percent of pay. Under FERS, the employee is also covered by FICA to which the Library contributes the employer's matching share. The remaining 3 percent of the Library's employees are only covered by FICA to which the Library contributes the employer's matching share.

The accrued amounts due for the contributions due at the end of the fiscal year are reported as liabilities covered by budgetary resources. Contributions for fiscal year 1999 were as follows:

CSRS	\$11,511,592
FERS	9,677,217
TSP	3,772,072
<u>FICA</u>	<u>5,752,174</u>

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Total	<u>\$30,713,055</u>
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The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of Social Security, FERS and CSRS is not allocated to individual Federal departments and agencies. However, in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government, a current year expense of \$20.9 million was recorded for the service cost of the Library's employee retirement, health and life insurance benefits and was offset by an imputed financing source, which represents the amount being financed directly by OPM.

P. Intragovernmental Activities

Inter-entity costs are costs of services provided by other Federal entities to the Library. When these costs are provided at no cost or at a reduced cost, the Library recognizes in its accounting records the full costs of the services it receives as an expense and as a corresponding financing source. These financial statements include unreimbursed inter-entity costs for the Architect of the Capitol, Office of Personnel Management and the Government Printing Office.

The financial activities of the Library interact with and depend on other federal government agencies. Thus, the Library's consolidated financial statements do not reflect all financial decisions and activities applicable to it as if it were a stand-alone entity.

- 1.** The Library's consolidated financial statements are not intended to report the agency's share of the federal deficit or of public borrowings, including interest thereon.
- 2.** The Library's program for the blind and physically handicapped participates in the U.S. Postal Service's "Matter for Blind and Other Handicapped Persons" program (39 U.S.C. 3403 - 3406). This Postal Service program receives an appropriation from Congress to provide free postage for qualifying organizations, programs, and individuals such as mail from war zones, letters from blind people to anyone, and organizations which work for the blind. The Library's National Library Service for the Blind and Physically Handicapped uses this free matter program for mailing all books and equipment to its participating lending libraries and patrons.
- 3.** Governmental Services:

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- a.** The Library is authorized to provide to other federal libraries and agencies services such as automated library information and other data base retrieval services through data base vendors and in-house research studies. These services are provided on a cost reimbursement basis and are billed in advance of providing the services. At year-end the Library estimates the amount received in advance (Advances From Others - Intragovernmental) and the amount to be received for services provided (Accounts Receivable - Intragovernmental).
- b.** Three government agencies provide administrative services to the Library on a reimbursable basis:
 - ! The Department of Agriculture's National Finance Center (NFC) processes the Library's personnel, payroll, and employee benefits accounting transactions. In fiscal year 1999, the Library paid \$469,856 for these services.
 - ! The Library utilizes the services of the Department of State as documented by the International Cooperative Administrative Support Services (ICASS) system to support the Library's six overseas field offices. The Library paid \$956,855 for these support services in fiscal year 1999.
 - ! The General Services Administration (GSA) provides building and vehicle leasing services for the Library. (See Note 9B)
- c.** As noted under Note 1.L, the Architect of the Capitol provides the structural and mechanical care of the Library's Capitol Hill facilities and remote storage site at Fort Meade, Maryland.

Q. Related Party Organizations and Transactions

The Library lends support to several related organizations, projects, and programs from which it receives benefits in various forms. The following is a list of these organizations or programs:

- 1. Civilization Magazine** - *Civilization*, a bimonthly magazine published under license from the Library by Civilization, L.L.C., a limited liability company based in Delaware, was launched in November, 1994. The original publisher was L.O.C. Associates, L.P., which sold their interest to Civilization, L.L.C., in January 1997. The cooperative agreement was approved by the Joint Committee on the Library in the

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fall of 1993. Under the licensing agreement, the Library may receive donations and must approve all promotional, editorial, and advertising material using the Library's name. Twelve hundred federal depository libraries and all members of Congress received free subscriptions in fiscal 1999, as well as members of the Library's James Madison Council, the Archer M. Huntington Society (Hispanic Division friends) and members of the Phillips Society (Geography and Map Division friends). In connection with the magazine, the Library formed the Library of Congress Associates Program. By subscribing to *Civilization*, a person becomes a Library of Congress Associate entitled to special tours of the Library as well as discounts on food and gift shop merchandise sold at the Library. The donations received by the Library as a result of this publication and the revenue foregone as a result of the discounts given cannot readily be determined.

2. Telephone Pioneers of America - The Telephone Pioneers is a large industry-related organization that voluntarily repairs playback machines for the blind and physically handicapped program. Approximately 1,500 Telephone Pioneers (AT&T retirees) and Elfuns (General Electric retirees) repair the cassette book machines and talking book machines. Their labor is valued at \$4.2 million per year.

3. Library of Congress Child Care Association (LCCCA) - The LCCCA is a nonprofit corporation under the District of Columbia's Nonprofit Corporation Act. It was granted 501(c)(3) status by the Internal Revenue Service on August 31, 1992, and currently operates as the "Little Scholars Child Development Center." The Center is located on the ground floor of the Library's Special Facilities Center, 601 East Capitol Street, District of Columbia. The Center provides child care for Library employees and other federal and non-federal employees. Its operations, management, and employees are the responsibility of the LCCCA and not the Library. However, the Library and the Architect of the Capitol support the Center with equipment, free space, cleaning and maintenance of grounds and building, utilities, local telephone service, and security. The value of the services provided by the Library cannot be readily determined. The Library provides an official who is a non-voting representative on the Center's Board of Directors and who acts as a liaison with the Library.

4. The Archer M. Huntington Charitable Trust - This charitable trust was established in 1936 and is controlled and invested by the Bank of New York. The assets of the endowment are not a part of the Library of Congress Trust Fund Board and the Board's only control over its investment activities is through the Librarian of Congress' role as trustee. The trust is defined as a split-interest agreement with a fair value of assets at

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September 30, 1999 of \$6,874,129. The Library is entitled to one-half of the income from the trust for perpetuity, which is used to support a rotating consultantship to bring "distinguished men of letters . . ." to the Library. Currently, the income assists in the funding of a "poet laureate" position. In fiscal year 1999, the Library received \$120,498 from the trust.

5. Ira and Leonore Gershwin Trust Fund and Related Charitable Trust - Under the will of Mrs. Leonore Gershwin, the Library of Congress Trust Fund Board is the beneficiary of 37.5 percent of Mrs. Gershwin's "1987 Trust." 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. The net income of the Charitable Trust is distributed to the Library's Ira and Leonore Gershwin Trust Fund monthly or in installments after the Library submits project requests. Income is recorded by the Library in the period received. The balance of principal of the Charitable Trust will be distributed to the Library in 2033, fifty years after the date of death of Ira Gershwin. The Library received \$771,089 in goods, services and direct contributions from the trust during fiscal year 1999.

6. "Friends" Organizations - Three organizations lend support to Library programs through gifts of money and other property but are incorporated as independent entities under the Internal Revenue Service Code, Section 501 (c)(3).

a. Millennium Foundation, Inc. - The Foundation operates for charitable, educational and literary purposes solely to benefit, support, and carry out the purposes of the Library. The Library allows the Foundation to use its name in connection with the performance of activities approved by the Library. This right exists only so long as the Foundation is engaged in activities that directly or indirectly support the mission and objectives of the Library. In its third quarter report, dated September 30, 1999, the Foundation reported total assets on hand of \$90,088.

b. Friends of the Law Library - This national non-profit organization supports educational programs, outreach, research, and the acquisition of rare materials and other activities of the Law Library not covered by federal appropriations. In fiscal 1999, the Friends provided a grant to support the Law Library's celebration of Law Day 1999, the Law Library's participation in the annual

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meeting of the American Association of Law Libraries and other association programs for staff members.

c. Friends of Libraries for the Blind - The non-profit organization's purpose is to heighten awareness and visibility of national library services for blind and physically handicapped individuals in the United States and Canada and assist and promote library services, provide cultural enrichment programs and create and issue periodic communications on topics related to blind and physically handicapped individuals.

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Note 2. Fund Balance With Treasury

Fund balance with Treasury at September 30, 1999, is summarized as follows:

1. ENTITY	Obligated	Unobligated /Available	Unobligated/Unavailable/ Restricted	Total
Appropriated Funds	\$78,905,359	\$11,829,478	\$7,264,893	\$97,999,730
Reimbursable Funds	37,601,534	3,029,895	3,999,934	44,631,363
Gift and Trust Funds	4,126,187		8,432,350	12,558,537
Revolving Funds	2,514,406	5,670,477	244,752	8,429,635
Total Entity	\$123,147,486	\$20,529,850	\$19,941,929	\$163,619,265
2. NON-ENTITY				
Custodial Funds		\$140,737		\$140,737

(1) At September 30, 1999, the gift and trust fund balance with Treasury included \$10 million invested in the permanent loan at an interest rate of 6 percent. The majority of budgetary resources supporting the permanent loan balance is unobligated restricted authority.

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Note 3. Cash and Other Monetary Assets

Cash and Other Monetary Assets consists of the following:

	Cash on Hand	Imprest Funds	Deposits in Transit	Total
Entity:				
Appropriated Funds	\$250,714	\$42,357	\$119,691	\$412,762
Reimbursable Funds	337		2,736	3,073
Gift and Trust Funds	770,104			770,104
Revolving Funds	536,829	2,700		539,529
Total Entity	\$1,557,984	\$45,057	\$122,427	\$1,725,468
Non Entity:				
Custodial Funds	\$16,779			\$16,779

Note 4. Custodial Funds

The Library of Congress Copyright Office Licensing Division administers the compulsory and statutory licenses covered by the Copyright Act (17 U.S.C.). The Licensing Division receives royalty fees from the cable television operators for retransmitting television and radio broadcasts, from satellite carriers for retransmitting "superstation" and network signals, and from importers and manufacturers for distributing digital audio recording products (DART). Refunds may arise when a cable, satellite, or DART remitter inadvertently overpays or is otherwise entitled to a refund. The Licensing Division invests the licensing royalty fees in market-based U.S. Treasury notes and bills. Because these investments are held in a custodial capacity for the copyright owners, income does not accrue to the Library's benefit.

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If disputes arise regarding the disposition of the royalties, the Librarian convenes a Copyright Arbitration Royalty Panel. The panel consists of three arbitrators selected from a list of professional arbitrators nominated by professional arbitration associations. The Librarian, upon the recommendation of the Register of Copyrights, selects two of the three arbitrators who, in turn, select the third arbitrator. This individual serves as the chairperson of the panel.

The Librarian reviews the panel's decisions and has 90 days to adopt or reject the panel's decision. Decisions may be appealed to the United States Court of Appeals for the District of Columbia Circuit.

Note 5. Investments, Net

Investments at September 30, 1999 are as follows:

	ENTITY ASSETS Gift & Trust Funds			NON-ENTITY ASSETS Custodial: Copyright Royalties
	A. Intragovernmental Investments Non-Marketable, Market-Based	B. Other Investments Private Sector	Total Entity	A. Intragovernmental Investments Non-Marketable, Market-Based
Face Value	\$35,427,000		\$35,427,000	\$775,578,000
Cost		\$17,731,283	17,731,283	
Unamortized Premium	250,056		250,056	617,180
Unrealized Discount	323,102		323,102	2,207,944
Interest Receivable	232,143		232,143	770,513
Investments, Net	35,586,097	17,731,283	53,317,380	774,757,749
Market Value	\$35,269,344	\$18,879,646	\$54,148,990	\$773,079,586

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A. Intragovernmental Investments

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Trust fund investment maturity dates range from October 7, 1999 to February 15, 2003, and interest rates range from 4.4 percent to 8.9 percent.

Custodial funds investment maturity dates range from October 14, 1999 to August 31, 2000, and interest rates range from 4.4 percent to 6.9 percent.

