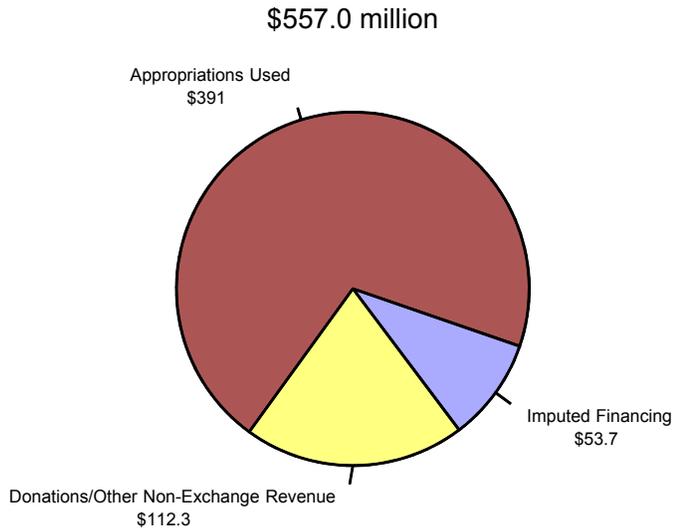
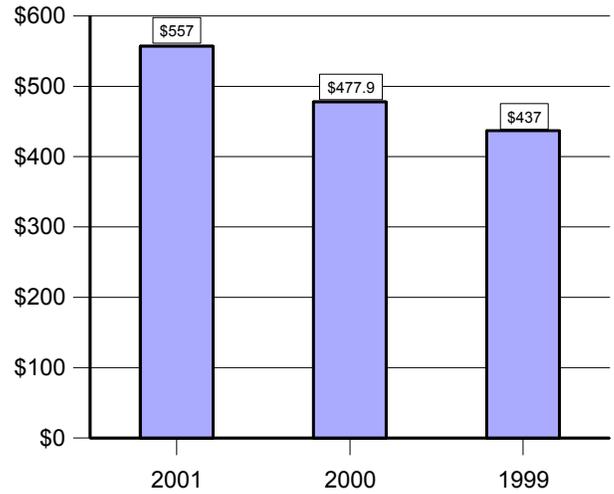


The Library of Congress Financial Highlights - Fiscal Year 2001

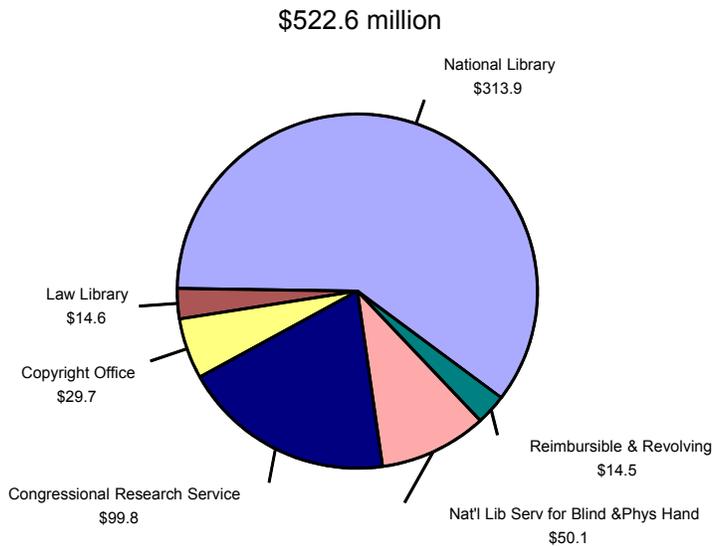
Sources of Financing, Fiscal Year 2001



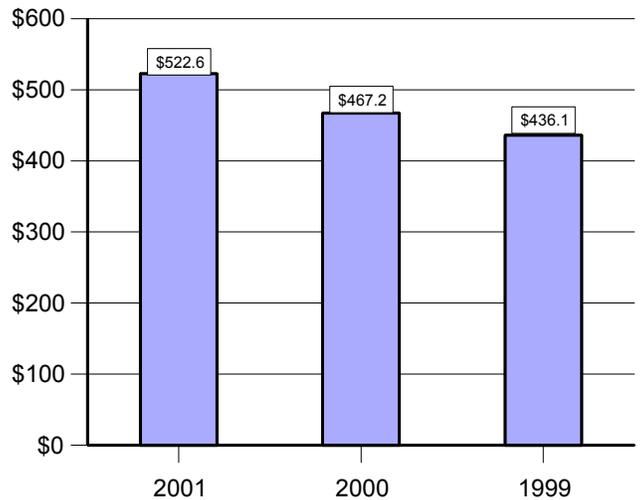
Sources of Financing Totals



Net Costs, Fiscal Year 2001



Net Costs Totals





THE LIBRARIAN OF CONGRESS

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 2001 financial statements and accompanying opinion of the independent auditors, Clifton Gunderson L.L.P.

The Library's major fiscal 2001 highlights include the first ever National Book Festival; establishment of a new national effort to develop a digital information infrastructure and preservation program; the addition of more than two million historically significant digital items to the Library's Web site; and the establishment of new responsibilities to preserve sound recordings and to start a new nationwide Veterans History Project.

The year also saw the transition of the Library of Congress Integrated Library System program office into National Library operations; implementation of the legislation creating the new Center for Russian Leadership Development; implementation of three legislative proposals that improve the Library's financial structure; and implementation of improved physical and collections security measures. As a continuing priority, the Library delivered objective, timely, nonpartisan, and confidential research and analysis to the Congress on all major legislative issues.

For the sixth 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 six major programs totals \$522.6 million. The net cost includes \$53.7 million in costs incurred by four other agencies (i.e., Architect of the Capitol, Government Printing Office, Office of Personnel Management, and the Department of the Treasury) in support of the Library's programs. The net cost also includes \$88.5 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. The implementation of the Library of Congress Integrated Library System is making possible further improvements in the control of our more than 124 million items. 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.

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

Sincerely,

A handwritten signature in black ink, appearing to read "James H. Billington".

James H. Billington
The Librarian of Congress

THE LIBRARY OF CONGRESS
FINANCIAL STATEMENTS FOR FISCAL YEAR 2001

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THE LIBRARY OF CONGRESS
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**THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 2001**

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The Management's Discussion and Analysis (MDA) is designed to provide a high level overview of the Library: who we are, what we do, and how we accomplished our mission during fiscal year 2001.

**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 more than 124 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 Web site.

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 new 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.

At the start of the new millennium and the Library's third century, the Library is accelerating the registration of digital copyright claims and acquiring, preserving, and ensuring rights-protected access to "born digital" works that are playing an increasingly important role in the intellectual, commercial, and creative life of the United States. Given the immeasurable size and growing elusiveness of the digital universe, as well as the short life span of much of its content, it is clear that the Library faces a substantial challenge in both (1) defining the scope of its collecting responsibilities in this new world and (2) developing a whole new range of partnerships and cooperative relationships that will be required to continue fulfilling our vital historic mission. The Library's digital strategy will focus first on formulating a national strategy

for the life cycle management of digital materials as part of the national collection.

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 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 LRS as 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), the National Film Preservation Foundation (1996), the Cooperative Acquisitions Program Revolving Fund (1997), the Sound Recording Preservation Board and Foundation (2000) and the authorization of three revolving funds for fee services (2000) -- 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 124 million items include almost all languages and media through which knowledge and creativity are preserved and communicated.

The Library has more than 28 million items in its print collections, including 5,706 volumes printed before the year 1500; 12 million photographs; 4 million maps, 2 million audio recordings; 877,000 motion pictures, including the earliest movies ever made; 5 million pieces of music; 55 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 2001 include: the collections of Patrick Hayes and Evelyn Swarthout, Frederick Loewe, Shelly Manne, Richard Robbins, Arnold T. Schwab and Don Walker; the archives of Theodore Presser; eighty-one letters of Leon Bakst, Irving Berlin, Johannes Brahms,

Aaron Copland, Marilyn Horne, Otto Klemperer, Erich Wolfgang Korngold, Franz Liszt, Felix Mendelssohn, Ned Rorem, and Arnold Schoenberg; eight topographical sketches and military views drawn by Gustavus Sohon; 15,000 Arabic manuscripts held by the British Library; and 2,738 items for the Architecture, Design and Engineering collections. During fiscal year 2001, the Library also reached an agreement with Prince Johannes Waldburg-Wolfegg, to purchase the only known copy of the map that has been called "America's birth certificate," which was compiled by cartographer Martin Waldseemüller in 1507. This is the first document, printed or manuscript, to refer to the new world as "America" and to depict the lands of a separate Western Hemisphere with the Pacific as a separate Ocean. The map will be on permanent display in the Thomas Jefferson Building.

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 710,000** congressional research responses and services, registering **more than 600,000** copyright claims, and circulating **more than 23 million** audio and braille books and magazines free to blind and physically handicapped individuals all across America. The Library annually catalogs **more than 270,000** books and serials and provides the bibliographic record inexpensively to the nation's libraries, saving them millions of dollars 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. The Library's Internet-based systems include major World Wide Web (www) services (e.g., Legislative Information System, THOMAS, www.loc.gov, www.AmericasLibrary.gov, Global Legal Information Network, the Library of Congress On-line Public Access Catalog (<http://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

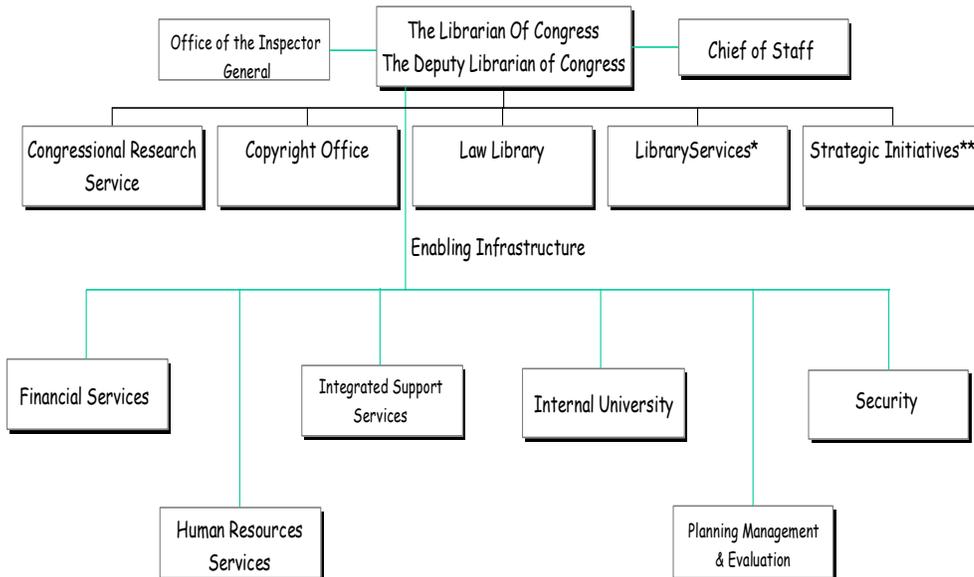
operations through five service units and an enabling infrastructure (see organizational chart).

The Library has six programs:

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

The Library of Congress programs and activities are funded by four salaries and expenses (S&E) appropriations which support congressional services, national library and law library services, copyright administration, library services to blind and physically handicapped people, and management support. A separate appropriation funds furniture and furnishings.

Library of Congress



* Includes National Library Service for the Blind and Physically Handicapped; Program costs reported under National Library Program

** Includes Information Technology Services; Program costs reported under National Library Program and infrastructure costs are allocated.

OVERVIEW OF FINANCIAL STATEMENTS

For fiscal years 2001 and 2000, the Library has prepared a Consolidated Balance Sheet, Consolidated Statement of Net Costs, Consolidated Statement of Changes in Net Position, a Combined Statement of Budgetary Resources and a Combined Statement of Financing (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, 2001 and 2000. In accordance with generally accepted accounting principles for federal government entities, 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 3), 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; and (2) the cumulative balances of gift, trust, reimbursable and revolving funds.

Assets (in millions)			Liabilities and Net Position (in millions)		
	2001	2000		2001	2000
Entity Assets	\$ 479.6	\$ 385.9	Liabilities Covered by Budgetary Resources	\$ 633.4	\$ 693.9
Non-Entity Assets	555.0	612.4	Liabilities Not Covered by Budgetary Resources	31.7	92.9
			Total Liabilities	665.1	786.8
			Net Position	369.5	211.5
Total Assets	\$ 1,034.6	\$ 998.3	Total Liabilities and Net Position	\$ 1,034.6	\$ 998.3

The Library's assets total more than \$1 billion dollars for fiscal year 2001 and just under \$1 billion dollars in fiscal year 2000. Entity assets increased by \$93.6 million during fiscal year 2001 primarily as a result of a \$100 million appropriation for the National Digital Information Infrastructure Preservation Program (NDIIPP), which is offset by a \$22.2 million unrealized loss on non-Treasury investments. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 54 percent and 61 percent of all assets and total \$556.2 and \$612.3 million for fiscal years 2001 and 2000, respectively. Non-entity (custodial) assets decreased by \$57.4 million during fiscal year 2001 because current year royalty receipts were less than multiple prior-year royalty distributions to Copyright owners. The Copyright Office made six distributions of royalty fees, totaling \$266.0 million, during fiscal year 2001 – a decrease of \$101.8 million from fiscal year 2000. The Library is authorized to invest the royalty funds in U.S. Treasury securities until the funds are distributed.

The Library's liabilities total \$665.1 and \$786.9 million for fiscal years 2001 and 2000, respectively, with custodial and deposit account activities (i.e., funds held for future distribution to copyright owners) as the major item. The custodial liability decreased following the large royalty distribution made during fiscal year 2001. The decrease in overall liabilities was also due to the acceptance of the John Kluge pledge by the Trust Fund Board in fiscal year 2001. Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various

operating expenses.

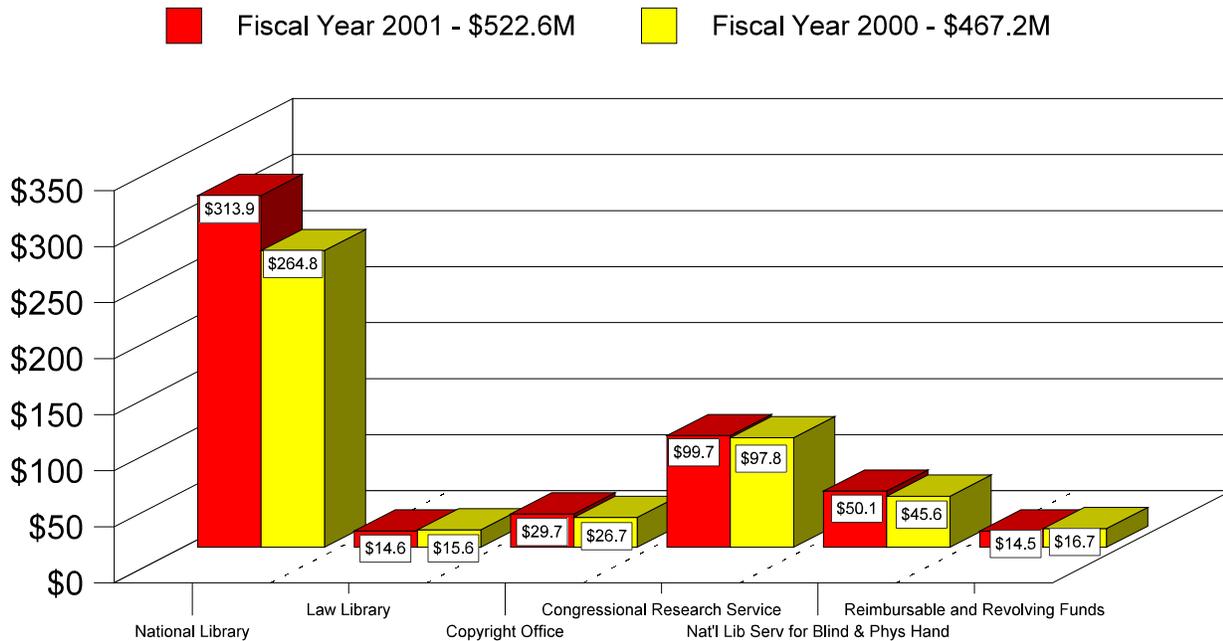
The accompanying Balance Sheet does not include the acquisition and improvement costs of the Library's buildings and grounds. By law, these buildings and grounds are under the structural and mechanical care of the Architect of the Capitol.

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, 2001 and 2000. In other words, the statement presents the net costs of our programs -- \$522.6 and \$467.2 million for the fiscal years 2001 and 2000, respectively. Net costs include allocated management support costs (e.g., human resources, financial services, facility services). The net costs for each of the Library's six programs are:

The Library of Congress

Consolidated Statement of Net Costs



National Library - With net program costs of \$313.9 and \$264.8 million for fiscal years 2001 and 2000, respectively, National Library is the Library's largest program and is responsible for the traditional library activities of acquisitions, cataloging, research and reference, and preservation. The significant increase in net program costs is due, along with normal increases in operating activities, to the increase of \$41.3 million of cost incurred on behalf of the Library by the Ad Council during fiscal year 2001. As the advertising services are being donated to the Library by the Ad Council, the offsetting \$58.4 million and \$17.1 million of donated revenue is reflected in the Consolidated Statement of Changes in Net Position for fiscal years 2001 and 2000 respectively.

National Library provides the following major services:

- ▶ **Acquisitions** -- Each year the Library acquires more than two million new items in all formats for addition to its priceless collections, which are the largest and most wide-ranging of any library in the world. The collections, and the information they contain, are the foundation for the many services the Library provides to the

Congress and the nation.

- ▶ **Cataloging** -- The Library produces bibliographic records and related products for libraries and bibliographic utilities in all fifty states and territories -- cataloging that saves America's libraries millions of dollars annually (the money it would cost them if they had to catalog the books and other materials themselves).
- ▶ **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. The Library responds to nearly one million information requests a year from across the nation, including more than 500,000 in person in the 19 reading rooms open to the public in Washington. In addition, the Library responds to some 56,000 free interlibrary loan requests from across the nation and to nearly 26,000 requests for book loans from the Congress each year. The Library also provides

fee-for-service research to executive and judicial branch agencies.

- ▶ **On-line Access 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, schools, and the public. Internet-based systems include three World Wide Web (www) services (e.g., THOMAS, www.loc.gov), the Library of Congress On-line Public Access Catalog (<http://catalog.loc.gov>), and various file transfer options. These Internet-based systems now record more than 90 million transactions a month.
- ▶ **American Creativity** -- The Library manages the largest, most varied, and most important archival collection of American creativity -- including motion pictures, sound recordings, maps, prints, photographs, manuscripts, music, and folklore covering a wide range of ethnic and geographic communities. The Library 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 affiliated centers in 42 states and the District of Columbia, and nearly 100 national organizational partners. The Library encourages knowledge and use of its collections through

other outreach programs (cable TV, 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 World Wide Web. The Library also gives some 90,000 surplus books annually to qualified libraries and nonprofit educational institutions through its nationwide donation program.

Law Library - The Law Library of Congress, with net program costs of \$14.6 and \$15.6 million for fiscal years 2001 and 2000, respectively, provides direct research service to the Congress in foreign, international, and comparative law. The decrease in program costs results from a decrease in allocated administrative costs. In addition to Members, Committees of the Congress and the Congressional Research Service, the Law Library provides officers of the legislative branch, Justices of the Supreme Court and other judges, members of the Departments of State and Justice, and other federal agencies with bibliographic and informational services, background papers, comparative legal studies, legal interpretations, and translations. As its congressional priorities permit, the Law Library makes its collections and services available to a diverse community of users -- the foreign diplomatic corps, international organizations, members of the bench and bar, educational institutions, nongovernmental libraries, legal service organizations, and the general public -- serving more than 100,000 users annually.

Copyright Office - The Copyright Office (CO), with net program costs of \$29.7 and \$26.7 million for fiscal years 2001 and 2000, respectively, administers the U.S. copyright laws, provides copyright policy analysis to the Congress and executive branch agencies, actively promotes international protection for intellectual property created by U.S. citizens, and provides public information and education on copyright. The increase in net program costs in fiscal year 2001 is a result of a growth in normal operating activities and \$1.4 million used for business process and information technology re-engineering projects. A portion of the additional costs were funded by prior years receipts that were available for use in fiscal year 2001. In fiscal year 2001, the CO registered more than 600,000 claims to copyright, transferred more than 700,000 works to the Library, recorded more than 15,200 documents containing more than 157,000 titles, logged 12.1 million electronic transactions to its Web site (a 26 percent increase), and responded to almost 340,000 in-person, telephone and e-mail requests for information. The CO 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. Registration fees and authorized reductions from royalty receipts fund most of the CO. 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 \$99.7 and \$97.8 million for fiscal years 2001 and 2000, respectively, 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 710,000 research responses and services annually.

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 more than 740,000 blind and physically handicapped people -- circulating at no cost to users approximately 23 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 years 2001 and 2000 net program costs for this segment were \$50.1 and \$45.6 million, respectively.
2. A cooperating network of 137 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 742,000 comprised of more than 500,000 audio and braille readers registered individually, in addition to an estimated 200,000 eligible individuals located in 36,000 institutions.

Reimbursable and Revolving Funds - 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 three legislative agencies under cross-servicing agreements (i.e., the Congressional Budget Office, the Office of Compliance and the Capitol Preservation Commission). In addition, the Library of Congress, under the authority of 2 U.S.C. 160, operates ten 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 also 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.

After reflecting earned revenues of \$57.2 and \$58.7 million in fiscal years 2001 and 2000, respectively, reimbursable and revolving fund net program costs totaled \$14.5 and \$16.7 million, respectively. The net program costs were primarily the result of the elimination of \$6.2 and \$7.4 million of intra-Library net revenues, \$3.5 and \$4.0 million in allocated administrative overhead, and \$3.0 million each year in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds for fiscal years 2001 and 2000, respectively. The other \$1.8 and \$2.3 million of net program costs were predominately the result of the declining operations of the Photoduplication Service, which had losses of \$1.3 and \$1.1 million for fiscal years 2001 and 2000, respectively. A general description of major reimbursable and revolving funds are:

- ▶ **Federal Library and Information Network (FEDLINK)** - The Library coordinates services and programs on behalf of federal libraries and information centers, providing education and training programs and administering a cost-

effective book, serial, and database procurement program. Approximately 1,200 Federal offices participate in the program, which saves the offices an estimated \$6.3 million annually in contract cost avoidance benefits and \$12.3 million more in products and services discounts. In fiscal years 2001 and 2000, FEDLINK earned revenues of \$50.2 and \$50.0 million, respectively, consisting of \$46.2 and \$46.1 million for payment of member services and \$4.0 and \$3.9 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 the subject and language expertise of its staff. A popular FRD product, available on-line via the Library's home page, is the country study series of books.
- ▶ **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 \$2.9 and \$4.5 million in fiscal years 2001 and 2000, respectively, and intra-Library transactions of \$0.6 and \$2.2 million were eliminated during consolidation. This activity was downsized in fiscal year 2001 to reflect a lower level of business.
- ▶ **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 \$2.2 and \$1.8 million for fiscal years 2001 and 2000.
- ▶ **Recording Laboratory** - The Recording Laboratory provides preservation services for the Library's collections and audio and visual duplication services for the general public. Audio and visual products are also produced for sale to the general public. Earned revenues for

fiscal years 2001 and 2000 were \$0.6 and \$0.7 million, respectively, of which \$0.4 and \$0.3 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 years 2001 and 2000 were \$1.7 and \$1.9 million, respectively.

Consolidated Statement of Changes in Net Position

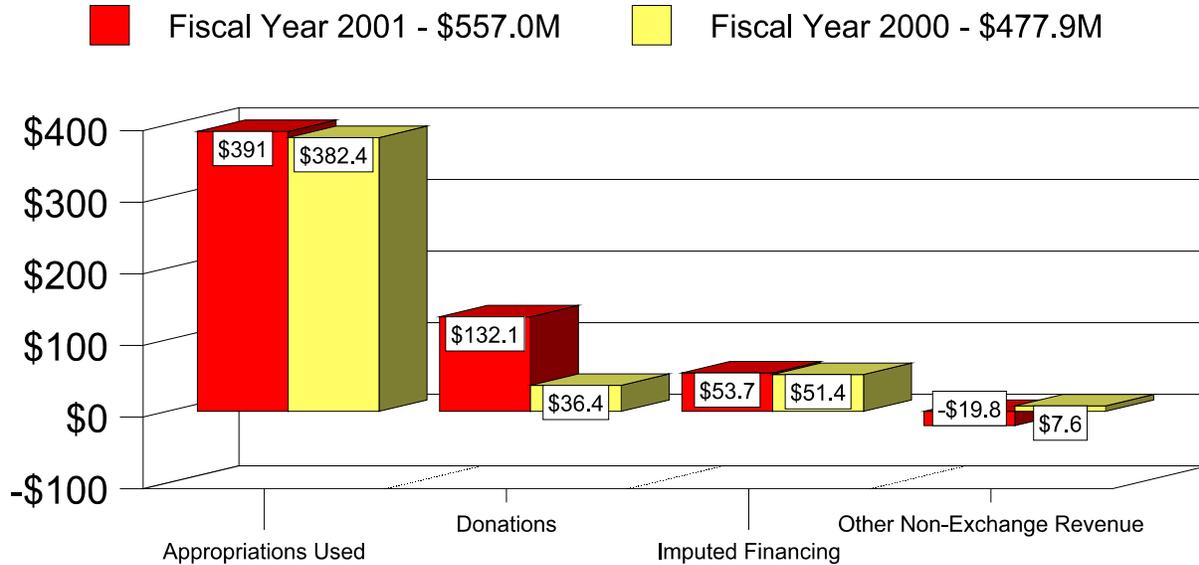
The purpose of the Consolidated Statement of Changes in Net Position is to provide financial statement users with information about the Library's financing sources and the components of the changes in net position. The Library's financing sources totaled \$557.0 and \$477.9 million for the fiscal years ended September 30, 2001 and 2000, respectively.

(\$0.2 million each year). In addition, the Library's

The Library of Congress

Consolidated Statement of Changes in Net Position

Total Financing Sources



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 years ended September 30, 2001 and 2000 totaled \$391.0 and \$382.4 million or 69.6 and 80.0 percent, respectively, of all financing. Along with 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 \$53.7 and \$51.4 million (imputed financing) for fiscal years 2001 and 2000, respectively. The support provided included structural care and maintenance of the Library's buildings and grounds (\$30.8 and \$30.1 million), employee benefits (\$22.1 and \$20.4 million), acquisitions exchange services (\$0.6 and \$0.7 million) and settled legal claims

donations increased by \$95.7 million during fiscal year 2001 as a result of the acceptance of the John Kluge pledge and the increase in donated Ad Council advertising services. The other non-exchange revenue is negative primarily as a result of the \$22.2 million unrealized loss on non-treasury investments.