B. Other Investments

Other investments are the Library's investments in private sector money market and mutual funds. Cost was derived from the investments made plus reinvested gains, dividends, and interest. Balances at September 30, 1999, are as follows:

Type of Investment	Cost Basis	Market Value
Money Market Fund	\$4,603,421	\$4,603,421
Equity Mutual Funds	13,127,862	14,276,225
Total	\$17,731,283	\$18,879,646

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Note 6. Receivables

A. Accounts Receivable

The breakdown of gross and net accounts receivable is as follows:

Entity	Combined	Eliminations	Consolidated
Intragovernmental			
Accounts Receivable, Gross	\$5,039,952	(\$680,938)	\$4,359,014
Allowance for Doubtful Accounts			
Accounts Receivable, Net	5,039,952	(680,938)	4,359,014
Other			
Accounts Receivable, Gross	385,897		385,897
Allowance for Doubtful Accounts	4,012		4,012
Accounts Receivable, Net	381,885		381,885
Non-Entity			
Intragovernmental			
Accounts Receivable, Gross	7,198		7,198
Allowance for Doubtful Accounts			
Accounts Receivable, Net	7,198		7,198
Other			
Accounts Receivable, Gross	20,266		20,266
Allowance for Doubtful Accounts			
Accounts Receivable, Net	20,266		20,266

B. Pledges Receivable

At September 30, 1999, the Library had unconditional pledges of contributions totaling \$15.2 million which were discounted through fiscal year 2004 at a market discount rate and included in the statement of financial position at their discounted value of \$13.5 million. The amounts due in future years, at September 30, at their current discounted value are:

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Fiscal Year	Present Value	Discount	Future Value
2000	\$6,049,275	\$329,126	\$6,378,401
2001	3,067,583	354,531	3,422,114
2002	2,025,772	367,343	2,393,115
2003	1,121,666	290,834	1,412,500
2004	1,209,330	410,670	1,620,000
Total	\$13,473,626	\$1,752,504	\$15,226,130

Note 7. Inventory

The Library's inventory is primarily comprised of bibliographic products, unissued supplies and unused postage that will be consumed in future operations, materials used to reproduce printed materials, sound recordings for both internal and external sales, and sales shop merchandise for resale. The following table shows inventory held for use and held for sale at September 30, 1999:

Entity	Held for Use	Held for Sale	Total
Appropriated Funds	\$189,104	\$405,661	\$594,765
Reimbursable Funds	1,802	935,534	937,336
Gift & Trust Funds	1,122		1,122
Revolving Funds	20,389	889,741	910,130
Total	\$212,417	\$2,230,936	\$2,443,353

Note 8. Property and Equipment

Property and equipment accounts are maintained in three categories of funds: Appropriated, Reimbursable and Revolving. The appropriated fund category includes all property and equipment used by the Library for general operations. Property and equipment purchased by FEDLINK, the Federal Research Division and the Integrated Support Services Administrative Working Fund are recorded in the reimbursable fund. Property and equipment purchased by Photoduplication Services and the Recording Laboratory are recorded in the revolving fund.

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The following table shows property and equipment which were capitalized at September 30, 1999.

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Appropriated: Operating equipment	\$42,440,773	\$34,102,098	\$8,338,675
ADP software	5,086,602	2,720,201	2,366,401
Furniture & Furnishings	959,808	223,692	736,116
Capital Leases	10,387,901	1,122,970	9,264,931
Leasehold Improvements	9,902,047	6,158,220	3,743,827
NLS/BPH Equipment - loan to public	88,293,488	50,140,274	38,153,214
Total Appropriated	157,070,619	94,467,455	62,603,164
Reimbursable: Equipment	457,746	457,746	0
ADP software	17,200	6,880	10,320
Capital Leases	617,044	137,500	479,544
Total Reimbursable	1,091,990	602,126	489,864
Revolving: Equipment	1,454,957	1,412,956	42,001
Capital Leases	71,988	61,134	10,854
Total Revolving	1,526,945	1,474,090	52,855
Total	\$159,689,554	\$96,543,671	\$63,145,883

Note 9. Leases

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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A. Capital Leases

The Library has capitalized leases for machinery and equipment at a cost of \$11,076,933 and has recorded accumulated amortization of \$1,321,604 as of September 30, 1999.

The lease agreements are annual fiscal year contracts that are subject to the availability of funding. The agreements contain a lease to purchase provision and there is no penalty for discontinuing the lease and turning back equipment prior to the completion of the agreement. In addition, The Library has entered into a three year incremental funding agreement with the General Services Administration (GSA) for the purchase of computer data storage equipment . The payments for this incremental funding agreement are not evenly distributed over the term of the agreement and are accrued based on available funding, as long as the minimum payment is made by the end of the fiscal year. Estimated future minimum lease payments are as follow:

Fiscal Year Ended September 30	
2000	\$1,363,432
2001	4,376,821
2002	153,405
2003	111,038
2004	27,760
Total Future Lease Payments	6,032,457
Less: Imputed Interest	92,612
Net Capital Lease Liability	\$5,939,845

B. Operating Leases

The Library leases office space and vehicles from the General Services Administration and has entered into other operating leases for various types of equipment. Additionally, the Library's overseas field offices lease operating space from the Department of State. Lease costs for office space, vehicles and equipment for fiscal year 1999 amounted to \$3,575,486. Estimated future minimum lease payments through fiscal year 2004 are as follow:

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Fiscal Year Ended September 30, 1999

Fiscal Year Ended September 30	
2000	\$3,291,086
2001	1,012,226
2002	117,646
2003	13,935
2004	13,935
Total Estimated Future Lease Payments	\$4,448,828

Note 10. Workers' Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Library employees under FECA are administered by the Department of Labor (DOL) and later billed to the Library.

The Library accrued \$1,954,723 of unbilled or unpaid workers' compensation costs as of September 30, 1999, and established an estimated unfunded liability for future costs based on historical claims rates. The estimated future unfunded liability is \$9,611,260 and is based on a ten year projection.

Note 11. Contingent Liabilities

Several claims relating to employment matters are outstanding against the Library. While management cannot predict the outcome of the claims and is unable to estimate the potential loss, the maximum loss under each claim may not exceed \$300,000 in compensatory damages, plus any equitable relief (back pay, front pay, attorney's fees). Under law, any claims settled internally would be paid from the Library's funds and any claims defended in court would be settled by the Treasury's Claims, Judgments and Relief Act Fund.

Note 12. Other Liabilities

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Other Liabilities are comprised of the following:

	Deferred Credits	Custodial Liability	Total
Entity - Other	\$633,782		\$633,782
Non-Entity - Other		\$31,937	31,937
Totals	\$633,782	\$31,937	\$665,719

Note 13. Unexpended Appropriations

The components of unexpended appropriations at September 30, 1999 are as follows:

Undelivered Orders	\$51,563,856
Unobligated	
(a) Available	11,695,454
(b) Unavailable	7,423,860
Total Unexpended Appropriations	\$70,683,170

Unexpended appropriations consist of unobligated balances and undelivered orders. Unobligated balances represent amounts appropriated which are unobligated and have not lapsed, been rescinded, or withdrawn. Undelivered orders represent obligations the Library had incurred as of September 30, 1999, for goods and services which were ordered but had not been received by that date.

Note 14. Program Costs by Budget Object Classification

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Program Costs	Combined	Eliminations	Consolidated
Personnel Services and Benefits	\$301,635,185	\$536,335	\$302,171,520
Travel and Transportation	2,594,171	13,059	2,607,230
Rental, Communication and Utilities	8,660,729		8,660,729
Printing and Reproduction	6,798,826	(2,342,448)	4,456,378
Contractual Services	88,450,758	(3,801,133)	84,649,625
Supplies and Materials	10,167,745	(1,187,893)	8,979,852
Library Materials	59,651,221	(1,328,247)	58,322,974
Non-Capitalizable Equipment	14,356,942	160,000	14,516,942
Depreciation and Amortization	26,938,353		26,938,353
Grants, Subsidies and Contracts	2,049,158	(200)	2,048,958
Other Program Costs	26,786	(6,998)	19,788
Total Program Costs	\$521,329,874	(\$7,957,525)	\$513,372,349

The Library's collections are classified as heritage assets, and the amount designated as "Library Materials" above represents the fiscal 1999 cost incurred by the Library for acquisitions of heritage assets.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 15. Program Costs and Earned Revenue by Functional Classification

Program Costs by Functional Classification

Function Classification	Combined	Eliminations	Consolidated
Commerce and Housing Credit	\$48,667,922	\$828,888	\$47,839,034
Education, Training, Employment and Social Services	376,172,751	6,198,363	369,974,388
General Government	96,489,166	930,274	95,558,892
Other	35		35
Total	\$521,329,874	\$7,957,525	\$513,372,349

Earned Revenue by Functional Classification

Function Classification	Combined	Eliminations	Consolidated
Commerce and Housing Credit	\$18,252,272		\$18,252,272
Education, Training, Employment and Social Services	66,954,957	\$7,957,525	58,997,432
General Government	16,855		16,855
Total	\$85,224,084	\$7,957,525	\$77,266,559

Note 16. Exchange Revenues

In accordance with Library of Congress Regulation (LCR) 1510 Financial Services, the Library must comply with any OMB circular or bulletin if it is specifically prescribed in an (1) LCR, (2) FSD Directive, or (3) if required by law. OMB Circular No. A-25, User Charges, does not fall into any of these three categories, but may be used by the Library as a useful point of reference. Circular No. A-25 requires that user charges be sufficient to recover the full costs to the Federal Government. Full costs includes all direct and indirect costs to any part of the Federal Government of providing the good or service, including unreimbursed inter-entity costs.

The Copyright Office's registration operations have legislatively mandated fees, which do not require the recovery of the full costs of operations. Registration fees may be raised to recover reasonable costs; however, the new fees would need to be fair and equitable and support the objectives of the copyright system and give due consideration to the objectives.

If the Library were to increase fees and prices to recover full costs to the government of providing these goods and services, this would in some cases reduce the quantity of goods and

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1999

services demanded. It is not practicable to provide reasonable estimates regarding (1) revenue forgone from charging fees that do not recover full costs to the government and (2) to what extent the quantity of goods and services demanded would change as a result of changes in prices and fees.

Note 17. Imputed Financing

In accordance with SFAS No. 4, Managerial Cost Accounting Standards , the Library has recorded expenses for the unreimbursed full costs of goods and services that it receives from other Legislative Branch agencies (i.e., the Architect of the Capitol and the Government Printing Office) and Executive Branch agencies specifically identified for fiscal year 1999 reporting by the Office of Management and Budget (i.e., the Office of Personnel Management). Since these costs are not actually paid to the other agencies, an imputed financing source (revenue) is recorded to offset these costs.

The \$47.1 million of imputed financing consists of \$25.6 million to offset the recorded costs of the Architect of the Capitol (Library buildings and grounds costs), \$0.6 million to offset the recorded costs of the Government Printing Office (exchange program costs) and \$20.9 million to offset the recorded costs of the Office of Personnel Management (staff benefits costs).

Note 18. Unexpended Appropriations

The increase in unexpended appropriations consists of the following:

	Consolidated
Treasury Warrants from Appropriations	\$363,640,000
Non-Expenditure Transfers (U.S. Senate)	9,262,315
Non-Expenditure Transfers (U.S. Capitol Police)	3,651,000
Canceled BFY 94 Authority	(4,380,271)
Appropriated Capital Used	(369,861,197)
Increase in Unexpended Appropriations	\$2,311,847

Note 19. Budgetary Resources

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1999

Budgetary Resources are classified as follows:

Budgetary Resources:	ENTITY FUNDS (Appropriated Capital)	ENTITY FUNDS (Non-Appropriated Capital)	NON-ENTITY FUNDS	COMBINED
Budget Authority	\$376,553,115	(\$16,909)		\$376,536,206
Unobligated balances - beginning of period	17,062,685	51,367,533	\$703,094,492	771,524,710
Spending authority from offsetting collections	539,122	119,273,378	243,458,552	363,271,052
Adjustments, net	(3,215,195)	3,216,722		1,527
Total budgetary resources	\$390,939,727	\$173,840,724	\$946,553,044	\$1,511,333,495
Status of Budgetary Resources:				
Obligations incurred, new	\$371,890,098	\$119,017,428	\$174,323,903	\$665,231,429
Unobligated balance - available	11,695,454	41,475,155	771,473,819	824,644,428
Unobligated balance - not available	7,354,175	13,348,141	755,322	21,457,638
Total, status of budgetary resources	\$390,939,727	\$173,840,724	\$946,553,044	\$1,511,333,495
Outlays				
Obligations incurred	\$371,890,098	\$119,017,428	\$174,323,903	\$665,231,429
Less: spending authority from receipts and adjustments	1,704,018	123,412,295	243,458,552	368,574,865
Subtotal	370,186,080	(4,394,867)	(69,134,649)	296,656,564
Obligated balance, net - beginning of period	76,688,659	39,608,213	(319,924)	115,976,948
Less: obligated balance, net - end of period	79,500,009	43,666,873	(755,322)	122,411,560
Total outlays	\$367,374,730	(\$8,453,527)	(\$68,699,251)	\$290,221,952