The Library's net position increased by \$158.0 and \$18.6 million during fiscal years 2001 and 2000, respectively. The Library's net position traditionally increases due to increases in the amount of gift and trust funds and the amount of unexpended appropriations. With the John Kluge donation increasing the Library's trust funds and the \$100 million NDIIPP appropriation yet to be used significantly, the net position of the Library increased dramatically in fiscal year 2001.

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 \$1.6 billion for both fiscal years 2001 and 2000, of which \$537.4 and \$411.7 million were appropriated funds and \$1,065.2 and \$1,173.1 million were non-appropriated funds. Total outlays of \$742.5 and \$785.5 million were incurred with the outlays of appropriated funds (\$394.6 and \$380.1 million) combined with outlays of the non-appropriated funds (\$347.8 and \$405.4 million) in fiscal years 2001 and 2000. The decrease in outlays is primarily a result of the aforementioned decrease of distributions of royalty fees during fiscal year 2001.

Combined Statement of Financing

The Combined Statement of Financing is presented to explain how budgetary resources obligated during the fiscal year (presented on the Combined Statement of Budgetary Resources) relate to the net costs of operations of the Library (presented on the Consolidated Statement of Net Costs). The Library had a difference between its net obligations (\$740.3 and \$796.7 million) and its net costs (\$522.6 and \$467.2 million) of \$217.7 million and \$329.5 million for fiscal years 2001 and 2000, respectively. This difference is primarily explained by the refunds of non-exchange revenue and copyright licensing royalties (\$269.1 and \$374.6 million) and capitalized costs (\$73.9 and \$33.8 million) being offset by increases of resources of non-budgetary donations (\$58.9 and \$17.5 million) and non-budgetary imputed costs (\$53.7 and \$51.4 million).

Since 1997, the Library's collections have increased from 113 million to 124 million items -- an increase of 11.2 million or 9.9 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has decreased from 4,010 to 3,891 -- a decrease of 119 FTE's or 3.0 percent. The Library's Internet transactions have grown dramatically from 345 million in fiscal year 1997 to 1.3 billion in fiscal year 2001. 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 put on-line more than seven million items of American history as the core of a National Digital Library and launched a new educational Web site for families on April 24, 2000, called "America's Library."

KEY PERFORMANCE MEASURES

THE LIBRARY OF CONGRESS							
COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS							
For the Fiscal years 1997, 1998, 1999, 2000 and 2001							
	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	CHANGE 1997 - 2001	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	\$361,896,000	\$377,207,000	\$391,660,000	\$427,457,610	\$550,347,401	+ \$188,451,401	+ 52.1
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	4,010	3,958	3,923	3,919	3,891	- 119	- 3.0
SIZE OF LIBRARY COLLECTIONS	113,026,742	115,505,695	118,993,629	120,976,339	124,247,602	+ 11,220,860	+ 9.9
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	19,952,205	19,090,657	19,793,689	19,215,629	21,142,980	- 1,190,775	- 6.0
CRS - Requests & Services Provided Congress	531,162	560,423	545,663	584,384	711,612	+ 180,450	+ 34.0
Loans of Collections to Congress	30,708	30,614	26,193	29,276	25,713	- 4,995	- 16.3
Copyright Claims Registered	569,226	558,645	594,501	515,612	601,659	+ 32,433	+ 5.7
Copyright Inquiries	421,150	395,456	436,627	385,513	339,658	- 81,492	- 19.3
Services to the Blind & Physically Handicapped (BPH) - Readership	764,800	761,600	764,600	759,000	742,000	- 22,800	- 3.0
BPH - Books & Magazines; Total Circulated	22,437,900	22,553,100	22,665,000	22,825,000	23,100,000	+ 662,100	+ 3.0
BPH - New Braille & Audio Books & Magazines Titles	2,691	2,764	2,647	2,729	2,638	- 53	- 2.0
Print Materials Cataloged	289,154	274,890	205,893	224,544	273,534	- 15,620	- 5.4
National Coordinated Cataloging Operation (NACO) - LC Contribution	118,054	186,515	80,176	80,066	90,542	- 27,512	- 23.3
National Coordinated Cataloging Operation - Outside Contribution	146,858	173,721	133,011	128,160	143,031	- 3,827	- 2.6
Exhibits, Displays, & Publications (Funded by Appropriations)	14	14	14	18	18	+ 4	+ 28.6
Regular Tours (Participants)	56,716	60,465	64,489	59,536	105,988	+ 49,272	+ 86.9
Reference Service	1,094,588	1,101,717	967,387	912,120	828,533	- 266,055	- 24.3
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65	0	0.0
Items Circulated	2,070,798	2,105,278	1,767,565	1,694,582	1,580,162	- 490,636	- 23.7
Preservation Treatment - Original Format	309,597	354,027	472,027	263,817	326,623	- 17,026	+ 5.5
Mainframe Computer Transactions	247,691,844	270,259,005	331,103,221	85,217,677	63,913,258	- 183,778,586	- 74.2
Integrated Library System Input/Update Transactions	0	0	0	59,319,648	65,663,286	+ 65,663,286	0.0
Machine Readable Cataloging (MARC) Records	27,519,078	28,093,497	28,890,000	29,633,607	31,103,700	+ 3,584,622	+ 13.0
Internet Transactions (i.e., LOCIS, MARVEL, World Wide Web, and THOMAS public transactions)	345,221,229	615,149,938	728,226,616	931,256,160	1,283,747,169	+ 938,525,940	+ 271.9

Other noteworthy workloads include the following:

- ▶ The number of Congressional requests and services annually provided by the Congressional Research Service (CRS) increased from 531,162 in 1997 to 711,612 in 2001. This increase is attributable to an increase in congressional use of CRS electronic services, particularly the CRS Web site.
- ▶ The annual number of registrations in the Copyright Office increased by 32,433, from 569,226 in 1997 to 601,659 in 2001, and the number of copyright inquiries answered annually decreased by 81,492 from 1997 to 2001. This decrease is principally due to growing public use of the Copyright Office's Web site for information on copyright law, the Copyright Office's services, and Copyright Office forms and publications. Increases in registrations between 2000 and 2001 are primarily a result of increased staff productivity.

- ▶ The number of print materials cataloged decreased by 15,620 from 1997 to 2001 and arrearages increased in 2001 due to additional resources being allocated from these activities to the implementation of the Library of Congress Integrated Library System (LC ILS).
- ▶ The number of information requests handled by reference staff decreased from 1.1 million in 1997 to 0.8 million in 2001, while the number of Internet transactions increased from 345 million to 1.3 billion. This trend reflects greater use of the Library's on-line resources.

- ▶ The number of free reading materials circulated across the country each year to the blind and physically handicapped increased by 275,000 to 23.1 million in 2001.
- ▶ Regular tours increased by 46,452 from 2000 to 2001 due to a restructuring of the docents into three shifts. This restructuring allowed for more congressional, public and group tours and the offering of a shorter “highlight tour” at the end of the day.
- ▶ The number of mainframe transactions decreased significantly during 2001 because of the continued implementation of the LC ILS, which is a client server application, and the shut down of previous multiple mainframe applications.

MAJOR GOALS AND ACCOMPLISHMENTS IN FISCAL YEAR 2001

The following are the highlights from the fiscal years 2002 and 2003 Library of Congress budget request documents, which document goals of the Library for fiscal year 2001 and the accomplishments of those goals:

National Library:

Goal: Advance the Library’s mission to acquire, describe, preserve, and serve a universal collection through re-engineering the use of new and emerging technology and the support of collaborative and private sector partnerships.

Accomplishments: The Election 2000 collection is the first large-scale collection of Web sites archived and made available on-line. The collection was created by the Library, in concert with Alexa Internet, to preserve open access Web materials pertaining to the November 2000 U.S. national election. In addition, the Library, in collaboration with the Internet Archive, webArchivists.org and the Pew Internet & American Life Project, launched a September 11 Web Archive (September11.archive.org). The archive preserves the Web expressions of individuals, groups, the press and institutions in the United States and from around the world in the aftermath of the attacks in the United States on September 11, 2001. The Library also launched the Veterans History Project to collect oral history interviews

and other documentation from American war veterans, and create a collection and on-line resources at the Library for present and future generations. Many veterans organizations have been enlisted as project partners, and a private organization has made a major contribution to fund the project. Finally, “Ask a Librarian” buttons were made available on four reading room home pages putting patrons in touch with library specialists, and a “live chat” reference pilot has been launched, allowing library patrons to communicate in real-time over the Internet with professional librarians.

Goal: Meet the revised total arrearage goals approved by the Congress, which both helps protect collections and makes them known and accessible to readers

Accomplishments: Library Services is working toward the overall goal for the year 2007 reported to Congress. The arrearage did grow in 2001 because of the implementation of the LC ILS, hiring delays and major acquisition initiatives that accompanied the Library’s 2000 bicentennial.

Goal: Better secure the “heritage assets” of the Library of Congress using the four categories of internal controls for the security of these assets: bibliographic, inventory, physical, and preservation internal controls

Accomplishments: Library Services worked with the Office of Security to complete three random sampling projects in the Prints and Photographs, Manuscript, and Anglo-American Acquisitions divisions to establish over time credible baselines enabling the Library to assess the magnitude of theft and mutilation. In addition, Library Services and the Office of Security designed electronic and physical security systems for the protection of items to be housed in the Library’s planned motion pictures storage facility in Culpeper, VA, and, in coordination with the AOC, hired consultants and contractors to design and install electronic and physical security control systems supporting the planned opening of the Library’s Module 1 collections storage facility at Fort Meade, Maryland.

Goal: Complete implementation of all phases of the Integrated Library System (LC ILS) including basic task orders and Release 2000 of the software, and support LC ILS-related business process improvement initiatives for circulation.

Accomplishments: Library Services used the new LC ILS to improve book labeling, gather individual production statistics, and streamline workflows.

Goal: Expand the mass deacidification program to deacidify 100,000 books through the Bookkeeper process.

Accomplishments: The mass deacidification program completed the fiscal years 1997-2001 mass deacidification contract, treating 306,000 books (41.5 percent over the contract goal) and awarded a five-year contract that will enable the Library to treat 1,000,000 books and 5,000,000 sheets of unbound materials such as manuscripts.

Goal: Continue developing collaborative relationships with world-wide institutions and expand their participation in a Collaborative Digital Reference Service (CDRS).

Accomplishments: The CDRS increased world-wide membership to 185 institutions providing professional reference service and access to global resources for researchers anytime, anywhere. In addition, the Library of Congress and the Online Computer Library Center (OCLC) signed a major cooperative agreement to develop a prototype of a new reference service based on the CDRS.

Goal: Continue to expand the number of cooperative cataloging participants in the Program for Cooperative Cataloging and increase the total number of bibliographic and authority records contributed.

Accomplishments: Library Services wrote specifications for and arranged delivery via file transfer protocol (FTP) of 18,000 bibliographic records describing foreign newspapers to the Center for Research Library to form the core database for the International Coalition on Newspapers' (ICON) Union List of Global Newspapers. In addition, the Library admitted 42 new libraries to the Name Authority Cooperative (NACO), the name authority component of the Program for Cooperative Cataloging, which trained 175 new catalogers nationwide in name and series authority work and produced 143,031 new name authority records. The National Library also coordinated the contribution of 73,115 bibliographic records through the Bibliographic Records Cooperative (BIBCO), the monograph bibliographic record component of the Program for Cooperative Cataloging and led efforts to revise international standards for bibliographic description and to streamline cataloging rules.

Goal: Continue the *American Treasures of the Library of Congress* exhibition (rotating items for preservation purposes); enhance and expand the Library's public programs through lectures, poetry readings, on-line exhibitions, and supplementary educational materials

(primarily through private funds); and mount a major new exhibition, *World Treasures of the Library of Congress*

Accomplishments: *World Treasures of the Library of Congress* opened as a new permanent exhibit dedicated to our international collections. In addition, two new collections were added to the Library's American Memory Web site: the entire collection of Hannah Arendt papers and "Civil War Treasures from the New-York Historical Society", which includes stereographs, photographs, sketches, posters, etchings and envelopes with printed or embossed decoration related to Civil War events and personalities.

Goal: Promote increased usage of foreign language and special format collections.

Accomplishments: A new online catalog, SONIC (Sound Online Inventory and Catalog), allows access to the records describing the largest publicly-available audio collection in the world at the Library of Congress.

Law Library:

Goal: To provide legal research, analysis and reference service to Congress.

Accomplishments: The Law Library established a digital version of the Law Library congressional publication, providing more effective coverage, and established a congressional Web site providing guidance to Law Library products and services. In addition, the Law Library responded to constitutional and statutory issues relating to contested presidential elections and the electoral college, including obtaining collections relating to these subjects for use by Members of Congress and their staffs, committees, and CRS staff. The Law Library also obtained collections of United States publications on terrorism, airline safety, money laundering, and the political and legal structures of Afghanistan, and created bibliographies on the subjects.

Goal: To ensure the Law Library collections were developed, maintained and preserved to maximize its customers' ability to use materials for research and analysis.

Accomplishments: The Law Library reduced looseleaf arrearages by 21 percent and arrearages in U.S. courts records and briefs by 95 percent. In addition, the Law Library surveyed and updated all links on the Law Library's guide to on-line resources, to ensure that only active and best available sites containing primary and

secondary legal and legislative information were included, and increased the number of active links 400 percent.

Goal: To expand the Global Legal Information Network (GLIN) as a major component of the Law Library's digital future.