(1) The net amount of budgetary resources obligated for undelivered orders, ending balance, is \$86,468,162, which consists of \$50,052,115 of appropriated funds and \$36,416,047 of non-appropriated funds.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1999

- (2) There were no material adjustments to the beginning balances of budgetary resources.
- (3) For Trust Funds, approximately \$9.5 million of unobligated authority is restricted from being spent by the donors and an additional \$13.4 million of restricted authority has been obligated and expended to invest in non-treasury securities.
- (4) There has been no contributed capital received during fiscal year 1999.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1999

Note 20. Schedule of Financing

A. Resources that Fund Net Costs of Operations (Budgetary):

	Library Services	Law Library	Copyright	Congressional Research Service	National Library Service for the Blind and Physically Handicapped	Reimbursable Funds	Revolving Funds	Overhead Funds	Consolidated
Obligations incurred, new	\$177,476,151	\$7,776,633	\$206,273,044	\$68,207,504	\$46,792,122	\$62,565,470	\$9,882,394	\$86,258,111	\$665,231,429
Less: spending authority from offsetting collections and adjustments	30,040,025	115,767	261,784,214	679,889	661,119	63,871,186	9,889,077	1,533,588	368,574,865
Net budgetary resources used to finance activities	147,436,126	7,660,866	(55,511,170)	67,527,615	46,131,003	(1,305,716)	(6,683)	84,724,523	296,656,564
Donations not in the budget	709,589								709,589
Financing Imputed for cost subsidies	25,204,189	2,470,560	4,776,372	7,953,691	578,973	913,944	1,795,762	3,375,631	47,069,122
Nonexchange donations and other offsetting collections not part of net costs	19,619,264	98,859	243,459,399	503,578	13,715		586,700	1,093,056	265,374,571
Net non-budgetary resources used to fund net costs of operations	45,533,042	2,569,419	248,235,771	8,457,269	592,688	913,944	2,382,462	4,468,687	313,153,282
Total resources used to fund net cost of operations	\$192,969,168	\$10,230,285	\$192,724,601	\$75,984,884	\$46,723,691	(\$391,772)	\$2,375,779	\$89,193,210	\$609,809,846

B. Resources Used But Not part of Net Cost of Operations:

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Fiscal Year Ended September 30, 1999

	Library Services	Law Library	Copyright	Congressional Research Service	National Library Service for the Blind and Physically Handicapped	Reimbursable Funds	Revolving Funds	Overhead Funds	Consolidated
Decrease in budgetary resources obligated to order goods and services not yet received	(\$2,241,104)	\$410	(\$550,145)	(\$350,158)	(\$1,366,863)	(\$2,098,237)	\$435,398	2,550,996	(\$3,619,703)
Change in unfilled customer orders, excluding change due to refunds of unearned revenue						6,734,896	519,342		7,254,238
Costs capitalized on the balance sheet	(4,307,716)	(4,663)	(42,780)	(154,539)	(12,655,143)	(96,744)	(15,463)	(10,422,844)	(27,699,892)
Distributions or refunds of nonexchange revenue, unearned revenue and custodial liability balances			(174,320,525)			(3,353,059)	(39,754)		(177,713,338)
Total resources used not part of net cost of operations	(\$6,548,820)	(\$4,253)	(\$174,913,450)	(\$504,697)	(\$14,022,006)	\$1,186,856	\$899,523	(\$7,871,848)	(\$201,778,695)

C. Costs That Do Not Require Resources:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	Library Services	Law Library	Copyright	Congressional Research Service	National Library Service for the Blind and Physically Handicapped	Reimbursable Funds	Revolving Funds	Overhead Funds	Consolidated
Depreciation and amortization	\$2,949,954	\$8,231	\$258,243	\$104,435	\$12,605,542	\$121,281	\$234,648	\$10,656,019	\$26,938,353
Overhead cost allocation	48,493,254	4,302,624	12,503,959	21,345,437	1,166,677	423,829	3,872,345	(92,108,125)	0
Bad debt and public exchange receivables	1,138	5	(3,255)	(76,349)	27	830	35,890	30,313	(11,401)
Other costs	266,628		224	28,779	340	1,049	15,274	20,728	333,022
Total costs that do not require resources	51,710,974	4,310,860	12,759,171	21,402,302	13,772,586	546,989	4,158,157	(81,401,065)	27,259,974
Current costs to be funded in future fiscal years	523,140	45,184	50,009	75,750	27,265	13,614		79,703	814,665
Net cost of operations	\$238,654,462	\$14,582,076	\$30,620,331	\$96,958,239	\$46,501,536	\$1,355,687	\$7,433,459	\$0	\$436,105,790

Note 21. Subsequent Events

Section 111(d)(4)(C) of the Copyright Act, 17 U.S.C., authorizes the Librarian of Congress to distribute cable royalty fees to copyright owners entitled to receive them upon making a determination that a controversy no longer exists in regard to the distribution of the funds. Based upon a historic settlement between the copyright owners, a distribution was made on October 28, 1999, for all but two percent of the remaining 1993, 1994, 1995 and 1996 cable royalty fees and all but 25 percent of the 1997 cable royalty fees. This distribution totaled \$321,665,700, which reduced assets (Non-Entity Intragovernmental Securities Investments) and liabilities (Custodial Liability) in October, 1999.

THE LIBRARY OF CONGRESS
Consolidating Schedule - Balance Sheet

As of September 30, 1999

Assets	Combined	Eliminations	Consolidated
Entity Assets:			
Intragovernmental Assets			
Fund Balance with Treasury (Note 2)	\$ 163,619,265	\$	163,619,265
Investments (Note 5)	35,586,097		35,586,097
Accounts Receivable, Net (Note 6.A)	5,039,952	\$ 680,938	4,359,014
Other Assets	1,622,500	1,168,671	453,829
Investments (Note 5)	18,879,646		18,879,646
Accounts Receivable, Net (Note 6.A)	381,885		381,885
Pledges Receivable-Donations (Note 6.B)	13,473,626		13,493,626
Cash and Other Monetary Assets (Note 3)	1,725,468		1,725,468
Inventory (Note 7)	2,443,353		2,443,353
Property and Equipment, Net (Note 8)	63,145,883		63,145,883
Library Collections (Note 1.M)			
Total Entity Assets	<u>305,917,675</u>	<u>1,849,609</u>	<u>304,068,066</u>
Non-Entity Assets:			
Fund Balance with Treasury (Note 2)	140,737		140,737
Investments, Intragovernmental Securities (Note 5)	774,757,749		774,757,749
Accounts Receivable, Net	7,198		7,198
Intragovernmental (Note 6.A)	20,266		20,266
Accounts Receivable, Net (Note 6.A)	16,779		16,779
Cash and Other Monetary Assets (Note 3)	774,942,729		774,942,729
Total Non-Entity Assets			
Total Assets	<u>\$ 1,080,860,404</u>	<u>\$ 1,849,609</u>	<u>\$ 1,079,010,795</u>
LIABILITIES			
Liabilities Covered by Budgetary Resources:			
Intragovernmental Liabilities			
Accounts Payable	\$ 4,057,865	\$ 680,938	\$ 3,376,927
Advances from Others	30,138,146	1,168,671	28,969,475
Accounts Payable	21,879,361		21,879,361
Advances From Others	2,313,636		2,313,636
Custodial Liability	774,915,266		774,915,266
Accrued Funded Payroll, Benefits	15,433,392		15,433,392
Other Liabilities (Note 12)	633,782		633,782
Total Liabilities Covered by Budgetary Resources	<u>849,371,448</u>	<u>1,849,609</u>	<u>847,521,839</u>
Liabilities not Covered by Budgetary Resources:			
Deposit Account Liability	3,960,676		3,960,676
Accrued Unfunded Annual and	17,131,692		17,131,692
Compensatory Leave			
Accrued Unfunded Workers Compensation (Note 10)	11,565,983		11,565,983
Capital Lease Liability (Note 9)	5,939,845		5,939,845
Other Liabilities (Note 12)	31,937		31,937
Total Liabilities not Covered by Budgetary Resource	<u>38,630,133</u>	<u></u>	<u>38,630,133</u>
Total Liabilities	<u>888,001,581</u>	<u>1,849,609</u>	<u>886,151,972</u>
NET POSITION			
Balances:			
Unexpected Appropriations (Note 13)	70,683,170		70,683,170
Cumulative Results of Operations	122,175,653		122,175,653
Total Net Position	<u>192,858,823</u>	<u></u>	<u>192,858,823</u>
Total Liabilities and Net Position	<u>\$ 1,080,860,404</u>	<u>\$ 1,849,609</u>	<u>\$ 1,079,010,795</u>

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS
Consolidating Schedule - Net Costs

For the Year Ended September 30, 1999

Net Costs by Program Area:

	Combined	Eliminations	Consolidated
Library Services:			
Program Costs	\$ 243,523,961	\$ 4,477,534	\$ 239,046,427
Less Earned Revenue	<u>4,869,534</u>	<u>785</u>	<u>4,868,749</u>
Net Program Costs	238,654,427	4,476,749	234,177,678
Law Library:			
Program Costs	14,582,076	19,545	14,562,531
Less Earned Revenue	<u> </u>	<u> </u>	<u> </u>
Net Program Costs	14,582,076	19,545	14,562,531
Copyright Office:			
Program Costs	48,839,254	799,933	48,039,321
Less Earned Revenue	<u>18,218,923</u>	<u> </u>	<u>18,218,923</u>
Net Program Costs	30,620,331	799,933	29,820,398
Congressional Research Service:			
Program Costs	96,958,239	940,431	96,017,808
Less Earned Revenue	<u> </u>	<u> </u>	<u> </u>
Net Program Costs	96,958,239	940,431	96,017,808
National Library Service for the Blind and			
Program Costs	46,501,536	103,834	46,397,702
Less Earned Revenue	<u> </u>	<u> </u>	<u> </u>
Net Program Costs	46,501,536	103,834	46,397,702
Reimbursable Funds:			
Program Costs	54,795,853	1,134,316	53,661,537
Less Earned Revenue	<u>53,440,166</u>	<u>5,543,000</u>	<u>47,897,166</u>
Net Program Costs	1,355,687	(4,408,684)	5,764,371
Revolving Funds:			
Program Costs	16,128,920	481,932	15,646,988
Less Earned Revenue	<u>8,695,461</u>	<u>2,413,740</u>	<u>6,281,721</u>
Net Program Costs	7,433,459	(1,931,808)	9,365,267
Costs not Assigned to Programs	35		35
Less Earned Revenue not Attributed to Programs	0		0
Net Costs of Operations	\$ 436,105,790		\$ 436,105,790

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS
Supplemental Schedule of Program Costs

For the Year Ended September 30, 1999

Net Costs by Program Area:	Combined	Eliminations	Consolidated
Library Services:			
Intragovernmental			
Production	\$ 64,231,719	\$ 4,477,534	\$ 59,754,185
Non-Production	123,703		123,703
With the Public			
Production	179,168,539		179,168,539
Non-Production			
Total Program Costs	243,523,961	4,477,534	239,046,427
Law Library:			
Intragovernmental			
Production	4,152,245	19,545	4,132,700
Non-Production	2,203		2,203
With the Public			
Production	10,427,628		10,427,628
Non-Production			
Total Program Costs	14,582,076	19,545	14,562,531
Copyright Office:			
Intragovernmental			
Production	13,931,102	799,933	13,131,169
Non-Production	10,726		10,726
With the Public			
Production	34,897,426		34,897,426
Non-Production			
Total Program Costs	48,839,254	799,933	48,039,321
Congressional Research Service:			
Intragovernmental			
Production	22,332,546	940,431	21,392,115
Non-Production	13,392		13,392
With the Public			
Production	74,612,301		74,612,301
Non-Production			
Total Program Costs	96,958,239	940,431	96,017,808
National Library Service for the Blind and Physically			
Intragovernmental			
Production	4,070,588	103,834	3,966,754
Non-Production	2,763		2,763
With the Public			
Production	42,428,185		42,428,185
Non-Production			
Total Program Costs	46,501,536	103,834	46,397,702
Reimbursable Funds:			
Intragovernmental			
Production	5,945,769	1,134,316	4,811,453
Non-Production	784		784
With the Public			
Production	48,849,300		48,849,300
Non-Production			
Total Program Costs	54,795,853	1,134,316	53,661,537
Revolving Funds:			
Intragovernmental			
Production	4,952,728	481,932	4,470,796
Non-Production	16,149		16,149
With the Public			
Production	11,160,043		11,160,043
Non-Production			
Total Program Costs	16,128,920	481,932	15,646,988
Costs not Assigned to Programs			
With the Public			
Production	35		35
Non-Production			
Total Program Costs	35		35

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS

Stewardship Report

HERITAGE ASSETS

September 30, 1999

Library Collections

The Library of Congress has the world's largest library collection comprising 119 million items including research materials in over 450 languages and various media. The collections include more than 27 million books and other printed materials, 53 million manuscripts, 12 million photographs, 4 million maps, 4 million pieces of music, 2 million audio recordings, and 821 thousand motion pictures. The collection of incunabula (books printed before 1501) is the largest in the Western Hemisphere, and the collections of maps, atlases, newspapers, music, motion pictures, photographs, and microforms are probably the largest in the world. Other collections include drawings, posters, prints, technical reports and other printed materials; computer programs, videotapes and disks, talking books, and other audio and visual materials. Each work day the Library adds more than 10,000 items to its collections for use by the Congress and the nation.

The Library has the papers of 23 presidents of the United States as well as papers of people from many diverse arenas -- Susan B. Anthony, Sigmund Freud, Pamela and Averell Harriman, Henry Kissinger, Thurgood Marshall, Irving Berlin, and many others. The Library's treasures include one of three perfect copies in the world of the three-volume Gutenberg Bible printed on vellum, two of the five known copies of the Gettysburg Address, Thomas Jefferson's handwritten draft of the Declaration of Independence, and many other rare books and manuscripts, including the oldest example of printing in the world. Also, new treasures are added each year. During the Library's bicentennial year, a focus is being placed on rebuilding the library of Thomas Jefferson, much of which was burned during a second fire in the U.S. Capitol in 1851.

The collections are organized into two major categories: the print collections, which include classified books, serials, and pamphlets; and the special format collections, such as maps, motion pictures, music, manuscripts, photographs, sound recordings, and prints.

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Collections Policy

The Library's collections are universal and comprehensive in scope, building on Thomas Jefferson's concept that Congress's own interests are universal; however, the Library does not collect everything or accession everything it receives. The collection development policy has evolved over the years. In 1814, Jefferson offered to sell his personal library to the Library Committee of Congress in order to "recommence" the Congressional library after the British burned the U. S. Capitol destroying the Library of Congress. Jefferson stated: "I do not know that it contains any branch of science which Congress would wish to exclude from their collection; there is, in fact, no subject to which a Member of Congress may not have occasion to refer." In 1815, President James Madison approved an Act of Congress appropriating \$23,950 for the acquisition of Jefferson's library of 6,487 volumes.

As set forth in the Library's Collections Policy Statements, the Library's collection development policies are designed to fulfill its responsibilities to serve (1) the Congress and United States Government as a whole, (2) the scholarly and library community, and (3) the general public. Written collection policy statements ensure that the Library makes every effort is made to possess all books and library materials necessary to the Congress and various offices of the United States Government to perform their duties; a comprehensive record, in all formats, documenting the life and achievement of the American people; and a universal collection of human knowledge (except clinical medicine and technical agriculture, which are the responsibilities of the National Library of Medicine and National Agricultural Library respectively) embodying primarily in print form the records of other societies, past and present.

In fiscal 1999, the Library adopted a Collection Policy Statement dealing with electronic or digital resources. In preparation for acquiring more digital collections the Library strengthened the infrastructure and modified policies to improve the integration of electronic resources into the Library's collections and services. It also established a Library-wide vision, plan and funding request. A working group, the Digital Futures Group, developed a set of programs that will employ digital technology to: 1) make the Library collections and resources more widely accessible and utilized by patrons, including the education community; 2) collect and create significant publications in electronic formats (born digital) to ensure that the Library collections continued to be universal and comprehensive; 3) build collections with both national and international institutions to create a global content asset enabling the Library to store, preserve, provide access to, and expand its resources; and, 4) create a culture of technical and strategic innovation to ensure that the Library staff can provide traditional and expanded resources to readers. This vision grounded digital information services on the fundamental principles that librarians are the keepers, interpreters and mediators of

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information and knowledge, and that all citizens are entitled to equal access to information and knowledge. A new position, the Director of Electronic Resources, was established.

The ideal of a universal collection was aided greatly by the copyright law of 1870, which combined the registration and deposit functions in the Library of Congress and stipulated that two copies of every book, pamphlet, map, print, photograph, and piece of music registered for copyright in the United States be deposited in the Library. Copyright deposits are a major source of the Library's collections of Americana. In fiscal 1999, research materials valued at more than \$36,435,429 were obtained for the collections through copyright deposits.

The Cataloging in Publication (CIP) Program is the other principal source of U.S. published books that the Library acquires. A mainstay of U.S. library service for more than twenty-five years, the program provides cataloging data, based on pre-publication galleys, to participating publishers who include the data in their published books. As participants, these publishers are required to submit a copy of the published book to the Library. This copy is in addition to the two copies mandated under the copyright law. In fiscal 1999, the Library obtained 58,401 titles through the CIP program. The Library also acquires U.S. publications through the Preassigned Card Number (PCN) Program. In fiscal 1999, the Library received 20,645 books for which the CIP division had provided a card number. The CIP and PCN titles are either added to the collections or used as part of the Library's exchange program.

The Library also acquires materials by purchase (essential publications not available through copyright deposit or the CIP program), transfer from other federal agencies, gift, domestic and international exchange, or by provisions of state and federal law. Many of these materials are foreign publications. The Library maintains six overseas offices and has arrangements with book dealers, agents, and publishers to ensure efficient and prompt acquisition of current foreign publications of research value on a world-wide basis. The following are brief descriptions of the Library's International Exchange and Federal transfer programs:

Among 11,000 exchange agreements, the Library of Congress maintains nearly 100 "official" exchanges with major national and parliamentary libraries around the world. These exchanges were instituted and are overseen by the Library; however, the Government Printing Office has the responsibility to ensure that this select group of exchange partners receives U.S. Government publications. Pursuant to 44 U.S.C. 1719, the Superintendent of Documents distributes U.S. government publications "to those foreign governments which agree, as indicated by the Library of Congress, to send to the United States similar publications of their governments for delivery to the Library of Congress." The Government Printing Office pays for the cost of this program from funds appropriated for the Superintendent of Documents.

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In fiscal 1999, the Library received approximately 107,000 items, or 37 percent of its exchange receipts, from these official central sources.

Pursuant to 36 C.F.R. 701.33, Federal libraries send their surplus materials to the Library for addition to its collections or to use in the exchange and surplus books programs. In fiscal 1999, the Library received 116,088 items from Federal agencies, and, although only a very small number were selected for the collections, several thousand were used in exchanges with other libraries for materials needed by the Library of Congress. Other Federal transfers were used in the Library's surplus books programs. The Library has been working closely with Federal agencies which are planning to transfer surplus materials. This early consultation ensures that the Library receives all materials appropriate for the permanent collections or useful in the exchange and surplus books program. Material not wanted by the Library can then be disposed of by the transferring institution.

The primary resources for recent acquisitions are as follow:

	1995	1996	1997	1998	1999
Annual Appropriations Authorized	\$ 8,458,000	\$ 8,458,000	\$ 8,458,000	\$ 9,619,000	\$10,119,000
Estimated Value of Copyright Deposits Transferred to the Library	\$20,158,594	\$20,157,816	\$25,183,884	\$26,991,776	\$36,435,429
Government Printing Office Appropriation (part of Superintendent of Documents) for International Exchange	\$ 462,000	\$ 509,000	\$ 537,000	\$ 444,000	\$ 527,000

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Acquisitions by source:

Source	Pieces 1995	Pieces 1996	Pieces 1997	Pieces 1998	Pieces 1999
Purchases:					
Appropriated - GENPAC/LAW	714,127	707,695	522,040	676,287	776,712
Appropriated Other	146,828	145,418	38,267	55,303	45,601
Special Foreign Currency	65,827	54,888	55,090	47,294	0
Gift and Trust Funds	3,712	4,830	3,499	3,028	4,076
Total Purchases	930,494	912,831	618,896	781,912	826,389
Non-Purchases:					
Exchange	453,857	321,446	310,849	313,224	288,538
Government Transfers	732,087	443,599	486,280	538,611	116,088
Gifts	744,860	2,608,494	1,116,626	1,577,561	1,709,712
Cataloging in Publication/PCN	49,201	49,083	82,301	72,283	79,046
Copyright Deposits	855,022	739,582	862,207	845,826	954,081
Total Non-Purchases	2,835,027	4,162,204	2,858,263	3,347,505	3,147,465
Total All Acquisitions	4,765,521	5,075,035	3,477,159	4,129,417	3,973,854

Note: Beginning in fiscal 1999, only those items acquired through Exchange or Government transfer that were added to the collections or used for Library programs were included in the statistics above.

Preservation of Library Collections

The Library's collections are preserved and protected through an extensive and diverse preservation program. The budget element for preservation of materials totaled \$ 9.2 million in fiscal 1999. Preservation projects in process or under study are outlined below.

Binding and Collection Care - The successful development of a unique design for a library materials transport truck with ergonomic, preservation and security features will, as acquired, replace the use of deep canvas mail tubs. The Library has identified and begun procurement of locking book trucks to better secure in-process materials.

Conservation - Conservation efforts include the successful development of cost effective techniques for cleaning, repairing, and stabilizing books, manuscripts, and photographs from the rare and special collections. Substantial progress was made toward establishing guidelines for

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environmental control, emergency preparedness, storage, handling, conservation treatment, and reformatting of endangered collections. The Library has successfully developed three new permanence and durability specifications and product designs for collection protection (phonograph disc storage sleeves, scroll storage container, and a storage box for use at Ft. Meade.) The Library began an important collaborative project with the Rochester Institute of Technology, Image Permanence Institute, to conduct a ground-breaking study of environmental storage conditions in the James Madison, Thomas Jefferson and John Adams buildings that will produce guidelines for optimizing room temperature and humidity conditions to enhance collection preservation and reduce energy costs.

Fiscal year 1999 saw the successful completion of a Preservation Awareness Workshop, an information fair for the Library staff, Congressional staff, and the general public, and the diversification of the Internship Training Program to include training opportunities in photograph conservation and preventive conservation.

Preservation Reformatting - Fiscal year 1999 reformatting projects included the successful online release of *Garden and Forest, A Journal of Horticulture, Landscape Art, and Forestry* (1888-1897). Preservation Reformatting Division developed the Library preservation specifications to digitize ten embrittled volumes, comprising 8,400 pages and over 1,000 photographs and other illustrations.

As a service to the larger library community, the Library mounted its digital reformatting practices on the Preservation Directorate Web site, which describes techniques for digitally copying.

Other microfilming projects included: microfilming Florida telephone directories and starting the filming of the Pennsylvania directories. Microfilmed directories (from 1884 through 1987) are now available for Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Georgia, Hawaii, Iowa and Maryland.

Research and Testing - The Library successfully evaluated the long-term effect of pressure-sensitive labels on CD's. Security labels for CD's were evaluated for their effect on the long-term retention of data. Error generation rates were compared for matched pairs of CD's. One CD in each of these pairs had a full-face security label attached to it. These CD's were monitored for error generation as aging under accelerated conditions progressed over an extended period. No ill effects were noticed for CD's aged for a time corresponding to ten years or less. However, for longer term aging, higher error generation was noticed, suggesting that labels with even the best adhesives should be avoided on CD's in archival collections.

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United States Newspaper Program (USNP) - The Library's Preservation Directorate, through an interagency agreement with the National Endowment for the Humanities (NEH), provides project management for the U.S. Newspaper Program, a cooperative effort to locate, preserve, and make available to researchers newspapers published in the United States from the eighteenth century to the present. Operating through projects in each state, work has been completed through 1999 in 26 states and two territories. As a result of data collected by project staff, the USNP bibliographic database now comprises 139,000 bibliographic records and 425,000 location/holdings records. NEH funding for preservation microfilming to date has supported the filming of 58 million pages.

Deacidification of Printed Materials - One of the most serious preservation issues facing the Library of Congress, and all libraries, is the problem of brittle, deteriorating books caused by acid introduced during the paper manufacturing process. The problem started in the mid-1800's when acidic wood pulp was substituted for rags in the manufacture of paper. LC and other libraries have inherited one and one-half centuries' worth of acidic, degrading collections -- a backlog of decay that grows each year as additional acidic books are acquired, primarily from other countries where many publications are not yet printed on alkaline paper. The cost of allowing these at-risk materials to degrade and eventually be lost or to require very expensive reformatting is incalculable.