Accomplishments: The Law Library conducted a GLIN assessment mission in Taiwan and provided GLIN training for teams from Ecuador and Taiwan, resulting in the addition of these two countries to the GLIN network in fiscal year 2001. In addition, the Law Library hosted the 8th Annual GLIN Directors' Meeting that brought together representatives from 11 member nations and two potential member nations and resulted in the adoption of a new charter for the network that will help insure reliability standards.

Copyright Office:

Goal: Maintain and enhance the policy role of the Library of Congress through the Copyright Office in domestic and international copyright matters.

Accomplishments: The Copyright Office completed two significant undertakings under the Digital Millennium Copyright Act (DMCA) of 1998: a rulemaking required by the DMCA relating to exemptions to the prohibition on circumvention of technological measures that control access to a copyrighted work (17 U.S.C. 1201(a)(1)) and a lengthy study on section 104 of the DMCA.

Goal: Continue to improve efficiency and timeliness in registration and recordation processing, including reducing the processing time from receipt to availability of cataloging records via the Internet.

Accomplishments: The Copyright Office began a major Information Technology (IT) Reengineering initiative to implement reengineered processes, deliver improved public services electronically and increase registration and deposit of digital works. The Office created an IT action plan and a new IT management structure to oversee the initiative. In addition, the Copyright Office reduced the registration backlog by 100,000 claims – about 55 percent.

Goal: Conduct a study of business processes to prepare a reengineering plan to provide public services more efficiently and effectively.

Accomplishments: The Copyright Office embarked on an ambitious program of Business Process Reengineering

(BPR) to improve service by achieving better processing times, containing costs, improving security, and using staff and space efficiently. During the year the Copyright Office accepted the BPR implementation plan and took initial steps to implement it.

Goal: Assess the Copyright Office's Internet presence and optimize its Web site's design and usability, including determining ways to educate and assist the public to prepare complete and correct submissions for registration and other services.

Accomplishments: The Copyright Office implemented a new Web-based search engine for copyright databases.

Congressional Research Service:

Goal: Plan for and provide policy analysis, research and information support to Members of Congress and their staff for legislation in the 107th Congress.

Accomplishments: Throughout fiscal year 2001, CRS provided the full range of services to assist the Congress as it considered a host of domestic and international public policy issues. CRS provided support on some of the following major issues: agriculture, bankruptcy reform, budget process, campaign finance reform, Congressional oversight, defense transformation, elections, elementary and secondary education, energy policy, immigration, international affairs, medicare and prescription drugs, national missile defense, patient protection., Presidential nominations and appointments, public lands, social security reform, taxation., terrorism, trade, and welfare.

Goal: Continue electronic Web-based support of the Congress through further development of the Legislative Information System (LIS) and the CRS Web.

Accomplishments: A new redesigned CRS Web site was made available to congressional and CRS staff on January 30, 2001. In addition to the Current Legislative Issues feature, other specific improvements included implementing a single search box on the CRS Home Page and introduction of a new navigational structure. In response to Congress' increasing use of online and Web-based sources, CRS launched the Current Legislative Issues system in fiscal year 2001 which organizes CRS products on more than 140 different public policy issues and provides links to relevant CRS analyses. In addition, as part of its program of continuous improvement, the LIS team conducted extensive usability tests and developed a new LIS home page. Additional

improvements include: display of more bills at a time, display of committees in the order of referral, enhanced links to markup reports, highlighting of House committee documents related to particular bills, and improved information about the availability of the text of bills. Finally, in February, 2001, CRS introduced a new secure Web-based system for Members and staff to submit research requests to CRS electronically, 24 hours a day, seven days a week. From February to September 2001, nearly 8,000 research requests were placed by congressional offices via the CRS home page.

National Library Service for the Blind and Physically Handicapped:

Goal: Continue exploration of alternative audio and braille possibilities to the point of identifying a user-friendly, less costly, more efficient, internationally acceptable delivery system through implementation of a digital standard for talking books in the NISO/ANSI process and continued development of braille accessibility on the Internet with the addition of braille magazines.

Accomplishments: NLS completed a four-year collaborative effort, under the auspices of the National Information Standards Organization (NISO), to develop a 130-page national digital talking book standard. NISO voting members will ballot to accept the standard by 2002. In addition, all contractors producing audio books for NLS have been provided a schedule for converting their studios, culminating in 100 percent digital mastering in fiscal year 2004.

Management Support Services:

Goal: Communicate Library resources and coordinate special events.

Accomplishments: On September 8, 2001, the Library and First Lady Laura Bush hosted the first National Book Festival, which drew approximately 30,000 people to the nation's Capitol to meet some sixty authors and illustrators who participated in the event. In addition, the Office of Special Events and Public Programs coordinated a record 493 events, which introduced a number of major corporations and non-profit organizations and thousands of their U.S. and international guests to the Library's collections and resources. The Library also continued during fiscal year 2002 to build the America's Library Web site (www.AmericasLibrary.gov) and worked with the Ad Council on public service campaigns for the Web site.

Goal: Implement, in coordination with the Capitol Police Board and the Architect of the Capitol (AOC), physical security measures including the consolidation of police command centers and implementation of plans for access improvements.

Accomplishments: The Library is proceeding with consolidating its two communications centers in the Madison and Jefferson buildings into one state-of-the-art communication center in the Jefferson Building. After the September 11 attack, Congress approved an additional emergency appropriation of \$2.5 million for the Library - within the \$40 billion emergency appropriation - to pay for emergency communication systems, including construction of an Emergency Management Center, and money for additional Library police overtime.

Goal: Continue to build and maintain the Library's technology infrastructure to support the Library's mission-critical programs into the 21st century, including the Computer Security Plan to safeguard the Library's valuable computer resources and the Disaster Recovery Plan to ensure continuity of computer operations.

Accomplishments: Information Technology Services made significant gains in safeguarding information systems resources. New staff were hired; technical staff developed virtual private network telecommunications services; email filtering software for GroupWise attachments intercepted more than 9,000 potential viruses sent to or from Library workstations; and firewall monitoring was enhanced to adhere more closely to current industry-standard policies and procedures.

Goal: Organize Human Resources Services' delivery, resources, and structure to put customers first.

Accomplishments: Human Resources Services implemented a revised merit selection process and provided Library staff with a wide array of electronic services, most of them available 24 hours a day, seven days a week.

Goal: Continue to implement and develop the Library's facilities plan, including continued coordination with the AOC to implement occupational safety and health requirements and the development of the off-Capitol Hill collections storage and processing facility at Fort Meade, Maryland.

Accomplishments: Based on the fiscal year 2001 portion of the comprehensive agency-wide space plan, the

Library started, continued and completed a number of facility actions and moves. These included the Madison furniture replacement program and the design and outfitting of renovated spaces in the Thomas Jefferson and John Adams buildings. The Library continued to work closely with the AOC and their contractors on the first book storage module at the Fort Meade, Maryland campus.

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 years 2001 and 2000. 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 auditors, 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 seventh 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 3 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 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 that 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, 2001 and 2000

(Dollars in Thousands)

	2001	2000
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasurv (Note 2)	\$ 291,566	\$ 176,647
Investments (Note 5)	606,214	649,197
Accounts Receivable, Net (Note 6.A)	5,447	8,835
Other Assets	1,759	726
Investments (Note 5)	59,432	26,369
Accounts Receivable, Net (Note 6.A)	257	274
Pledges Receivable - Donations (Note 6.B)	10,591	71,694
Cash and Other Monetary Assets (Note 3)	700	980
Inventory (Note 7)	2,100	2,592
Property and Equipment, Net (Note 8)	56,504	60,587
Other Assets	35	442
Library Collections (Note 1.M)	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,034,605</u>	<u>\$ 998,343</u>
LIABILITIES		
Intragovernmental liabilities		
Accounts Payable	\$ 1,101	\$ 3,699
Advances from Others	25,930	28,844
Accrued Funded Payroll, Benefits	2,675	2,576
Accrued Unfunded Workers' Compensation (Note 11)	1,742	1,899
Accounts Payable	24,857	25,148
Advances From Others	2,522	2,563
Custodial Liability	556,147	612,326
Accrued Funded Payroll, Benefits	15,549	15,350
Deposit Account Liability	4,598	4,406
Accrued Unfunded Annual and Compensatory Leave	18,430	18,173
Actuarial Unfunded Workers' Compensation (Note 11)	9,404	9,588
Deferred Credits - Pledges	0	58,102
Capital Lease Liability (Note 10.A)	633	727
Other Liabilities (Note 13)	<u>1,547</u>	<u>3,460</u>
Total Liabilities	665,135	786,861
NET POSITION		
Balances:		
Unexpended Appropriations (Note 15)	202,329	78,690
Cumulative Results of Operations	<u>167,141</u>	<u>132,792</u>
Total Net Position	<u>369,470</u>	<u>211,482</u>
Total Liabilities and Net Position	<u>\$ 1,034,605</u>	<u>\$ 998,343</u>

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

THE LIBRARY OF CONGRESS

Consolidated Statement of Net Costs

For the Fiscal Year Ended September 30, 2001 and 2000

(Dollars in Thousands)

	2001	2000
Net Costs by Program Area:		
National Library:		
Program Costs	\$ 320,508	\$ 269,969
Less Earned Revenue	<u>6,648</u>	<u>5,144</u>
Net Program Costs	<u>313,860</u>	<u>264,825</u>
Law Library:		
Program Costs	14,642	15,625
Less Earned Revenue	<u>8</u>	<u>5</u>
Net Program Costs	<u>14,634</u>	<u>15,620</u>
Copyright Office:		
Program Costs	54,293	51,924
Less Earned Revenue	<u>24,572</u>	<u>25,258</u>
Net Program Costs	<u>29,721</u>	<u>26,666</u>
Congressional Research Service:		
Program Costs	99,743	97,832
Less Earned Revenue	<u>0</u>	<u>0</u>
Net Program Costs	<u>99,743</u>	<u>97,832</u>
National Library Service for the Blind and Physically Handicapped:		
Program Costs	50,109	45,620
Less Earned Revenue	<u>0</u>	<u>0</u>
Net Program Costs	<u>50,109</u>	<u>45,620</u>
Reimbursable and Revolving Funds:		
Program Costs	71,779	75,409
Less Earned Revenue	<u>57,240</u>	<u>58,728</u>
Net Program Costs	<u>14,539</u>	<u>16,681</u>
Costs not Assigned to Programs		
Less Earned Revenue Not Attributed to Programs	<u> </u>	<u> </u>
Net Costs of Operations	\$ <u>522,606</u>	\$ <u>467,244</u>

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

THE LIBRARY OF CONGRESS
Consolidated Statement of Changes in Net Position

For the Fiscal Year Ended September 30, 2001 and 2000
(Dollars in Thousands)

	2001	2000
Net Costs of Operations	\$ 522,606	\$ 467,244
Financing Sources (Other than Exchange Revenue)		
Appropriations Used	390,976	382,442
Imputed Financing (Note 21)	53,672	51,366
Donations	132,133	36,417
Other Non-Exchange Revenue	(19,826)	7,636
	<hr/>	<hr/>
Total Financing Sources	<u>556,955</u>	<u>477,861</u>
Net Change in Cumulative Results of Operations	34,349	10,617
Increase in Unexpended Appropriations (Note 22)	<u>123,639</u>	<u>8,007</u>
Change in Net Position	157,988	18,624
Net Position, Beginning	<u>211,482</u>	<u>192,858</u>
Net Position, Ending	<u>\$ 369,470</u>	<u>\$ 211,482</u>

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

THE LIBRARY OF CONGRESS

Combined Statement of Budgetary Resources

For the Fiscal Year Ended September 30, 2001 and 2000

(Dollars in Thousands)

	2001	2000
Budgetary Resources		
Budget Authority	\$ 818,823	\$ 641,430
Unobligated Balances - Beginning of Period	680,374	846,102
Spending Authority from Offsetting Collections	95,134	97,887
Adjustments, net	<u>8,324</u>	<u>(595)</u>
Total Budgetary Resources	<u>\$ 1,602,655</u>	<u>\$ 1,584,824</u>
Status of Budgetary Resources		
Obligations Incurred, New	\$ 849,666	\$ 900,348
Unobligated Balance - Available	734,499	661,732
Unobligated Balance - Not Available	<u>18,490</u>	<u>22,744</u>
Total, Status of Budgetary Resources	<u>\$ 1,602,655</u>	<u>\$ 1,584,824</u>
Outlays		
Obligations Incurred, New	\$ 849,666	\$ 900,348
Less: Spending Authority from Offsetting Collections and Adjustments	<u>109,325</u>	<u>103,645</u>
Subtotal	740,341	796,703
Obligated Balance, net - Beginning of Period	137,719	122,412
Less: Obligated Balance, net - End of Period	<u>135,614</u>	<u>133,617</u>
Total Outlays	<u>\$ 742,446</u>	<u>\$ 785,498</u>

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

THE LIBRARY OF CONGRESS

Combined Statement of Financing

For the Fiscal Year Ended September 30, 2001 and 2000

(Dollars in Thousands)

	2001	2000
Obligations and Nonbudgetary Resources		
Obligations incurred, new	\$ 849,666	\$ 900,348
Spending authority from offsetting collections and adjustments	(109,325)	(103,645)
Donations not in the budget	58,861	17,486
Imputed financing	53,672	51,367
Transfers-in (out)	0	(512)
Exchange revenue not in the budget	(141)	0
Trust/Special fund exchange revenue receipts	<u>(10,269)</u>	<u>(8,588)</u>
Total obligations as adjusted and nonbudgetary resources	<u>842,464</u>	<u>856,456</u>
Resources Not Funding Net Costs of Operations		
Increase in budgetary resources for undelivered orders	(1,406)	(9,578)
Increase in unfilled customer orders, excluding unearned refunds	2,015	3,992
Costs capitalized on the balance sheet	(73,895)	(33,817)
Financing sources that fund costs of prior periods	(131)	0
Adjustments for Trust fund outlays not affecting net cost	(32)	0
Refunds of nonexchange revenue and Copyright Licensing royalties	<u>(269,137)</u>	<u>(374,624)</u>
Total resources not funding net costs of operations	<u>(342,586)</u>	<u>(414,027)</u>
Costs That Do Not Require Resources		
Depreciation and amortization	22,379	23,434
Bad debt from public vendor overpayment receivables	(1)	55
Disposition of assets	3	0
Other costs	<u>347</u>	<u>318</u>
Total costs that do not require resources	<u>22,728</u>	<u>23,807</u>
Financing Sources Yet to be Provided		
Increases in unused annual leave and actuarial liability	<u>0</u>	<u>1,008</u>
Net Cost of Operations	<u>\$ 522,606</u>	<u>\$ 467,244</u>

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

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

1 <i>Summary of Significant Accounting Policies</i>
--

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 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 and Vice-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 (two), the U.S. House of Representatives (four), and the U.S. Senate (four).