The Library now has in place a successful Mass Deacidification Program that focuses on saving endangered books that are central to the Library's mission. The Library of Congress has 18 million books, most of which are printed on acidic paper. Many of these books (not including duplicates or volumes that are already too brittle to benefit from treatment) will eventually require deacidification treatment. In the past four years, with strong Congressional support, over 250,000 Library books have been successfully deacidified, including 75,000 that were treated in fiscal 1999.

Mass deacidification is an economic approach to keeping books alive and available in usable form. The technology, which extends the life of paper more than 300%, achieves economies of scale and is a cost-effective, "preventive preservation" activity. Books that are candidates for treatment are acidic, endangered volumes from the general and special collections and the Law Library that must be preserved – they are not the same materials that would be candidates for reformatting through microfilming (due to advanced brittleness of the paper) or through digitization (to promote much broader public access). This preservation treatment is thus reserved for books that are acidic and at risk of loss if no action is taken. Due to its role as the national library and the official library of the U.S. Congress, the Library is focusing primarily on selection of "Americana" for early treatment under the mass deacidification program, emphasizing the selection of endangered volumes from collections that are central to the Library's mission, such as law, history, literature, and political science.

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Preservation of Audio/Video Materials - Another serious issue facing the Library is the preservation of its magnetic media materials (audio, video, and data). As magnetic materials age they can develop any one of a number of conditions, all of which eventually result in an inability to play them, which means that the data they contain can never be retrieved. The physical life span of these materials varies depending on the way they have been stored, cared for, and used. Even under good conditions, magnetic materials may last only 20-30 years. The Motion Picture, Broadcasting and Recorded Sound Division currently has more than 725,000 tapes. Each year deteriorated or "at-risk tapes" are copied.

Ancillary to the deterioration of magnetic materials is the difficulty of maintaining appropriate play back systems. For example, video tape can be played back only on the system in which it was created. Since over 200 record and playback systems have been produced since the invention of video tape, this poses steep challenges for the Library and requires judicious selection of those items that will receive preservation attention. To help solve the problem of preserving information recorded on some of the early and now virtually extinct video formats, the Library has started to contract out the copying of select endangered materials (i.e., 2" quad video tapes) to more modern formats. The contract work complements in-house preservation recording and copying of deteriorated materials.

As part of its preservation approach to magnetic materials, and with an eye to the future, the Library is conducting a condition survey to estimate the environmental, housing, and physical condition of its holdings. A study entitled "A Unified Strategy for the Preservation of Audio and Video" was completed in 1997. Since that study, vigorous efforts have been made to map out the functional requirements for a digital repository for audio and video materials. Contractors have been engaged to assist in preparing an audio video prototype project that will test the approaches that are being developed for capturing, storing, and delivering digital audio and video, including measures that will assure the persistence of digital files over time. Full implementation of the Library's digital repository will coincide with the opening in 2002 of the Library's National Audio Visual Conservation Center in Culpeper, Virginia.

National Film Preservation Board - As mandated by Public Law 104-285, the National Film Preservation Board advises the Librarian of Congress on 1) annual selection of "culturally, historically and aesthetically significant films" to the National Film Registry, and 2) ongoing implementation of the national film preservation plan. The Board also helps generate increased public awareness of the need for film preservation.

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Primary activities of fiscal 1999 include:

- Substantial design overhaul and content expansion of National Film Preservation Board web site, <http://lcweb.loc.gov/film/>, to increase public awareness of film preservation issues
- The naming of 25 additional films to the National Film Registry in November 1999
- Continued coordination with the Association of Moving Image Archivists to prioritize the 30 recommendations found in the national plan. Initiatives involving cataloging and small gauge film formats are the focus at present.
- Collaboration with our private sector charitable affiliate, the National Film Preservation Foundation
- Preservation work (at Dayton lab and via collaborative ventures with other institutions) on Registry titles including *Louisiana Story*, *Place in the Sun*, *Bank Dick*, *Cat People*, *Fatty's Tintype Tangle*, *Jammin' the Blues*, *The Big Parade* and *Greed*.
- Identification of dozens of potential Registry picks through the ongoing "Candidates for the National Film Registry" public screening series.

Preservation statistics for fiscal 1999 are as follow:

Treatment: Volumes treated Unbound items treated, paper-based Photographs (examined, treated, housed) Commercial library binding, volumes Mass Deacidification, Volumes (3rd contract year)	6,453 4,540 10,648 183,202 75,000
Housing/Rehousing: Protective boxes constructed Items rehoused, paper-based Discs, film (reels), magnetic tape (reels/cassettes) cleaned, packaged	6,181 182,202 5,243
Copying/Reformatting: Preservation photocopying Paper-based materials converted to microfilm, items Audio materials converted to magnetic tape, titles Video materials converted to magnetic tape, titles	461 22,090 590 1,200

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Service

The Library of Congress is a public institution open to everyone over high school age, with limited exceptions. Its collections are available to users in numerous public reading rooms located in three Library buildings on Capitol Hill. The Library's first service priority is to the Congress; second, to other branches of the Federal government; and third, to scholars, other libraries and the general public. The Library is not a lending library. Only members of Congress and other statutory borrowers are authorized to remove materials from the Library. For selected other users, primarily other libraries, the Library is considered a "library of last resort," meaning that certain materials may be distributed through interlibrary loan only if the needed materials are not otherwise available in the United States.

To use Library collections, researchers identify the items they want through card and on-line catalogs, finding aids, and bibliographies. To request items, readers first register with photo-identification, and then may submit call slips to the staff, who retrieve the items from the secured collections storage areas and deliver them to the reader. In fiscal 1999, the Library issued reader registration cards to 43,562 on-site readers. The Loan Division is responsible for retrieving, packaging, and preparing loan charge records for materials that circulate outside the Library. In fiscal 1999, the Library served over two million items in the Library. It also circulated over 30,000 items to Congressional borrowers and over 97,000 items to other authorized borrowers.

Collections Security

In fiscal 1999, the Library implemented a new, Integrated Library System (ILS) that will provide the platform for future enhancements in collections security efforts. The system will allow item-level tracking of collection items, and facilitate collection inventory. The ILS Program Office and more than 80 implementation teams completed the conversion of 12 million Library bibliographic records, 4 million authority records, and vendor, order, and patron records. Staff prepared a request for proposal (RFP) and awarded a contract for the sheet shelflist holdings conversion, the first phase of a two-part project to bring holdings data from the 12 million card shelflist online; began developing a series of pilot programs to identify the most effective approach to converting the card shelflist holdings; and prepared an RFP and evaluated bids for a contract to convert the holdings data from the serials check-in manual files.

The Library continued to implement actions outlined in the October 1997 Security Plan, focusing on those whose cumulative impact will significantly enhance collections security Library-wide. The Collections Security Oversight Committee (CSOC) is charged with implementing the Security Plan.

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- Through the work of the Collections Security Oversight Committee, the Library has developed minimum standards for preservation, bibliographic, and inventory controls. Achieving this milestone enables the Library to strengthen its control over the Heritage Assets. These standards have been integrated with those for physical security allowing the Library to use one, internally consistent, approach for securing the collections and evaluating threats to the Heritage Assets. The external auditors have adopted this framework in their evaluations of collections security. In our research of other major cultural institutions and their security practices, we have not found another that has developed as complete a plan as that of the Library.
- The CSOC's Subcommittee on Operations contracted with KPMG to establish a baseline for some of the most heavily used and most accessible collections in the Prints and Photographs Division. Subsequent studies against this baseline will give the Library evidence of any loss and/or mutilation of these collections. The Director of Security has led this initiative in collaboration with the Office of the Inspector General. Execution of random sampling plans over time will yield baselines from which the effectiveness of physical security controls can be measured. This initiative fulfills requirements outlined in action #12 of the plan's schedule.
- The Library conducted additional risk assessments this year. The Manuscripts, Prints and Photographs, Binding and Collections Care, Conservation, Collections Management, Arts and Sciences Cataloging Divisions, as well as the Law Library and the Loading Dock were each examined for vulnerabilities. Plans of corrective action were developed for each unit and will be examined by the external auditors.
- The Library completed surveys of the feasibility of marking selected "treasures" and the effectiveness of loading dock operations, addressing actions #14 and #16 of the plan's schedule.
- The Library completed a draft update of the Security Plan.. The plan addresses numerous initiatives whose implementation began in fiscal 1998.
- A permanent implementing structure established in the draft fiscal 1999 plan has been addressing collections security issues since September 1998. Conveners of four standing subcommittees are accountable for implementing the integrated schedule of actions outlined in the draft plan.

Subcommittee on Policy and Standards - Fiscal 1999 activities included: developing Library regulations relating to collections security, developing compliance policies for the

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platinum and gold collections, refining minimum standards and control definitions as circumstances require, and integrating into one plan the other security disciplines – preservation, bibliographic, and inventory controls.

Subcommittee on Operations - Fiscal 1999 tasks included: developing and monitoring measures and trends of theft and mutilation, assessing the effectiveness of security controls in place, following up on recommendations of completed risk assessments by outside contractors, and ensuring adherence to security practices throughout the Library. This subcommittee also recommended that CSOC establish and adopt into the plan another cycle, Items on Exhibit.

Subcommittee on Public Affairs, Staff Relations, and Training - During fiscal 1999, this subcommittee arranged for coverage of collections security in the Library's publications is organizing a symposium linking collections security and preservation as part of the Library's Bicentennial celebration.

Subcommittee on Planning, Programming and Budgeting Execution - Fiscal 1999 included: actions associated with the development of Management Decision Packages (MDEPs) in the context of the Library's Planning, Programming, Budgeting, Execution and Evaluation System (PPBEEs), and developing cost requirements for various collections security programs involving support from the AOC.

The Office of Security provided significant support to the Interpretive Programs Office, including the installation of extensive electronic and physical security controls and the placement of security guards to protect the *Top Treasures, Religion, and Freud* exhibits. Security guards have also been placed in the Main Reading Room and the Manuscript Reading Rooms.

The Library completed the following additional physical security and procedural controls in fiscal 1999, further strengthening its controls over the Heritage Assets:

- ▶ The Library installed book theft detection targets in 772,444 volumes and incoming materials in the Copyright Office. Since 1992, the program's inception, 6,569,222 targets have been installed with the cumulative total covering more than 55% of the general collections.
- ▶ Working through the Office of the Inspector General and the CSOC, the Library responded to GAO open recommendations regarding collections security, with the result that, from the fiscal 1995 audit, GAO considers there to be for fiscal 1999, only three remaining recommendations, which all have action in process.

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- The Library and the AOC completed construction of a cloakroom in the Madison Building. When the cloakroom is opened, the Library will impose personal belongings restrictions on readers using the James Madison reading rooms.

Arrearage Reduction

An important priority of the Library is establishing bibliographic control over the collections to increase their accessibility and, at the same time, their security. In 1989, an inventory of unprocessed materials determined the backlog (arrearage) to be 39.7 million items. During the past nine years, the Library has put forth an extensive effort to reduce the cataloging arrearage and bring all the collections under bibliographic control. At the beginning of fiscal 1999, the arrearage, mostly in non-book formats, comprised 19 million items. The Library expected that the arrearage would grow during this fiscal year and so alerted the Congress because the implementation of the ILS was dependent on the expertise of many of the staff who normally work on arrearage reduction. In fact, the growth in the arrearage was not so large as was expected and was well within the target promised to the Congress.

Arrearage statistics for fiscal 1999 are as follows:

Items in Arrearage	1998	1999	Change	Percent Change
Print Materials	1,042,054	972,093	(69,961)	(6.7)
Special Materials	18,048,603	18,821,596	772,993	4.3
Total	19,090,657	19,793,689	703,032	3.6

Financial Reporting

The Library's collections are classified as stewardship property and are defined as heritage assets for financial reporting purposes. The Federal Accounting Standards Advisory Board (FASAB) standard on stewardship reporting requires that heritage assets be reported as required supplementary information accompanying the financial statements of the Federal Government and the component units of the Federal Government responsible for such assets.

The FASAB standard states that the costs of the stewardship-type resources shall be treated as

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expenses in the financial statements in the year the costs are incurred. However, the costs and resultant resources are intended to provide long-term benefits to the public and should be included in stewardship reporting to highlight to the reader their long-term benefit nature and to demonstrate accountability over them. The standard states that heritage assets shall be quantified in terms of physical units (for example, number of items in collections or the number of national parks). No asset amount shall be shown on the balance sheet of the Federal financial statements for heritage assets.

The quantities of items in the Library's collections shown in the table that follows were taken from Library statistics collected on a regular basis and records that were accumulated over the years.