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

B. Basis of Presentation

The accompanying financial statements report the financial position, net costs, changes in net position, budgetary resources and financing of the Library for fiscal years 2001 and 2000. Certain amounts for 2000 have been reclassified to conform with the 2001 presentation of those amounts. 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 generally accepted accounting principles.

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 standards 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 federal standards for financial reporting and internal controls in a manner consistent with a legislative agency. The Library has not adopted the Federal Financial Management Improvement Act of 1996, the Federal Managers Financial Integrity Act and the Government Performance and Results Act, as these standards are not applicable to the Library. However, the Library uses these sources as guidance and reference in its

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

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

The statements include 5 (5) appropriated fund accounts; 11 (11) revolving funds; reimbursable funds (including four major programs); 98 (93) trust funds; and 133 (133) gift funds for fiscal year 2001 (and 2000, respectively).

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 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;
- . 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 and no-year)
- . Copyright Office, Salaries and Expenses - (annual and no-year)
- . Congressional Research Service, Salaries and Expenses - (annual)
- . National Library Service for the Blind and Physically Handicapped, Salaries and Expenses - (annual and no-year)
- . Furniture and Furnishings - (annual and no-year)

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

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

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

E. Gift and Trust Funds

The Library administered 231 and 226 gift and trust funds with combined asset value of approximately \$109 million and \$150 million during fiscal years 2001 and 2000, respectively. 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 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 the following stock, index and money market funds utilized during fiscal year 2001 and 2000:
 - . 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

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

recorded as a component of non-exchange revenue in the statement of changes in net position.

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 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 database retrieval and other library services. The Library has established an allowance for doubtful accounts of \$22,337 and \$38,899 for fiscal years 2001 and 2000, respectively, 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

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 LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

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. Software includes ADP software purchased from outside vendors and software defined as "internal use software" in accordance with SFFAS No. 10, "Accounting for Internal Use Software," which became effective for fiscal year 2001. All software recorded has 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 \$30.8 million and \$30.1 million was recorded for the acquisition and maintenance of these buildings for fiscal years 2001 and 2000, respectively, and was offset by an imputed financing source, which represents the amount being financed by the Architect. For both fiscal years 2001 and 2000, the Architect received appropriations totaling \$16.0 million to fund the structural and mechanical care of these buildings. This appropriation is not reflected in the accompanying 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 Aheritage 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 which 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

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

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 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.

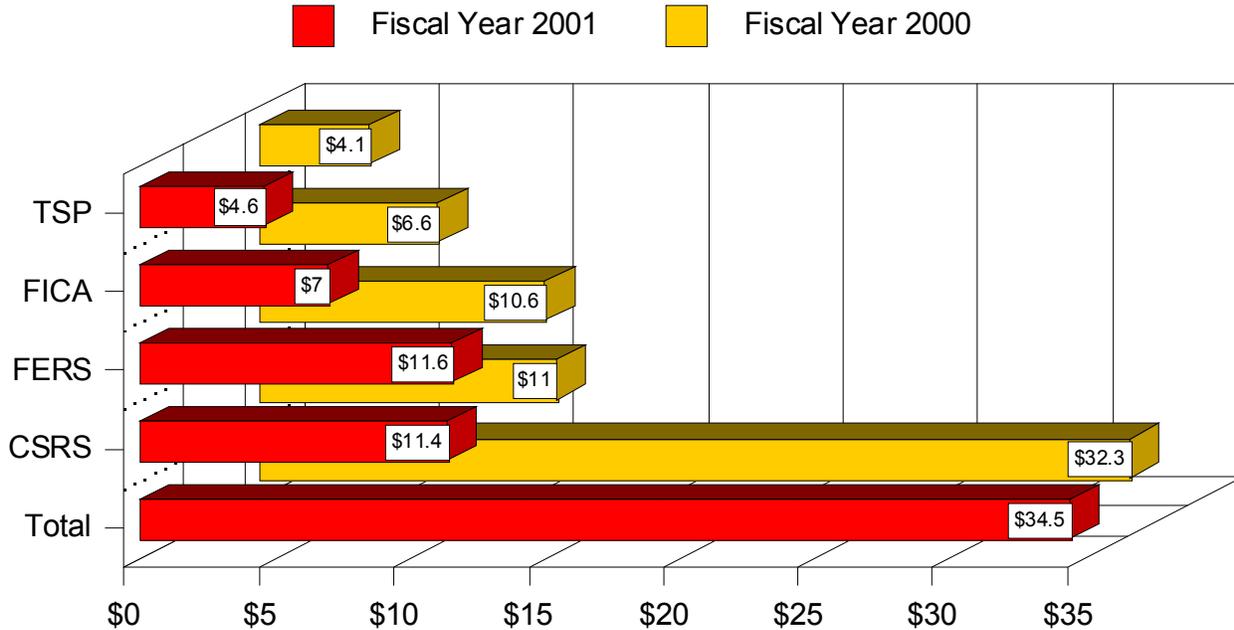
O. Federal Employee Benefits

Approximately 46 and 50 percent of the Library's employees participated in the Civil Service Retirement System (CSRS) during fiscal years 2001 and 2000, respectively, to which the Library makes contributions equal to 8.5 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 48 and 46 percent of the Library's employees were covered by the Federal Employees Retirement System (FERS) during fiscal years 2001 and 2000, respectively, 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 five percent of pay. Under FERS, the employee is also covered by FICA to which the Library contributes the employer's matching share. The remaining six percent and four percent during fiscal year 2001 and 2000, respectively, of the Library employees were 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.

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

Contributions To Federal Employment Programs For Fiscal Years 2001 and 2000



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," current year expenses of \$22.1 million and \$20.4 million were recorded for the service cost of the Library's employee retirement, health and life insurance benefits during fiscal years 2001 and 2000, respectively, 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

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

statements include unreimbursed inter-entity costs for the Architect of the Capitol, Office of Personnel Management, the Government Printing Office and the Department of the Treasury.

The financial activities of the Library interact with and depend on other federal government agencies. Thus, the Library's 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 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:

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 governmental 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 years 2001 and 2000, the Library paid \$497,203 and \$453,587 for these services, respectively.

. 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 \$1,123,586 and \$1,140,891 for these support services in fiscal years 2001 and 2000, respectively.

. 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.

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

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. Under the licensing agreement, the Library may receive donations and must approve all promotional, editorial, and advertising material using the Library's name. In September 2000, the publisher announced that the magazine would be discontinued and the October/November, 2000 issue was the final issue published.

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 childcare 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. In addition, the Library, in accordance with Public Law 106-554, pays the government contributions for individuals receiving health, life and retirement benefits provided by the Office of Personnel Management. The Library paid \$83,893 for these benefits in fiscal year 2001. 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 of \$5,429,764 and \$8,144,350 at September 30, 2001 and 2000, respectively. 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, the acquisition of materials for the Library's Hispanic collections, and the promotion of activities of the Hispanic Division, particularly those which relate to Spain, Portugal and Latin America. In fiscal Years 2001 and 2000, the Library received

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

\$165,882 and \$146,605 from the trust, respectively.

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 yearly or upon the request of the Library. 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 \$439,478 and \$339,872 in goods, services and direct contributions from the trust during fiscal year 2001 and 2000, respectively.

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.

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.

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, assist and promote library services, provide cultural enrichment programs, and create and issue periodic communications on topics related to blind and physically handicapped individuals.

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

2 *Fund Balance With Treasury*

Fund balance with Treasury at September 30, 2001 and 2000, is summarized as follows:

(Dollars in Thousands)

	2001	2000
1. ENTITY		
Appropriated Funds	\$228,947	\$108,895
Reimbursable and Revolving Funds	50,019	54,487
Gift and Trust Funds	12,560	13,174
Total Entity	\$291,526	\$176,556
2. NON-ENTITY		
Custodial Funds	\$40	\$91

(1) At September 30, 2001 and 2000, the gift and trust fund balance with Treasury included \$10 million invested in the permanent loan at interest rates of percent 5.3 and 5.6 percent, respectively.

(2) Pursuant to Public Law 106-554, \$20 million is unavailable for expenditure until an implementation plan for the National Digital Information Infrastructure and Preservation Program (NDIIPP) is approved by Congress. In addition, \$75 million is unavailable for expenditure unless matched with non-Federal contributions for the NDIIPP that are received by March 31, 2003.

3 *Cash and Other Monetary*

Cash and Other Monetary Assets consists of the following:

(Dollars in Thousands)

	2001	2000
Cash On Hand:	\$361	\$690
Imprest Funds	48	46
Deposits In Transit	291	244
Total	\$700	\$980

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

4 <i>Custodial Funds</i>

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 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.

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.

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

5 *Investments, Net*

Investments at September 30, 2001 and 2000 are as follows:

(Dollars in Thousands)

	2001			2000		
	A. Intragovernmental Investments Non-Marketable, Market-Based	B. Other Investments Private Sector	Total	A. Intragovernmental Investments Non-Marketable, Market-Based	B. Other Investments Private Sector	Total
Face Value	\$603,725		\$603,725	\$650,161		\$650,161
Cost		78,944	78,944		\$23,723	23,723
Unamortized Premium	2,271		2,271	449		449
Unrealized Discount	612		612	2,199		2,199
Interest Receivable	830		830	786		786
Investments, Net	606,214	78,944	685,158	649,197	23,723	672,920
Market Value	\$606,746	\$59,432	\$666,178	\$648,347	\$26,369	\$674,716

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 for fiscal years 2001 and 2000 range from October 4, 2001 to August 15, 2005 and October 2, 2000 to August 15, 2005, respectively, and interest rates for the same fiscal year ranges from 2.1 percent to 10.8 percent and 5.7 percent to 10.8 percent, respectively.

Custodial funds investment maturity dates for fiscal years 2001 and 2000 range from October 4, 2001 to August 31, 2002 and October 12, 2000 to August 31,

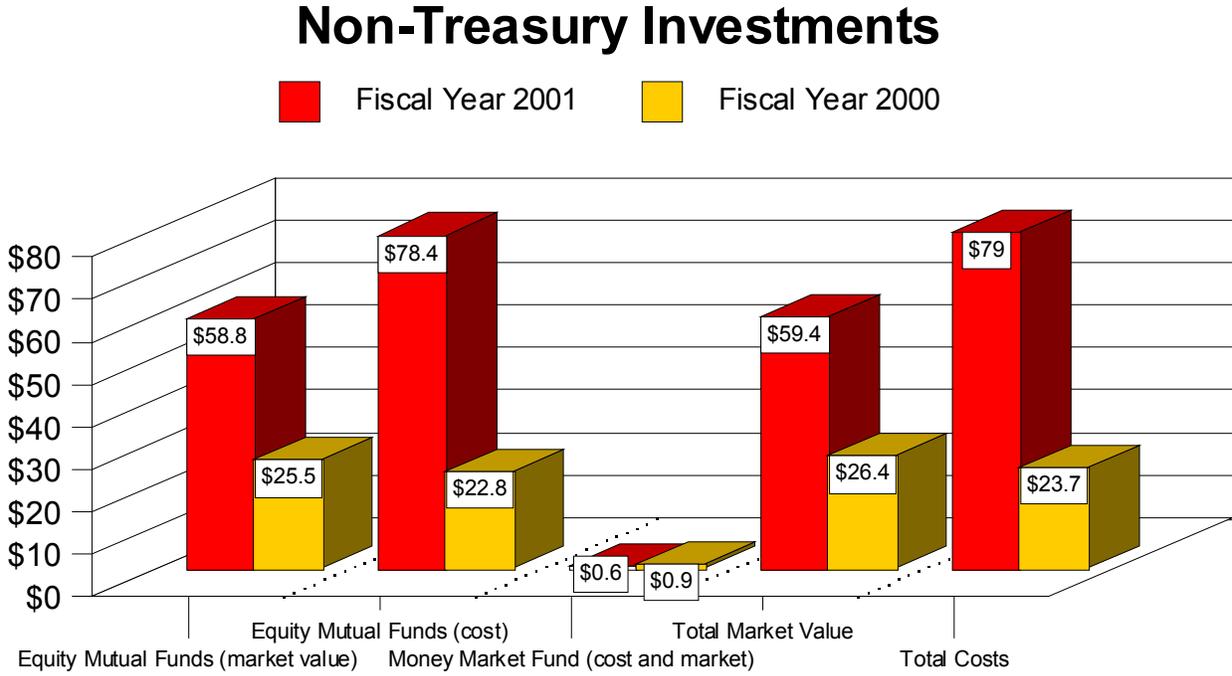
2001, and interest rates for the same fiscal years range from 2.0 percent to 6.6 percent and 4.9 percent to 6.0 percent, respectively.

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.

**THE LIBRARY OF CONGRESS
 NOTES TO THE FINANCIAL STATEMENTS
 Fiscal Years Ended September 30, 2001 and 2000**

Balances at September 30, 2001 and 2000, are as follows:



**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

6 Receivables

The breakdown of consolidated gross and net accounts receivable at September 30, 2001 and 2000, are as follows:

A. Accounts Receivable

(Dollars in Thousands)

	2001	2000
Intragovernmental		
Accounts Receivable, Gross	\$5,447	\$8,835
Allowance for Doubtful Accounts		
Accounts Receivable, Net	5,447	8,835
Other		
Accounts Receivable, Gross	279	313
Allowance for Doubtful Accounts	22	39
Accounts Receivable, Net	257	274

B. Pledges Receivable

At September 30, 2001 and 2000, the Library had unconditional pledges of contributions totaling \$11.1 million and \$73.3 million, which were discounted

through fiscal years 2006 and 2005 at a market discount rate and included in the statement of financial position at their discounted value of \$10.6 million and \$71.7 million, respectively.

The amounts due in future years, at September 30, at their current discounted value are:

(Dollars in Thousands)

Fiscal Year	2001	2000
2001	-	65,362
2002	6,688	3,326
2003	2,238	1,695
2004	1,149	925
2005	178	386
2006	338	0
Total	\$10,591	\$71,694

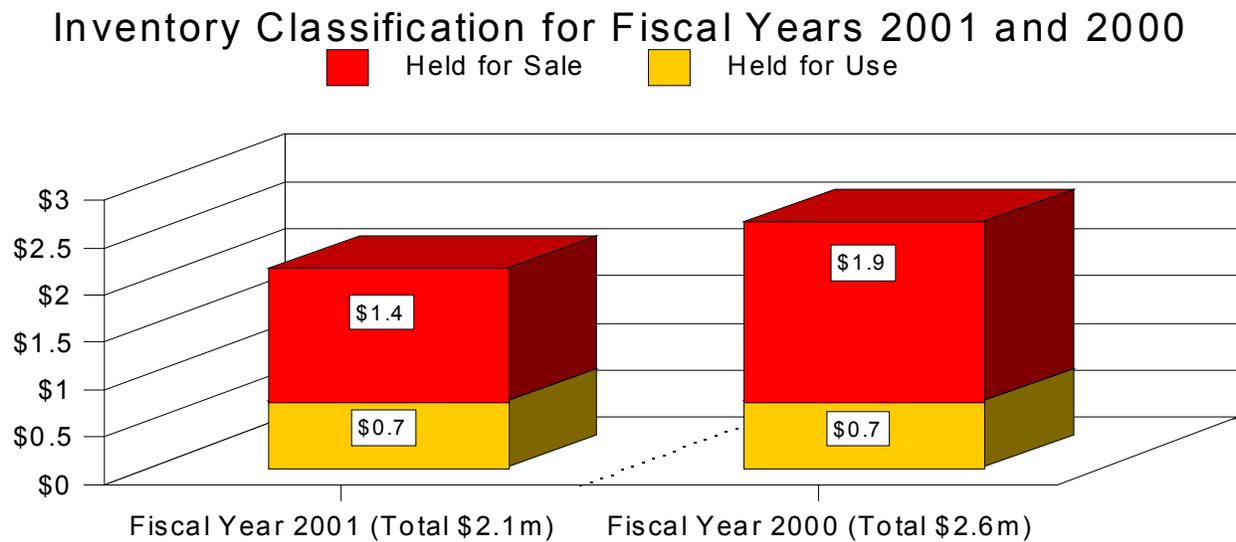
**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

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, 2001 and 2000:



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, the Recording Laboratory and the Cooperative Acquisitions Program are recorded in the revolving fund. The following table shows property and equipment, combined for the three categories, which were capitalized at September 30, 2001 and September 30, 2000.

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

(Dollars in Thousands)

Classes of Property and Equipment	2001			2000		
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Operating equipment	\$54,233	\$45,636	\$8,597	\$44,677	\$34,861	\$9,816
Software	7,660	4,110	3,550	5,300	3,369	1,931
Furniture & Furnishings	960	320	640	960	272	688
Capital Leases	1,081	508	573	10,122	4,227	5,895
Leasehold Improvements	10,652	7,767	2,885	10,116	6,977	3,139
NLS/BPH Equipment - loan to public	89,576	49,317	40,259	88,774	49,656	39,118
Total	\$164,162	\$107,658	\$56,504	\$159,949	\$99,362	\$60,587

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

9 *Entity and Non-Entity Assets*

(Dollars in Thousands)

	2001			2000		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental Assets						
Fund Balance with Treasury	\$291,525	\$41	\$291,566	\$176,556	\$91	\$176,647
Investments	51,207	555,007	606,214	36,867	612,330	649,197
Accounts Receivable, Net	5,443	4	5,447	8,835		8,835
Other Assets	1,759		1,759	726		726
Investments	59,432		59,432	26,369		26,369
Accounts Receivable, Net	256	1	257	279	5	274
Pledge Receivable - Donations	10,591		10,591	71,694		71,694
Cash and other Monetary Assets	700		700	980		980
Inventory	2,100		2,100	2,592		2,592
Property and Equipment, Net	56,504		56,504	60,587		60,587
Other Assets	35		35	442		442
Total	\$479,552	\$555,053	\$1,034,605	\$385,917	\$612,426	\$998,343

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

10 <i>Leases</i>

A. Capital Leases

The Library has capitalized leases for machinery and equipment at a net book value of \$573,105 and \$5,895,622 as of September 30, 2001 and 2000, respectively.

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. During fiscal year 1999, the Library entered into a three-year incremental funding agreement with the General Services Administration for the purchase of computer data storage equipment. The payments for this incremental funding agreement were not evenly distributed over the term of the agreement and were accrued based on available funding, as long as the minimum payment was made by the end of the fiscal year. These agreements concluded during fiscal year 2001 and the leases were converted to property, plant and equipment as of September 30, 2001. Estimated future minimum lease payments are as follows:

(Dollars in Thousands)

Fiscal Year Ended September 30	2001	2000
2001	-	\$487
2002	\$293	153
2003	239	111
2004	155	28
2005	128	0
Total Future Lease Payments	815	779
Less: Imputed Interest	182	52
Net Capital Lease Liability	\$633	\$727

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 2001 and 2000 amounted to \$2,462,329 and \$2,497,288 respectively. Estimated future minimum lease payments through fiscal year 2005 are as follow:

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

(Dollars in Thousands)

Fiscal Year Ended September 30	2001	2000
2001		\$2,302
2002	\$2,416	195
2003	59	83
2004	45	31
2005	0	14
Total Estimated Future Lease Payments	\$2,520	\$2,625

11 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 and later billed to the Library.

The Library accrued \$1,741,546 and \$1,898,963 of unbilled or unpaid workers' compensation costs as of September 30, 2001 and 2000, respectively, and established an estimated unfunded liability for future costs based on historical claims rates. The estimated future unfunded liability is \$9,403,630 and \$9,587,970 as of September 30, 2001 and 2000, respectively, and is based on a ten-year projection.

12 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.

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

13 Other Liabilities

Other Liabilities as of September 30, 2001 and 2000 are comprised of the following:

(Dollars in Thousands)

	2001 Current	2000 Current
Deferred Credits	\$1,533	\$3,398
Accounts Payable	0	46
Liability with Treasury B Cash in Safe	8	10
Custodial Liability	6	6
Totals	\$1,547	\$3,460

14 Liabilities Covered and Not Covered by Budgetary Resources

(Dollars in Thousands)

	2001	2000
Liabilities Covered by Budgetary Resources	\$633,379	\$693,904
Liabilities Not Covered by Budgetary Resources	31,756	92,957
Total Liabilities	\$665,135	\$786,861

Liabilities covered by budgetary resources include accounts payable, advances from others, accrued funded payroll and benefits, custodial liabilities, and deposit account liabilities. Liabilities not covered by budgetary resources include accrued unfunded annual and compensatory leave, accrued unfunded workers compensation, deferred credits, capital lease liability, and other liabilities.

**THE LIBRARY OF CONGRESS
 NOTES TO THE FINANCIAL STATEMENTS
 Fiscal Years Ended September 30, 2001 and 2000**

15 <i>Unexpended Appropriations</i>
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The components of unexpended appropriations at September 30, 2001 and 2000 are as follows:

(Dollars in Thousands)

	2001	2000
Undelivered Orders	\$66,249	\$61,918
Unobligated		
(a) Available	128,183	8,767
(b) Unavailable	7,897	8,005
Total Unexpended Appropriations	\$202,329	\$78,690

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, 2001 and 2000, for goods and services, which were ordered, but had not been received, by that date.

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

16 <i>Eliminations</i>

A. Balance Sheet

(Dollars in Thousands)

	2001	2000
	Eliminations	Eliminations
Assets:		
Intragovernmental		
Accounts Receivable	\$1,275	\$1,700
Other Assets		191
Total Eliminations	\$1,275	\$1,891
Liabilities:		
Intragovernmental		
Accounts Payable	\$1,274	\$1,699
Advances from Others	0	192
Accrued Funded Employee Benefits	1	0
Total Eliminations	\$1,275	\$1,891

The elimination amounts in this note have been excluded from the corresponding line amounts on the consolidated statements.

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

B. Net Costs

(Dollars in Thousands)

	2001	2000
	Eliminations	Eliminations
Program Costs:		
National Library	\$4,237	\$5,160
Law Library	95	159
Copyright Office	5,290	4,040
Congressional Research Service	741	1,232
National Library Service for the Blind and Physically Handicapped	130	89
Reimbursable and Revolving Funds	1,899	1,463
Total Eliminations	\$12,392	\$12,143
Earned Revenue:		
Copyright Office	\$4,283	\$3,310
Reimbursable and Revolving Funds	8,109	8,833
Total Eliminations	\$12,392	\$12,143

The elimination amounts in this note have been excluded from the corresponding line amounts on the consolidated statements.

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

17 *Program Costs by Budget Object Classification*

(Dollars in Thousands)

Consolidated	2001	2000
Personnel Services and Benefits	\$326,985	\$317,499
Travel and Transportation	3,053	3,101
Rental, Communication and Utilities	8,054	8,826
Printing and Reproduction	5,944	4,605
Contractual Services	155,430	112,041
Supplies and Materials	7,828	8,601
Library Materials	58,993	61,328
Non-Capitalizable Equipment	17,165	10,971
Depreciation and Amortization	22,382	23,434
Grants, Subsidies and Contracts	5,104	4,965
Other Program Costs	136	1,008
Total Program Costs	\$611,074	\$556,379

The Library's collections are classified as "heritage assets", \$13,078 and \$14,812 of the amount designated as "Library Materials" above represents the fiscal years 2001 and 2000 cost incurred by the Library for "heritage assets".

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

18 *Program Costs and Earned Revenue by Functional Classification*

Program Costs by Functional Classification - Consolidated

(Dollars in Thousands)

Function Classification	2001	2000
International Affairs		
Commerce and Housing Credit	\$54,063	\$51,582
Education, Training, Employment and Social Services	458,075	407,924
General Government	98,868	96,857
Income Security	68	16
Other		
Total	\$611,074	\$556,379

Earned Revenue by Functional Classification - Consolidated

(Dollars in Thousands)

Function Classification	2001	2000
Commerce and Housing Credit	\$24,598	\$25,296
Education, Training, Employment and Social Services	63,853	63,821
General Government	17	18
Total	\$88,468	\$89,135

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

19 *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 (1) a LCR, (2) a 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 include 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. The Register is authorized to fix fees at a level not more than necessary to recover reasonable costs incurred for services plus a reasonable adjustment for inflation. Fees should also be fair and equitable and give due consideration to the objectives of the copyright system.

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 services demanded. It is not practicable to provide reasonable estimates regarding (1) revenue foregone 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.

20 *Classification of Program Costs*

(Dollars in Thousands)

Fiscal year 2001	Intragovernmental		Public		Total
	Production	Non-Production	Production	Non-Production	
National Library	\$65,241	\$15	\$255,174	\$78	\$320,508
Law Library	4,628	0	10,014		14,642
Copyright Office	14,438	12	39,843		54,293
Congressional Research Service	23,403	4	76,336		99,743
National Library Service for the Blind and Physically Handicapped	4,548	2	45,559		50,109
Reimbursable and Revolving Funds	7,779	9	63,991		71,779
Costs not Assigned to Programs					

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

(Dollars in Thousands)

Fiscal year 2000	Intragovernmental		Public (Production)	Total
	Production	Non-Production		
National Library	\$59,954	\$19	\$209,996	\$269,969
Law Library	4,781	0	10,844	15,625
Copyright Office	14,114	12	37,798	51,924
Congressional Research Service	22,832	11	74,989	97,832
National Library Service for the Blind and Physically Handicapped	3,399	1	42,220	45,620
Reimbursable and Revolving Funds	6,503	7	68,899	75,409
Costs not Assigned to Programs				

21 *Imputed Financing*

In accordance with SFFAS 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 years 2001 and 2000 reporting by the Office of Management and Budget (i.e., the Office of Personnel Management and the Department of the Treasury). Since these costs are not actually paid to the other agencies, an imputed financing source (revenue) is recorded to offset these costs.