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Estimated Quantity of Each Category of Collection Materials at September 30, 1999

Category of Collection	Beginning of Year Balance	Added During Year	Withdrawn During Year	End-of Year Total	Method of Acquisition and Withdrawal
Print Collections - Classified Books	17,772,400	253,172	1,570	18,024,002	Acquisitions: Copyright deposits, purchase, gifts, exchanges, cataloging-in-publication Withdrawals: exchange & gift of unwanted or duplicate copies; depreciation or depletion through use; disposals through GSA
Other Print Materials - includes books in large type, newspapers, pamphlets, technical reports, incunabula, serials, etc.	9,379,391	58,015	8,222	9,429,184	
Total Print Collections	27,151,791	311,187	9,792	27,453,186	
Other Collections - includes audio materials, talking books, books in raised characters, manuscripts, maps, microforms, music, visual materials (moving images, posters, photographs, photocopies, prints & drawings, etc.), and machine readable materials	88,353,904	3,212,829	26,290	91,540,443	Acquisitions: Copyright deposits, purchase; exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA.
Total Collections	115,505,695	3,524,016	36,082	118,993,629	

ADDITIONS TO THE COLLECTIONS ITEMS

Print Collections	Beginning	Added	Withdrawn	Total
Classified Book Collections				
Class A (General Works)	420,986	2,428	0	423,414
Class B-BJ (Philosophy)	304,022	3,995	0	308,017
Class BL-BX (Religion)	660,242	12,938	0	673,180
Class C (History, Auxiliary Sciences)	249,939	3,562	0	253,501
Class D (History, Except American)	1,190,852	20,742	0	1,211,594
Class E (American History)	268,927	2,811	0	271,738
Class F (American History)	429,957	6,380	0	436,337
Class G (Geography, Anthropology)	415,589	9,291	472	424,408
Class H (Social Sciences)	2,735,668	31,294	0	2,766,962
Class J (Political Science)	784,269	6,393	0	790,662
Class K and Law (Law)	2,172,405	29,860	1,072	2,201,193
Class L (Education)	506,165	4,680	0	510,845
Class M (Music)	621,651	6,271	26	627,896
Class N (Fine Arts)	485,883	9,558	0	495,441
Class P (Language and Literature)	2,368,877	44,864	0	2,413,741
Class Q (Science)	1,104,158	18,238	0	1,122,396
Class R (Medicine)	467,879	9,909	0	477,788
Class S (Agriculture)	417,306	4,008	0	421,314
Class T (Technology)	1,256,369	18,427	0	1,274,796
Class U (Military Science)	200,385	1,956	0	202,341
Class V (Naval Science)	104,633	679	0	105,312
Class Z (Bibliography)	606,238	4,888	0	611,126
Total Classified Books	17,772,400	253,172	1,570	18,024,002
Other Print Materials or Products				
Books in large type	8,681	0	0	8,681
Books in raised characters	71,986	1,232	0	73,218
Incunabula	5,698	2	0	5,700
Minimal-level cataloging (Monographs and serials)	557,738	19,256	0	576,994
Newspapers (bound)	30,570	0	0	30,570
Pamphlets	265,575	2,608	875	267,308
Technical reports	1,419,156	12,230	7,347	1,424,039
Other	7,019,987	22,687	0	7,042,674
Total Other Print Material	9,379,391	58,015	8,222	9,429,184
TOTAL PRINT COLLECTIONS	27,151,791	311,187	9,792	27,453,186

Other Collections	Beginning	Added	Withdrawn	Total
Audio materials	2,320,074	87,902	11,168	2,396,808
Talking books	53,937	1,954	0	55,891
Manuscripts	50,682,161	2,438,297	131	53,120,327
Maps	4,481,334	53,752	12,037	4,523,049
Microforms	12,171,496	385,961	1,948	12,555,509
Music	4,127,568	78,881	0	4,206,449
Visual material				
Moving images	803,077	18,450	0	821,527
Photographs (negative, prints, and slides)	11,933,191	126,509	357	12,059,343
Posters	84,509	707	0	85,216
Prints and drawings	397,767	7,941	0	405,708
Other (broadside, photocopies, material, etc.)	1,256,368	2,279	0	1,258,647
Machine-readable material	42,422	10,196	649	51,969
TOTAL OTHER	88,353,904	3,212,829	26,290	91,540,443
TOTAL (items)	115,505,695	3,524,016	36,082	118,993,629

**THE LIBRARY OF CONGRESS
MANAGEMENT REPORT ON INTERNAL CONTROLS
OVER FINANCIAL REPORTING**

Fiscal Year Ended September 30, 1999

The Library of Congress has a complex and diversified financial management system which includes a central system, 7 subsidiary systems, and 9 program systems. The system manages 5 appropriations, 139 gift funds, 92 trust funds, and 11 revolving funds. Although the Library of Congress, a legislative agency, is not required to comply with the Federal Financial Managers' Integrity Act (FMFIA), the Government Management and Reform Act or the Chief Financial Officers Act, it has chosen to follow these Acts in a manner consistent with a legislative agency in order to fulfill its internal control objectives.

The Library's financial management policy, LCR 1510, requires regular internal control reviews by its program and subsidiary system managers. Criteria applied in these reviews are based on the internal control standards and financial systems standards promulgated by the General Accounting Office. Library management evaluates the responses to these reviews, as well as information provided by the Library's Inspector General and by independent auditors to determine the extent of compliance with the following internal control objectives.

- ▶ **Financial Reporting** - transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use or disposition
- ▶ **Compliance with laws and regulations** - transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Principal Statements and any other laws, regulations, and government-wide policies.

This report on financial controls does not address safeguarding of the Library's collection (heritage) assets. A separate management report on the collections is presented at 5-3.

Financial managers are advised that the concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and errors or irregularities may occur and not be detected because of inherent limitations in any system of internal control. Managers were cautioned to take all necessary measures to ensure that the limited reviews are conducted in a thorough and conscientious manner and internal control objectives, as described in the accompanying guidelines, were achieved within the limits prescribed. Any deficiencies are disclosed with recommended plans and schedules for correcting such deficiencies.

The Library evaluated its internal controls for fiscal 1999 on the basis described above and identified the following deficiencies:

- ▶ **Security practices and certain other controls over information systems are inadequate.** The following weaknesses were present during fiscal year 1999 and require further actions to correct: logical access controls do not sufficiently restrict

access; internet controls need to be evaluated and strengthened by the Library; segregation of duties is not adequately addressed in all areas; and software development and change controls need improvement.

- ▶ **The Library lacks a business continuity plan.** The Library has initiated business continuity planning, but key elements are not completed.

Because internal control weaknesses existed during some part of fiscal 1999, we cannot provide reasonable assurance that the Library's internal controls over financial reporting at September 30, 1999, met the objective that assets are safeguarded against loss from unauthorized acquisition, use or disposition.

We believe internal controls over financial reporting were effective at September 30, 1999, in providing reasonable assurance for the following two objectives: (1) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets; and (2) transactions were executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the consolidated financial statements.

THE LIBRARY OF CONGRESS CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated statements report the financial position, operations, and changes in net position and the combining statement reports the budgetary resources of the Library for fiscal year 1999. The basis of accounting used for these statements is described in the notes to the statements. While the Library is not subject to the Chief Financial Officers Act of 1990 or FFMIA, it is committed fully to the principles and objectives of both Acts and has elected to comply with their requirements in a manner consistent with a legislative agency.

The audit of the Consolidated Financial Statements was performed by the independent auditors, Clifton Gunderson L.L.C. The independent auditors' report on the Consolidated Balance Sheet, Consolidated Statement of Net Costs, Consolidated Statement of Changes in Net Position, Combining Statement of Budgetary Resources, internal controls, and compliance with certain laws and regulations is included in Section 6 of this report.

John D. Webster
Director, Financial Services

Donald L. Scott
Deputy Librarian of Congress

James H. Billington
Librarian of Congress

**THE LIBRARY OF CONGRESS
MANAGEMENT ASSERTION ON CONTROLS FOR THE COLLECTIONS**

Fiscal Year Ended September 30, 1999

The purpose of this section is to assert management opinion about the effectiveness of the Library of Congress' internal control structure for the collections.

Preamble -- the Mission of the Library of Congress

A major mission of the Library of Congress is to acquire, preserve, and make maximally accessible the intellectual and information heritage of the United States and, to the degree desirable, the world. The Library serves, in priority order: the Congress; other branches of the government; other libraries and archives; researchers; and the general public. It is custodian of 119 million items, in over 450 languages and in the following formats: monographs and serials; manuscripts; prints, posters, and photographs; maps, atlases and globes; music manuscripts and scores; motion pictures, broadcasting and recorded sound; rare books; microforms; machine readable formats; and digital files. It makes these materials available to Congress and other government entities through loans; to the research public in its reading rooms on Capitol Hill and through interlibrary loan; and to the general public through the National Digital Library and such outreach programs as exhibitions, publications, videos, CDs, and tapes.

The Library of Congress, as the nation's library of last resort, has a special obligation to acquire comprehensively the creative and intellectual legacy of this nation; to secure and preserve those items for present and future generations; and to make these items as available as possible and prudent to its constituents, primarily Congress, other branches of government, and the research community. Achieving and maintaining the proper balance among preservation, security, and access is a dynamic and challenging process, faced by all libraries and archives. The process is influenced by the changing demands of the users, the development of technological and other means for accessing, preserving, and securing collections, and the judgment of management about the equilibrium itself. Maintaining an equilibrium in the midst of change is in turn influenced by the financial and personnel resources the Library has, through appropriations and other sources, to invest in acquiring, preserving, securing, and serving the Heritage Assets which comprise not only the Library's holdings, but in fact the official record of the history and creativity of the American people throughout its history.

The risks to the national collections are: not acquiring and organizing materials that are critical to the continued development of the research collections that meet the needs of the Congress and the research community; not preserving the collections from the physical degradation inherent in each of the various media the Library holds and from deterioration through use; and the theft, mutilation, or accidental loss of the items in the collection.

In the course of its nearly two hundred-year history, the Library has provided outstanding service to the Congress and has over time added service to other constituencies -- the Executive and Judicial Branches, the library and academic communities of America, and the general public -- while continuing to make service to the Congress its first priority. With time the risks to the collections have increased -- for example, the introduction of wood pulp (i.e., highly acidic) paper

in the mid-nineteenth century and a variety of unstable media in the twentieth (nitrate film stock, wax cylinders, audio tape, etc.) have presented the Library with a number of preservation challenges. In addition, as the Library has striven to serve a wider audience and as the collections have grown, the risk of theft, mutilation, and accidental damage through handling has become more serious. Though this problem has always been widely recognized and conscientiously addressed within the special format materials such as manuscripts and rare books, it was only in this decade that the Library took serious recognition of the extent to which the same problem afflicted the general collections (i.e., books and serials published after 1800).

And while the Library has, within the past one hundred years, built three special library buildings on Capitol Hill for storage and service of the collections and acquired space for special storage in Ohio, Pennsylvania, Virginia and Maryland, the physical plant has not kept pace with the growth of the collections and their demand for a controlled environment to slow inherent physical degradation. In order to ensure continued excellent service to the Congress and to document the history and creativity of the American people, the Library has been zealous in fulfilling its obligation to sustain a comprehensive collection base, even, at times, when that accumulation of items for the collections might outstrip the Library's ability to preserve, secure, and gain bibliographical control of the collection in as timely fashion as the Library would have liked. While this has been a conscious decision on the part of management -- without acquiring appropriate collections as they become available, the Library has no chance of fulfilling its most fundamental mission to Congress and the nation -- the result has led to a cataloging backlog, inadequate storage, and insufficient security in some areas.

The Library of Congress recognizes these problems and has taken substantial steps to address them. It established the Preservation Directorate in 1967. It began an aggressive assault on the uncataloged backlog in 1989 when it launched its Arrearage Reduction effort. And in 1992, it took the unprecedented step of closing its book stacks to the general public altogether and to its own staff for all purposes not directly related to their duties; and began the systematic upgrading of security in all its reading rooms and installation of perimeter security of the collections. For almost a decade the Library sought additional space and resources for secondary storage and film and audio preservation facilities. In December 1997, the Congress authorized the acquisition of space in Culpepper, Virginia owned by the Federal Reserve Bank of Richmond to be used as the National Audio-Visual Conservation Center. This center is projected to be sufficient to house all the Library's audio visual collections for the next 25 years. The Congress has approved the management development plan for the Center which enables full occupancy no later than 2005. Planning for off-site storage of collections at Fort Meade continues. The Library expects to start moving collections into the first storage module during fiscal year 2001.