The \$53.7 million and \$51.4 million of imputed financing for fiscal years 2001 and 2000, respectively, consists of \$30.8 million and \$30.1 million to offset the recorded costs of the Architect of the Capitol (Library buildings and grounds costs), \$0.6 million and \$0.7 million to offset the recorded costs of the Government Printing Office (exchange program costs), \$22.1 million and \$20.4 million to offset the recorded costs of the Office of Personnel Management (staff benefits costs) and \$0.2 million each year to offset the recorded costs of the Treasury Judgment Fund for settled legal claims for fiscal years 2001 and 2000, respectively.

**THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000**

22 Unexpended Appropriations

The change in unexpended appropriations consists of the following:

(Dollars in Thousands)

	2001	2000
Treasury Warrants from Appropriations	\$512,921	\$385,946
Non-Expenditure Transfers from other agencies*	6,600	9,738
Other Miscellaneous Changes, Net	(2)	
Canceled Authority	(3,710)	(3,643)
Rescissions	(1,194)	(1,592)
Appropriated Capital Used	(390,976)	(382,442)
Increase in Unexpended Appropriations	\$123,639	\$8,007

*\$4,300 from U.S. Capital Police Board, \$2,500 from the Office of the President and \$200 to Architect of the Capitol in fiscal year 2001; \$10,000 from Agency for International Development and \$262 to the U.S. Senate in fiscal year 2000.

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

23 *Budgetary Resources*

Budgetary resources are classified as follows:

(Dollars in Thousands)

	2001			2000		
	Appropriated Capital	Non-Appropriated Capital	COMBINED	Appropriated Capital	Non-Appropriated Capital	COMBINED
Budgetary Resources:						
Budget Authority	\$519,754	\$299,069	\$818,823	\$395,684	\$245,746	\$641,430
Unobligated balances - beginning of period	16,542	663,832	680,374	19,050	\$827,052	846,102
Spending authority from offsetting collections	(289)	95,423	95,134	629	97,258	97,887
Adjustments, net	1,415	6,909	8,324	(3,656)	3,061	(595)
Total budgetary resources	\$537,422	\$1,065,233	\$1,602,655	\$411,707	\$1,173,117	\$1,584,824
Status of Budgetary Resources:						
Obligations incurred, new	\$401,396	\$448,270	\$849,666	\$394,932	\$505,416	\$900,348
Unobligated balance - available	128,184	606,315	734,499	8,767	652,965	661,732
Unobligated balance - not available	7,842	10,648	18,490	8,008	14,736	22,744
Total, status of budgetary resources	\$537,422	\$1,065,233	\$1,602,655	\$411,707	\$1,173,117	\$1,584,824
Outlays						
Obligations incurred	\$401,396	\$448,270	\$849,666	\$394,932	\$505,416	\$900,348
Less: spending authority from receipts and adjustments	6,030	103,295	109,325	2,208	101,437	103,645
Subtotal	395,366	344,975	740,341	392,724	403,979	796,703
Obligated balance, net - beginning of period	92,174	45,545	137,719	79,500	42,912	122,412
Less: obligated balance, net - end of period	92,904	42,710	135,614	92,171	41,446	133,617
Total outlays	\$394,636	\$347,810	\$742,446	\$380,052	\$405,445	\$785,498

(1) The net amount of budgetary resources obligated for undelivered orders-unpaid, ending balance, is \$97.3 million and \$96.3 million, which consists of \$64.5 million and \$61.0 million of appropriated funds and \$32.8 million and \$35.3 million of non-appropriated funds for the fiscal years 2001 and 2000, respectively.

(2) There was a \$4.1 million adjustment to decrease the unobligated beginning balance and increase the obligated beginning balance of budgetary resources. This was made to reverse the FY 2000 recognition of budgetary resources from federal receivables in non-revolving trust funds.

(3) For trust funds, approximately \$9.1 million and \$12.5 million of unobligated authority, at the donor's request, is restricted from being spent on program costs (income from investing restricted donations under the Library's Total Return Policy can be spent on program costs). These amounts are invested either in the permanent loan or in Treasury securities. An additional \$69.5 and \$16.0 million of restricted authority has been obligated and expended to invest in non-Treasury securities for the fiscal years 2001 and 2000, respectively.

THE LIBRARY OF CONGRESS
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2001 and 2000

(4) There has been no contributed capital received during fiscal year 2001 and fiscal year 2000.

(5) The Library is restating its fiscal year 2000 Combined Statement of Budgetary Resources and Combined Statement of Financing to be more consistent with budget execution information reported in the Budget of the United States Government. In the fiscal year 2000 statements, trust and special fund receipts were reported on the Spending Authority from Offsetting Collections line in the Budgetary Resources section of the Statement of Budgetary Resources. The receipts from this line were also reported as an offset in the Outlays section of the Statement of Budgetary Resources, resulting in a lower outlay amount. To be consistent with budget execution information reported in the Budget of the United States Government, these receipts should be reported as Budget Authority and not Spending Authority from Offsetting Collections. As amounts reported as Budget Authority do not result in an offset in the Outlays section of the Statement of Budgetary Resources, total outlays are higher than originally reported. To make this change, the Budget Authority line has been increased by \$245.7 million, the Spending Authority from Offsetting Collections line has been decreased by \$245.7 million and total outlays have been increased by \$245.7 million. The effects on the Combined Statement of Financing, besides the lines that directly come from the Combined Statement of Budgetary Resources, include a decrease in the Nonexchange revenue not in the budget line of \$25.1 million and a decrease in the Trust/Special fund exchange revenue receipts line of \$220.6 million.

24 <i>Subsequent Events</i>

1. As a precautionary measure, the Library's three Capitol Hill buildings closed on October 17, 2001, for testing for the anthrax bacteria. While the three buildings reopened on October 25, 2001, no United States Postal Service (USPS) mail has been delivered to the Library since the closing. Mail from Federal Express and United Parcel Service, and courier mail have been received. All mail addressed to Capitol Hill (including the Senate, House and Library of Congress) is being held offsite by the USPS pending development of an appropriate process for its treatment and delivery. The lack of delivery of library materials, copyright deposits, cash receipts for revolving fund activities, invoices from suppliers and other incoming mail items have affected greatly Library activities that depend on incoming mail for normal operations. The Congress approved a \$9 million supplemental appropriation for the Library in order to resume mail delivery and take necessary precautions to protect Library staff. The Library anticipates receiving USPS mail during February 2002.

2. The Center for Russian Leadership Development was created in the Legislative Branch Appropriations Act, 2000, Public Law 106-554, December 21, 2000, for the purpose of establishing a program to enable emerging political leaders of Russia at all levels of government to gain significant firsthand exposure to the American free market economic system and the operation of American democratic institutions through visits to government and communities at comparable levels in the United States. The Library of Congress was authorized to be the administering agency for the pilot program until September 30, 2001. As the administering agency, the Library included in its financial statements the assets, liabilities and results of operations of the program through the date of completion of the pilot program. On October 1, 2001, the Library transferred from its accounts \$11.7 million of net assets to the Russian Leadership Development Center Trust Fund.

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

Fiscal Year Ended September 30, 2001

The purpose of this section is to assert management's 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 nearly 124 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 the 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 and performances, publications, videos, CDs, and tapes.

The Library of Congress, as the national library, has a special obligation to acquire comprehensively the creative and intellectual legacy of this country; 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 the 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 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 the 1990s 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).

The most recent problem identified is the need to preserve those library materials 'born digital'. To that end, the Library received from the Congress the mandate to develop a National Digital Information Infrastructure and Preservation Program.

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 1991 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 Culpeper, 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 other collections at Fort Meade, Maryland continues. Moving collections into the first storage module in FY 2002 is dependent upon the construction schedule of the Architect of the Capitol.

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: item-level holdings records and bar-coding for non-rare monographs accessioned October 1999 or later; the automated circulation control system as implemented in the Integrated Library System (LC ILS); manual and automated shelf list and serial records; finding aids and other detailed item and/or collections 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 programs 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 and guard patrols, etc.); caging of high-risk collections;

secured loan stations, and secured transit for high risk items.

3) Providing access to our collections inevitably puts them at risk and could impair the Library's ability to serve the 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 it fulfills its mission of service to the Congress and the nation.** While we have aggressively addressed deficiencies in bibliographic, 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, 2001, for all of the Library's collections. With the implementation of the LC ILS and the application of bar codes to all newly accessioned non-rare monographs beginning October 1999, the Library has taken a step toward partitioning its assertion. We cannot assert without qualification that the controls in place are adequate and appropriate to mitigate the risks for all the special collections. We can assert that bibliographic, preservation and physical security controls are applied to all items newly acquired for the collections, but we cannot assert that inventory controls are fully implemented during the in-processing and in storage life-cycles.

The Library received first year funding for an inventory of the general collections, a project that will several years. That project, the process of comparing the book stock on the shelves to inventory records, and the conversion of the record to digital format, will establish a benchmark from which future security assessments can be measured.

Bibliographical controls: As of September 30, 2001, the Library had reduced the arrearage count of print materials to 1,290,415 items but an influx of newly acquired materials for the non-print collections increased the total arrearage to 21,142,980 still well below the 1989 benchmark number of 39.7 million. During the year, newly acquired items were accessioned and cataloged using the LC ILS, while work on the arrearage continued.

Inventory controls: Contracts were let and work begun on the conversion of the 12 million card shelflist of printed books. The conversion of the active serials check-in file was half completed during the year. The holdings information will be added to the record as the inventory is conducted. Bar-coding of new receipts continued as one of the first processing steps, providing better security to the collections, and the capacity to do item-level tracking throughout the processing work flow.

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; and 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 in Culpeper, Virginia is a major step in the preservation of film and other media.

Physical security controls: In fiscal year 2001, the Library sustained its advances in collections security by continuing to implement actions outlined in the 1997 security plan, reader registration, contracting for additional

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 controls within the security planning framework developed for the 1997 security plan.

During the year a framework of risk for the digital collections was constructed from which a security plan will be developed.

The Copyright Office is using laser engraving equipment to mark compact disks (both music and computer) and audio and video cassettes to indicate Library of Congress ownership. Testing is being conducted on samples of these formats in order to assess the impact on the longevity of the material.

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

5) We are committed to correcting the Library's fire and life safety deficiencies identified in the January, 2001 Office of Compliance report on Fire Safety Inspections and will work cooperatively with the AOC and the Congress to implement improvements as quickly as possible.



Donald L. Scott

Deputy Librarian of Congress

Memorandum*Office of the Inspector General*

TO: James H. Billington
Librarian of Congress
March 15, 2002

FROM: Karl W. Schornagel
Inspector General 

SUBJECT: Results of FY 2001 Financial Audit of the Library of Congress

The independent firm of Clifton Gunderson LLP, retained by the Office of the Inspector General to audit the Library of Congress' FY 2001 financial statements, has completed its task and issued the attached consolidated report on the Library's financial statements taken as a whole, internal control over financial reporting, compliance with laws and regulations, and management's assertion about the effectiveness of internal control over safeguarding collection assets.

We are pleased to report for the sixth consecutive year that in the auditor's unqualified opinion, the financial statements, including the accompanying notes, present fairly, in all material respects, the financial position of the Library of Congress in conformance with U.S. generally accepted accounting principles. However, there are two internal control reportable¹ conditions, two reportable instances of noncompliance with laws and regulations, and limitations in internal control over collection assets. The paragraphs that follow summarize the independent auditor's assessments of these issues.

Internal Control Over Financial Reporting

There are no material weaknesses in internal control over financial reporting (excluding safeguarding collection assets discussed on the next page) although there are two significant information technology-related deficiencies that could adversely affect the Library's ability to meet its financial management objectives.

First, security practices over information technology (IT) systems need to be improved. The Library-wide security program needs to be enhanced to comply with the 1987 Computer Security Act by establishing additional policy and upgrading the IT management structure. Specific topical areas needing improvement include application changes, systems development,

¹ According to federal financial audit criteria, audit findings are classified as to their importance. A reportable condition in the auditor's opinion represents a significant deficiency in the design or operation of an internal control which could adversely affect the Library's ability to meet its internal control objectives. A material weakness represents a more serious condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, losses, or noncompliance in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

transitioning systems from a testing status to a production environment, physical and logical access controls, certification and accreditation of sensitive systems, and segregation of duties.

Second, the Library needs to establish a comprehensive disaster recovery program to maintain service continuity, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur. Specifically, the Library should develop a Library-wide disaster recovery plan, establish emergency response and operating procedures, segregate its alternate computer processing location, and develop written policies for performing backups.

Compliance With Laws and Regulations

There are two reportable instances of noncompliance. First, as noted in prior years the Library has operated 10 revolving gift funds beyond the scope of its authority. Legislation authorizing these funds (and bringing the Library into compliance) has been enacted and was effective at the beginning of FY 2002. Second, during FY 2001 and 2000, the Library was not in compliance (as reported by the Office of Compliance) with the Congressional Accountability Act of 1995 requiring maintenance of specified safety standards.

Management's Assertion About the Effectiveness of Internal Control Over Safeguarding Collection Assets

Although the valuation of the collection of heritage assets is not reported in the Library's balance sheet, the assets represent an important stewardship responsibility requiring a system of internal control to ensure accountability. To this extent, the Library includes in its annual financial statements a stewardship report and makes an assertion about the effectiveness of the internal control.