MANAGEMENT ASSERTION

We confirm, to the best of our knowledge and belief, the following:

- 1) We are responsible for establishing and maintaining the internal control structure for the collections;
- 2) We have assessed the effectiveness of the Library of Congress' internal control structure over safeguarding of assets (collections) against unauthorized acquisition, use, or disposition, compliance with law and regulations, and financial reporting based upon control criteria established. Those control criteria include: bibliographical controls, inventory controls, preservation controls, and physical security controls. Specific controls over items depend upon the individual format, demand for and conditions of use, and the value and risk assessment for that item.

Bibliographical controls include but are not limited to: cataloging, archival processing, and arrearage reduction.

Inventory controls include but are not limited to: the automated circulation control system; manual shelf list; finding aids and other detailed descriptions; and registry of items lent for exhibition.

Preservation controls include but are not limited to: use of surrogates (digital, microform, service copies of audiovisual materials); collections care programs; disaster preparedness; Top Treasures security; de-acidification; conservation of individual items; preservation treatment of processed items; preservation research and testing program to define actions for deacidification, storage, audio preservation, studies of longevity of new digital media, etc.; and special Congressionally-mandated preservation programs such as the National Film Preservation Board and American Television and Radio Archive.

Physical security controls include but are not limited to: perimeter security (e.g., theft detection devices); secured receiving and holding areas for materials not yet accessioned into the research collections, including the Copyright Office; secured in-process working and holding areas; storage areas closed to the public and all staff except those who require daily access in order to perform their jobs; reader registration; security in reading rooms (cameras, police patrols, etc.); caging high risk collections; and secured loan stations.

- 3) Providing access to our collections inevitably puts them at risk and could impair the Library's ability to serve Congress and other users in the future. **However, the collections exist to be used, and management accepts the responsibility of mitigating risk to the collections at the same time that it fulfills its mission of service to Congress and the nation.** While we have aggressively addressed deficiencies in bibliographical, inventory, preservation and security controls in the past fiscal year, our assessment of internal controls identified the following material weaknesses which could adversely affect the Library's ability to meet its internal control objectives, and, as a result, we cannot provide reasonable assurance that the internal control structure over safeguarding the Heritage Assets against unauthorized acquisition, use, or disposition, was completely effective as of September 30, 1999. Moreover, while the Library has an

extensive series of controls in all four areas of risk and while we began in 1997 and continued in 1999 to conduct a systematic assessment of risks to the Heritage Assets, we cannot assert without qualification that the controls in place are adequate and appropriate to mitigate the risks until we have completed the risk assessment. That assessment is underway; it and the implementation of the collections security plan will significantly increase the security of the Heritage Assets. In fiscal year 1999, the Library took a major step in securing its collections, most particularly its general collections, through the implementation of the Integrated Library System. This off-the-shelf system replaces multiple legacy systems and brings all library operations dealing with acquiring, cataloging, searching and lending the collection into one unified computer system. As paper and card files are converted over the next eight years, the Library will establish effective inventory control of its print collections.

Bibliographical controls: As of September 30, 1998, the Library had reduced the arrearage count to 19,090,657 items from the 1989 benchmark number of 39.7 million -- a decrease of 51.9 percent -- at the same time that we have kept current with new acquisitions. However, knowing that the implementation of the Integrated Library System (ILS) would draw heavily on the staff assigned to arrearage reduction, the Library alerted the Congress that it expected the arrearage to grow during fiscal year 1999. The arrearage did grow during fiscal year 1999, but was maintained well within the target promised to the Congress. The arrearage at the end of fiscal year 1999 totaled 19,793,689 items. With the implementation of the ILS, the Library has achieved a major step in the plan to fully control the print collections, both bibliographically and through inventory tracking. The Library is still on track to complete the arrearage reduction by the close of fiscal 2007.

Inventory controls: The 12 million card shelflist of printed books exists in manual form only, which hampers the Library's ability to track the exact location of any given cataloged item. During fiscal year 1999, planning was completed for the conversion of the card shelflist, and a contract was let for the conversion of the serials check-in file and holdings file. Procedures for in-process materials were revised to include the bar coding of new receipts as one of the first processing steps, providing better security to the collection, and item level tracking throughout all the remaining processing of the collection items.

Preservation controls: The Library has inadequate temperature and humidity control in some collections storage areas; inadequate space for appropriate storage of collections materials; insufficient space for reformatting the acetate negative collection; insufficient funds for reformatting. These conditions cannot be fully addressed with current funds and physical plant. The development of a collections storage facility at Fort Meade, Maryland is expected to remedy many of these difficulties for books and paper based materials, and the acquisition of the National Audio-visual Conservation Center is a major step in the preservation of film and other media.

Physical security controls: In fiscal year 1999 the Library sustained major advances in collections security. The Library continued to implement actions

outlined in the October 1997 Security Plan, including preparing a larger facility in the Madison Building for reader registration, contracting security monitors in reading rooms, and continuing the marking and tagging of library materials in the retrospective collections.

The Library has also integrated its preservation, bibliographic, and inventory control measures within the security planning framework developed for the 1997 Plan. In order to establish a baseline to determine the condition of the special collections, a sampling study of the collection in the Prints and Photographs Division was commissioned. The results will help the Library gauge its progress in reducing the risk of theft and mutilation to the collections.

The Copyright Office researched technology that can be used to mark compact discs (both music and computer) with Library ownership stamps. The laser-engraving technology is now being piloted for all incoming copyright receipts. With the assistance of a private auditing firm, the Library completed another eight risk assessments of the collections.

- 4) We have disclosed all significant deficiencies in the design or operation of the internal control structure which could adversely affect the Library's ability to meet the internal control objectives and identified those we believe to be material weaknesses.

Donald L. Scott
Deputy Librarian of Congress



THE DEPUTY LIBRARIAN OF CONGRESS

March 24, 2000

Dear Mr. Oliver:

Thank you for the opportunity to review and comment on your audit report of the Library of Congress' consolidated financial statements for fiscal year 1999. The audit report makes many good recommendations, and the Library is taking steps to address these recommendations.

I am pleased that the audit report reflects the Library's continued progress in ensuring accountability of our resources. For the fourth consecutive year, the Library has received an **unqualified audit opinion** on the consolidated financial statements.

We recognize that while substantial progress has been made there is still much work to be done, especially in the areas of computer security, business continuity planning and collections security. We look forward to the challenge and to working cooperatively with your firm and the Congress in continuing to improve the accountability of the Library's resources.

Sincerely,



Donald L. Scott
Deputy Librarian of Congress

Mr. William H. Oliver
Director of Federal Government Services
Clifton Gunderson L.L.C.
7833 Walker Drive, Suite 440
Greenbelt, Maryland 20770

6-16

Independent Auditor's Report

To the Inspector General
Library of Congress

We have audited the accompanying consolidated balance sheet of the Library of Congress (Library) as of September 30, 1999, and the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the year then ended (collectively the Financial Statements). These Financial Statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; 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 98-08, *Audit Requirements for Federal Financial Statements*, as amended. These 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 Library of Congress as of September 30, 1999, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic Financial Statements taken as a whole. The information contained in Management's Discussion and Analysis, the supplemental consolidating information, and the Required Supplementary Stewardship information is not a required part of the basic Financial Statements but is supplemental information (Section 4) required by OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*. Such information has not been subjected to the auditing procedures applied in the audit of the basic Financial Statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 25, 2000 on our consideration of the Library's internal control over financial reporting, and our tests of its compliance with certain provisions of laws and regulations.

Clifton Sanderson L.L.C.

Greenbelt, Maryland

February 25, 2000

Independent Auditor's Report On Compliance With Laws and Regulations

To the Inspector General
The Library of Congress

We have audited the Financial Statements of the Library of Congress (Library) as of and for the year ended September 30, 1999, and have issued our report thereon dated February 25, 2000. We conducted our audit in accordance with generally accepted auditing standards; 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. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the Library is responsible for complying with laws and regulations applicable to the Library. As part of obtaining reasonable assurance about whether the Library'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 and certain other laws and regulations specified in OMB Bulletin 98-08, as amended. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Library.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instance of noncompliance with the laws and regulations described in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08, as amended.

- The Library operates gift revolving funds beyond the scope of its authority. The Library has transmitted draft legislation to the appropriate authorizing committees on a yearly basis since 1991 to address this issue. This compliance issue has been the subject of GAO audit reports since 1980. GAO found that the Library's use of certain revolving gift funds exceeded its scope of authority under 2 U. S. C. 160 to accept gifts and use them to fulfill the donor's intent. Section 160 does not authorize the Library, without specific statutory authority, to set charges for goods and services provided through self-sustaining gift funds that (1) enlarge the funds beyond the scope of the donor's gift, (2) produce revenues for other activities, or (3) create a substantial surplus. During our 1999 audit work, we identified eleven revolving funds, ten of which did not have specific congressional authorization. The revolving funds had earned revenue of \$6 million.

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.

This report is intended solely for the information and use of the Library, the Library's Office of the Inspector General, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that non-compliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

Clifton Sunderson L.L.C.

Greenbelt, Maryland

February 25, 2000

Independent Auditor's Report On Management's Assertion About The Effectiveness Of Internal Controls Over Financial Reporting

To the Inspector General
The Library of Congress

We have examined management's assertion, included in the accompanying management report on internal controls over financial reporting for the fiscal year ended September 30, 1999 (See Section 5), regarding the system of internal control designed by management to provide reasonable assurance that the following objectives are met:

- Financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- Compliance with laws and regulations – transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Financial Statements and any other laws, regulations.

Our examination was made in accordance with: standards established by the American Institute of Certified Public Accountants (AICPA); *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. As the Library is not subject to the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), we did not test internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring efficient operations.

Because of inherent limitations in any internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Management stated that because of the weaknesses described in its report, it cannot provide reasonable assurance that internal controls in place at September 30, 1999, met the objective that assets are safeguarded against loss from unauthorized acquisition, use, or disposition, but that internal controls were effective in assuring that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets, and were effective in assuring material compliance with applicable laws and regulations.

Management made this assertion based upon criteria established under the Library's financial management policy, LCR 1510, which is based on the internal control standards and financial systems standards promulgated by the General Accounting Office.

In our opinion, management's assertion that because of the weaknesses described in its report, it cannot provide reasonable assurance that internal controls in place at September 30, 1999, met the objective that assets are safeguarded against loss from unauthorized acquisition, use, or disposition, but that internal controls were effective in assuring that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets, and were effective in assuring material compliance with applicable laws and regulations, is fairly stated in all material respects, based upon criteria established under the Library's financial management policy, LCR 1510, which is based on the internal control standards and financial systems standards promulgated by the General Accounting Office.

As discussed in management's assertion, the following weaknesses existed in the design or operation of the internal control of the Library in effect at September 30, 1999. We consider these weaknesses, described below, to be reportable conditions under standards established by the AICPA and OMB Bulletin 98-08, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Library's ability to meet the internal control objectives described above. The reportable conditions we noted are as follows:

REPORTABLE CONDITIONS

1. SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS NEED TO BE IMPROVED

Our examination found that the Library's systems environment remained threatened by weaknesses in several information protection control structures. The controls in place were inadequate to fully protect information systems' resources from unauthorized access, unauthorized use, or damage. The Library had not implemented security policies and procedures to ensure that Library resources were restricted to authorized individuals and that critical data was protected. The presence of these weaknesses increases the risk that the Library's data and equipment are not properly safeguarded. The details of the matters are as follows:

- ***Internal networks structure needs to be strengthened.*** A Security firm hired by ITS to perform an analysis of the network architecture found high-risk vulnerabilities. Intruders can exploit the vulnerabilities to obtain unauthorized access to network utilities and services, which could compromise the integrity, confidentiality availability and reliability of the network. Computer networks can be very complex. The library networks are dynamic consisting of several operating systems that can have different configurations.
- ***The Library's logical access controls did not sufficiently restrict access.*** Logical access controls were inadequate to ensure the safekeeping of sensitive utilities and data sets. A number of logical access controls settings were not in place. Without modifications the system is vulnerable to unnoticed and/or un-logged activities which could impact accurate financial reporting.
- ***Application security controls should be strengthened.*** Application controls did not include a program for the certification and accreditation of sensitive applications. Management control over computer security was impaired by the lack of a process for the technical evaluation of the security of sensitive applications. Not addressing these control weaknesses increases the risk of unauthorized access to certain sensitive applications and data without being detected.
- ***Application software, system software, and change controls were inadequate.*** The Library did not have controls in place for the management and maintenance of application and systems software. There were no written standards to control production programs as they progress through testing to final approval. The lack of controls may result in inefficient or inadequate testing or introducing production programs that do not meet management's criteria.

Recommendation:

We recommend the following:

- Implement the security firm's recommendations including more clearly define security policy, invest more in security assets and security training, and perform routine security audits;
- Develop and implement controls to ensure that the configuration of sensitive utilities and security software are set to minimize exposure to unauthorized access and un-logged activities. Perform risk assessments to determine the need for group access and compensating controls that minimize the risk exposure;

- Evaluate and review the implementation of security features available in the operating systems and applications to ensure that risks, security and compensating controls have been addressed;
- Establish a program for the certification and accreditation of major application systems and general support systems in accordance with FIPS PUB 102 “Guideline for Computer Security Certification and Accreditation”; and
- Develop a written Systems Development Life Cycle methodology. Also, develop and implement controls for emergency system software changes.

2. THE LIBRARY LACKS A BUSINESS CONTINUITY PLAN

The Library did not have a formal disaster recovery plan. Without a plan detailing all aspects of the controls utilized during and after a disaster, the Library places itself at risk of extensive down time. The Library did not have an alternative data processing facility and the staff within the Data Center did not have any formal training on emergency procedures. In addition, certain systems and applications did not have off-site backups.

The Library could lose the capability to process, retrieve, and protect information maintained electronically in the event of a disaster. Such an event would have a significant impact on its ability to accomplish its mission.

Recommendation:

We recommend that the Library immediately develop and test a disaster recovery plan for its data center and other information technology facilities. In addition, we recommend that the Library rotate systems and applications backups to an off-site storage location.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We believe none of the reportable conditions described above is a material weakness.

The reportable conditions discussed above were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 1999 financial statements, and this report does not affect our report dated February 25, 2000 on these financial statements.

Relevant comments from the Library's management responsible for addressing these internal control matters are provided as an attachment later in this section.

In addition to the reportable conditions described above, we noted certain matters involving internal control and its operations that we reported to the management of the Library in a separate letter dated February 25, 2000.

Clifton Sanderson L.L.C.

Greenbelt, Maryland

February 25, 2000



Independent Auditor's Report On Management's Assertion About The Effectiveness Of Internal Controls Over Safeguarding Collection Assets

To the Inspector General
The Library of Congress

We have examined management's assertion, which is presented in Section 5, that it cannot provide reasonable assurance that the Library of Congress' internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition was generally effective as of September 30, 1999.

Our examination was made in accordance with: standards established by the American Institute of Certified Public Accountants and with *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, included obtaining an understanding of the internal control structure over safeguarding of collection assets, testing and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

Because of inherent limitations in internal controls, unauthorized acquisitions, use, or disposition of collection assets may occur and not be detected. Also, projections of any evaluation of internal controls over safeguarding of assets to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In its assertion letter, the Library of Congress had defined the following control criteria for safeguarding collection assets against unauthorized acquisitions, use or disposition:

- Bibliographic controls, which include but are not limited to: cataloging, archival processing, and arrearage reduction;
- Inventory controls, which include but are not limited to: the automated circulation control system, manual shelf list, finding aids and other detailed descriptions, and registry of items lent for exhibition;

- Preservation controls, which include but are not limited to: use of surrogates (digital, microform, service copies of audiovisual materials); collections care programs; disaster preparedness; Top Treasures security; de-acidification; conservation of individual items; preservation treatment of processed items, preservation research and testing program to define actions for de-acidification, storage, audio preservation, studies of longevity of new digital media, etc.; and special Congressionally-mandated preservation programs such as the National Film Preservation Board and American Television and Radio Archive; and
- Physical security controls, which include but are not limited to: perimeter security (e.g., theft detection devices); secured receiving and holding areas for materials not yet accessioned into the research collections, including the Copyright Office; secured in-process working and holding areas; storage areas closed to the public and all staff except those who require daily access in order to perform their jobs; reader registration; security in reading rooms (cameras, police patrols, etc.); caging high risk collections; and secured loan stations.

The Library asserts that specific controls over items in the collection assets depend upon the individual format, demand for and condition of use, and the value and risk assessment for that item. The *Integrated Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, would classify the aforementioned Library criteria as “control activities.” The Integrated Framework also includes the following elements of internal control reporting:

- Risk assessment and collections security plan – The Library must assess the risk of unauthorized acquisition, use, or disposition of the collection;
- Control environment – The Library must influence the control consciousness of its personnel by instituting an environment that makes internal control a priority;
- Information and communication – The Library must determine what information is needed by management to prevent or timely detect control failures and make that information readily available to management at all times; and
- Monitoring – The Library must establish policies and procedures for monitoring compliance with internal controls by personnel assigned to those tasks.

Adapting these elements to the *Internal Control-Integrated Framework’s* definition of internal controls over safeguarding of assets to fit the Library’s circumstances can be summarized as follows:

“Internal control over the safeguarding of collections against unauthorized acquisition, use, or disposition is a process, effected by the Library’s management and other personnel, designed to provide reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or significant information value is reduced to an acceptable level.”

Applying this definition using the Library's control criteria, a weakness in safeguarding controls is significant enough that it should be included in the Library's assertion if it results in either:

- Significant risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or significant information value, or
- Significant risk that senior Library management does not have sufficient information about the extent to which the Library's objectives concerning the safeguarding of the collections are being achieved.

The Library has identified such weaknesses as material weaknesses based on guidance provided by the General Accounting Office.

Opinion on Management's Assertion

The Library continued in 1999 in the implementation stage of establishing a comprehensive risk assessment and collection security plan to identify the risks to the collection, the planned or established controls that must be in place to mitigate the risks, the policies and procedures required to enforce the controls and the information management needs to monitor the effectiveness of the controls. Until these tasks are completed, Library management will not have reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or significant information value is reduced to an acceptable level.

In its assertion, management describes significant weaknesses in preservation controls, inventory controls, bibliographic controls, and physical security controls over collection assets as of September 30, 1999. Our recommendations for certain of these and other significant weaknesses identified by us during our examination are outlined in the following section, *Internal Control Weaknesses in Safeguarding of Collection Assets and Recommendations for Improvement*. Our current year recommendations and assessment of the Library's initiative are intended to build on the findings and recommendations made in fiscal year 1997 and 1998.

In our opinion, management's assertion that, as a result of the material weaknesses in controls described in its report, it cannot provide reasonable assurance that the internal control structure over safeguarding collection assets against unauthorized acquisition, use, or disposition, was generally effective as of September 30, 1999, is fairly stated based upon the criteria described above.

This report is intended solely for the information and use of the Library, the Library's Office of Inspector General, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Sanderson L.L.C.

February 25, 1999
Greenbelt, Maryland

INTERNAL CONTROL WEAKNESSES IN SAFEGUARDING OF COLLECTION ASSETS AND RECOMMENDATIONS FOR IMPROVEMENT

1. A WEAK CONTROL ENVIRONMENT AND INCOMPLETE CONTROL ACTIVITIES EXISTED FOR THE SAFEGUARDING OF THE COLLECTION ASSETS

The Library's control environment was not conducive to effective security over the collections. At the same time that security ranks high among the Library's priorities, it also exists in natural tension with the Library's mission of making its resources "available and useful to the Congress and the American people". The Library maintains the world's largest collections, comprising nearly 119 million items. Compounding the complexity of developing security standards for collections of such large scale and diversity is the unrelenting growth of new materials. Securing the collections has traditionally been less important than being able to serve the public.

In its assertion, management describes a number of significant weaknesses in bibliographic controls, inventory controls, preservation controls, and physical security controls over collections as of September 30, 1999. Management also describes initiatives the Library has undertaken since September 30, 1997 to remedy some of these weaknesses.

During fiscal year 1999, planning was completed for the conversion of the card shelflist, and a contract was let for the conversion of the serial check-in file and holdings file. Procedures for in-process materials were revised to include the bar coding of new receipts as one of the first processing steps.

In preservation controls, the Library had inadequate temperature and humidity control in some collections storage areas; inadequate or insufficient space for appropriate storage of collections materials; insufficient space for reformatting the acetate negative collection; and insufficient funds for reformatting.

The Library has made progress in implementing many physical security measures, although it appears as though security awareness has not improved significantly. Many of the observations made were the same as those reported in prior audit reports, particularly with respect to controls within the work areas of the Capitol facilities. Risk assessment observations indicated inconsistencies in the levels of security in reading rooms, work areas where collections are processed, and among collection items in transit.

Recommendations:

We recommend the Library continue to take action on improving the control environment and implementing control activities. We support the need for the Library to fully implement the Integrated Library System (ILS) for inventory control. We recommend that facility requirements be considered in the overall collections risk assessment when considering preservation risk. We

recommend integration of the Library's overall physical security plan with the Library's risk assessments.

2. THE LIBRARY COLLECTION SECURITY PLAN HAD NOT BEEN FULLY IMPLEMENTED

The Library's Security plan was not fully implemented. Although the Library continued to implement actions outlined in the October 1997 Security Plan, the Library had not established control activities to mitigate the risks, the policies and procedures necessary to implement the necessary controls, the required management information needed to carry out its responsibilities, and the methods by which management will monitor the effectiveness of the established control procedures.

Measurements of the effectiveness of the Library's physical security controls hinge on the development of credible baselines. Conducting regular inventories and/or statistically valid random sampling efforts can create baselines capable of establishing trends in theft and mutilation. The Library had not conducted regular inventories or statistically valid random sampling efforts, and as a consequence no genuine baselines existed.

The Library has taken a number of recent initiatives to address prior findings related to collections security that will provide it a basis to continue implementing its security plan and for continuing to conduct its formal library wide risk assessments. Among these are:

- Through the work of the Collections Security Oversight Committee (CSOC), the Library developed minimum standards for preservation, bibliographic, and inventory controls. These standards were integrated with those for physical security allowing the Library to use one, internally consistent, approach for securing the collections and evaluating threats to the Heritage Assets.
- The Library completed additional risk assessments in 1999; fifteen have been completed in total.
- The Library completed its first random sampling plan in order to establish a baseline for selected collections. Execution of random sampling plans over time will yield baselines from which the effectiveness of controls can be measured.
- The Director of Acquisitions, Library Services, convener of the CSOC's Policy and Standards subcommittee, had established a methodology to track each division's plan addressing control weaknesses identified by the risk assessments.
- More than two-thirds of the physical security baseline standards established for the collections were met in fiscal year 1999.
- In fiscal year 1999, the Library took a major step in securing its collections, most particularly its general collections, through the implementation of the Integrated Library System. This off-the-shelf system replaces multiple legacy systems and brings all library

operations dealing with acquiring, cataloging, searching and lending the collection into one unified computer system.

The combination of the physical security minimal standard as established in the security plan with the mitigating opportunities identified as a result of the ongoing risk assessments will provide the Library with the capability of assessing the effectiveness of the control measure across the complete spectrum of collections security concerns.

Recommendations:

We recommend that the Library take action to fully develop and implement its security plan. The Library's draft security plan focuses on physical security and procedural standards and requirements for protecting the collections. We recommend that the Library take the necessary actions to fully develop and implement the programs that are essential to the full implementation of the security plan.

We also recommend that the Library continue conducting regular inventories and/or statistically valid random sampling projects in select divisions. These measuring projects will create valid baselines, which over time will yield trends in theft and mutilation enabling Library's management to evaluate the effectiveness of its Security Plan and controls in place protecting the collections.

3. THE LIBRARY LACKED EFFECTIVE MANAGEMENT INFORMATION FOR MONITORING OF THE COLLECTIONS ASSETS' INTERNAL CONTROLS

Collection security objectives were incorporated in annual performance plans of custodial chiefs in fiscal year 1999. Meaningful and regular management information about whether security goals are being established and met is essential to a strong control environment. The performance plans of security officials and custodial division chiefs, as well as those in other service units who are responsible for collections security, should include measurable objectives for assuring all collections controls are implemented and functioning. Now that the risk assessments are performed, it is known what tasks personnel should perform. Action plans were prepared, by the management in each division, in response to the Risk Assessments.

Recommendations:

We recommend monitoring the integration of the performance plan process with the Library's collection risk assessments. The major controls over safeguarding of collection assets have been identified from the risk assessments. Each division has developed measurable tasks that personnel should be performing to assure that those controls are functioning. Division management should be held accountable for monitoring personnel assigned to these tasks. Reporting these results should be fully integrated into the Library's annual performance plans in order that management receives the information needed to assess the effectiveness of the internal controls over the collection assets.