The results of the audit indicate that the Library fairly stated that it couldn't provide reasonable assurance that the internal control structure over safeguarding collection assets against unauthorized acquisition, use, or disposition was completely effective as of September 30, 2001 for the collections taken as a whole because of material internal control weaknesses. Based on the auditor's examination, the Library fairly asserted that newly acquired non-rare monographs (a major portion of the general collection) were under bibliographic, inventory, and preservation control when circulated outside the Library as of September 30, 2001. The Library could not assert that the newly acquired non-rare monographs were under completely effective internal control during internal processing and storage life cycles.

The Office of the Inspector General appreciates the courtesies and cooperation extended to the independent auditors and to our staff during the audit.

Attachment

cc: Deputy Librarian
Director, Financial Services Directorate



Independent Auditor's Report

Inspector General
Library of Congress

In our audit of the Library of Congress (Library) for fiscal year 2001 and 2000, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses in internal control over financial reporting (excluding safeguarding collection assets) and compliance and its operation, although internal control should be improved,
- reportable noncompliance with laws and regulations we tested, and
- management fairly stated that (1) the Library cannot provide reasonable assurance that the internal control structure over safeguarding collection assets against unauthorized acquisition, use, or disposition was completely effective as of September 30, 2001, for all of the Library's collections; and (2) newly-acquired non-rare monographs (a major portion of the general collections of the Library) are under bibliographic, inventory and preservation controls when any item is circulated outside the Library and management cannot assert that inventory controls are fully implemented during the in-processing and in-storage life-cycles as of September 30, 2001.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other supplementary information and (2) the scope of our audit.

Opinion on Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, the financial position of the Library as of September 30, 2001 and 2000, and its related statements of net costs, changes in net position, budgetary resources, and financing for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 23 to the financial statements, *Budgetary Resources*, the Library changed its fiscal year 2001 presentation of the Combined Statement of Budgetary Resources to be more consistent with budget execution information reported in the Budget of the United States Government, and restated its presentation of fiscal year 2000 budgetary resources for consistency.

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Consideration of Internal Control

We considered internal control over financial reporting and compliance.

We do not express an opinion on internal control over financial reporting and compliance because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. However, our work identified the need to improve certain internal controls, as described below. The weaknesses in internal control, although not considered material weaknesses, represent significant deficiencies in the design or operation of internal control, which could adversely affect the Library's ability to meet the internal control objectives listed in the objectives, scope, and methodology section.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses.

REPORTABLE CONDITIONS

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

There are several areas regarding the enterprise wide security program that need to be improved. This program should establish a framework for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate, responsibilities may be unclear, misunderstood or improperly implemented or existing controls may be inconsistently applied. Our audit found that the Library's information systems environment remained threatened by weaknesses in several information protection control structures. 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:

- **Entity-Wide Security Program is inadequate.** The Library of Congress does not have a documented entity-wide security program in accordance with the Computer Security Act of 1987 as interpreted by the Library's Computer Security Policy. The Library does not have a well-organized Information Security Management Structure to make decisions on how to manage and protect its diverse Information Technology Resources. The Library needs a Director of Information Technology Services whose responsibility per the Library Computer Security Policy includes amongst other duties, "...to develop, manage and coordinate the Library's security program." These are proactive measures that allow an organization to manage its information security risks cost effectively, rather than reacting to individual problems on an ad hoc basis, or after a violation has been detected.

- **Application change controls and system development require enhancement.** Certain controls over the modification of application software programs are deficient. These controls should be designed to ensure that only authorized programs and modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently omitted or turned off, or that processing irregularities or malicious code could be introduced.
 - There were no written standards to control production programs as they progress through testing to production. The lack of controls may result in inefficient or inadequate testing or introducing production programs that do not meet management's criteria.
- **The Library does not maintain adequate controls of its test and production libraries.** Application Developers for one sub-system can move application modifications/upgrades from the test to the production environment without review of quality assurance. In other words, the same person who did the upgrade can carry out program migration into the production environment.
- **The Library's physical and logical access controls need to be enhanced.** Certain access controls require modification in order to provide a more secure environment. Access controls should provide reasonable assurance that the information technology resources (data files, application programs and computer facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. These controls include but are not limited to: controls over physical access to information technology resources, and controls that prevent unauthorized access to sensitive program and data files. The Library lacks management policies to manage access controls for applications and system software. There are no written standard access control policies. During our review of access controls, we found that:
 - Certain employees who had left the Library were still listed as active users of system resources and had not had their access rights revoked.
 - The security package that protects the financial application is obsolete and is no longer supported by the vendor.
 - No formal procedures have been developed addressing physical access to the data center. For example:
 - Ingress and egress to/from the Library's Data Center by visitors, third party contractors and housekeeping staff is not closely monitored. The visitors log usually had no visitor's names nor initial of the admitting party, it occasionally had time of entry but time of exit was rarely noted.
 - There was no maintenance log to verify that scheduled maintenance of the Library's data center equipment had been done. Procedures for assigning Data Center access badges to maintenance staff (AOC employees) and other third party contractors need to be formalized.

- Third parties should not be allowed to use the Data center as office space. If this cannot be avoided, such persons should be closely supervised. This is the case of certain contractors doing Windows 2000 upgrades to employee terminals. There were no records of the level of security granted them nor the serial number of the badges assigned to them.
- There are no procedures in place to safeguard new or unused keycards/badges.
- **Application security controls should be strengthened.** Application controls do 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.
- **Segregation of duties should be enhanced.** Work responsibilities should be segregated so that one individual does not control all critical stages of a process. Often, segregation of duties is achieved by splitting responsibilities between two or more organizational groups. The extent to which duties are segregated depends on the size of the organization and the risk associated with its facilities and activities. Below is a summary of some of the control weaknesses noted at the Library of Congress.
 - The following incompatible authority is vested in the System Administrator of one of the Library's support sub-systems. Capacity to: customize configuration settings, set up users in the application, build profiles, set user passwords, add/modify/delete user profiles, add/modify/delete groups, add/modify/delete users and input fund data.
 - There is no hierarchical oversight or monitoring of the activity of System Administrators. Reviewing system-generated logs that record application access, usage and violation reports (where this feature is turned on) is equally the prerogative of the System Administrator or someone designated by this person.
 - System Administrators for certain sub-systems assign user passwords. These passwords while not secured in encrypted files cannot be changed by the users.
 - Users of certain Library Support sub-systems have the authority to (a) initiate purchase orders and (b) validate or approve these orders.
 - One of the new features incorporated in a sub-system upgrade allows users the possibility to modify purchase orders after these purchase orders have been approved and funds obligated. This is a potentially delicate feature, which should be discouraged. If it is imperative that it be incorporated in this upgrade, the assignment and use of this feature should be closely monitored.

Inadequately segregated duties increase the risk that erroneous or fraudulent transactions could be processed, improper program changes could be implemented, and that computer resources could be damaged or destroyed.

Recommendations:

We recommend the following:

- Senior management make security of its information technology resources a high priority and allocate adequate resources and personnel. Library management should develop an administrative structure to implement the security program throughout the organization and to ensure that Library Information Technology resources are restricted to authorized individuals and that critical data is protected.
- Implement more rigorous access regulations with regards to the main information processing facility of the Library. Regulate custody over unused keycards, restrict entry into the data center and supervise third parties who have been temporarily granted office space in the data center. In addition, deactivate the access privilege of users ID's who have left the Library's employment.
- Establish a program for the certification and accreditation of major application systems and general support systems in accordance with the Federal Information Processing Standards Publication (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 system software changes and prohibit developers from migrating test programs into the production environment without quality assurance review.
- Incompatible operational functions should be separated. Dividing duties among two or more individuals or groups diminishes the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other.
- Monitor hardware maintenance of environmental controls in the data center.

2. THE LIBRARY LACKS A COMPREHENSIVE DISASTER RECOVERY PROGRAM

The Library could lose the capability to process, retrieve, and protect electronic information. Losing the capability to process, retrieve and protect information maintained electronically can significantly impact the Library's ability to accomplish its mission. For this reason, The Library should have (1) an administrative structure to implement or maintain service continuity of Library operations, (2) procedures in place to protect Information Resources and minimize the risk of unplanned interruptions, and (3) a plan to recover critical operations should interruptions occur.

Some weaknesses noted at the Library of Congress include:

- The Library has not developed an enterprise-wide disaster recovery plan. The Library does not have critical policies and procedures usually found in government and private industry to protect information resources and minimize the risk of unexpected interruptions and to recover critical operations should interruptions occur.
- Formal data center emergency response and processing procedures have not been established. Training has not been provided to Library employees and third party contractors to respond to emergencies.
- The Library's present computer alternate processing location situated at the House of Representatives is not geographically segregated from the main processing center. Also, the Library does not have standard written policies for performing backups of data files, Application programs, and system files and placing them in off-site storage location. Tape backup and rotation standards have not been developed and documented.

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 critical goals.

Recommendations:

We recommend that the Library:

- Develop management policies and an administrative structure to implement or maintain continuity of Library operations, and develop standard backup written policies for performing backups of data files, computer programs, and critical documents and placing them in off-site storage,
- Assess the criticality and sensitivity of computerized operations and identify supporting resources,
- Train staff to respond to emergencies, and

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

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed two instances of noncompliance that are reportable under *Government Auditing Standards* or OMB audit guidance:

- During fiscal years 2001 and 2000, the Library operated ten revolving gift funds beyond the scope of its authority. Legislation authorizing the Library's revolving fund was enacted into laws as approved in November 2000. The Act will be effective at the start of fiscal year 2002 and the Library will then be in compliance.
- During fiscal years 2001 and 2000, the Library was not in compliance with the "Congressional Accountability Act (CAA) of 1995." In the CAA, Congress made its facilities and employees subject to the same safety laws that applied outside the legislative branch. In 1997, other provisions of the CAA applied fire safety standards to Congressional buildings, including the Library. The Office of Compliance conducted a yearlong fire safety investigation that culminated in a report issued in January 2001 that identified numerous safety hazards in the Library's three Capitol Hill buildings.

Except as noted above, our tests for compliance with selected provisions of laws and regulations disclosed no other instances of noncompliance that would be reportable under *Government Auditing Standards* or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Effectiveness Of Internal Controls Over Safeguarding Collection Assets

We have examined management's assertion, which is presented in Section 4, that the Library 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, 2001. The control criteria include: bibliographical, inventory, preservation, and physical security controls as set forth in management's assertion.

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 our opinion, management's assertion included in section 4 that, as a result of the material weaknesses in controls described in its report, it cannot provide reasonable assurance that the internal control structure was generally effective as of September 30, 2001 over safeguarding collection assets against unauthorized acquisition, use, or disposition is fairly stated, in all material respects, based upon the control criteria: bibliographical, inventory, preservation, and physical security controls. In addition, management's assertion that newly-acquired non-rare monographs (a major portion of the general collections of the Library) are under bibliographic, inventory and preservation controls when any item is circulated outside the Library and management cannot assert that inventory controls are fully implemented during the in-processing and in-storage life-cycles as of September 30, 2001, is fairly stated based upon the criteria described above.

Consistency of Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. Certain portions of the Library's Financial Statement Package are not a required part of the basic financial statements, but are supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, and the Financial Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussions and Analysis*. This supplementary information is MD&A, stewardship information, and other accompanying information. Other accompanying information consists of the full Financial Statement Package except for the MD&A, stewardship information, the basic financial statements and notes thereto, and this auditor's report. We have applied certain limited procedures, which consisted principally of inquiries of management and selected tests of this information, such as comparing it for consistency with the financial statements and footnotes. Based on these limited procedures, we found no material inconsistencies with the financial statements or footnotes. However, we did not audit this information and express no opinion on it.

Objectives, Scope, and Methodology

The Library's management is responsible for:

- (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles,
- (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that:
 - Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
 - Compliance with applicable 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.
- (3) complying with applicable laws and regulations, and

- (4) establishing, maintaining, and assessing internal control over safeguarding of collections assets.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit and for (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the financial statements.

In order to fulfill these responsibilities, we (1) examined on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (excluding safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, and (6) tested compliance with selected provisions of applicable laws and regulations.

We limited our internal control testing to controls over financial reporting and compliance and over safeguarding collection assets. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Library. We limited our tests of compliance to those laws and regulations required by OMB guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2001. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, attestation standards established by the American Institute of Certified Public Accountants, and OMB audit guidance.

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.

Clifton Gunderson LLP

Calverton, Maryland
February 27, 2002

Memorandum

Library of Congress
Office of the Librarian
Deputy Librarian

TO : Karl Schornagel
Inspector General

FROM : 
Donald L. Scott
Deputy Librarian of Congress

March 15, 2002

SUBJECT: Comments on the Audit of the Library of Congress

Thank you for the opportunity to review and comment on our audit report of the Library of Congress' consolidated financial statements for fiscal years 2001 and 2000. 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 and the progress that has been made during fiscal year 2001 in the area of collections security. For the sixth consecutive year, the Library as 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 office and the Congress in continuing to improve the accountability of the Library's resources.

THE LIBRARY OF CONGRESS

STEWARDSHIP REPORT

HERITAGE ASSETS

September 30, 2001

Overview of the Library Collections

The Library of Congress has the world's largest library collection of 124 million items, including research materials in over 450 languages and various media. The collections include more than 28 million books and other printed materials, 55 million manuscripts, 12 million photographs, 4 million maps, 5 million pieces of music, 2 million audio recordings, and 877 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.

In a collection as large and as diverse in formats as the Library's, decisions are made continually as to the appropriate level for the application of stewardship controls; should the Library's collection be controlled at the item level or at the collection level? While the optimum control would be to secure every individual item, such a minute level of control cannot be globally achieved at a reasonable cost or within a reasonable amount time. Therefore, the Library has chosen to use each of the control measures, as an individual technique and in synergy with each other, to exert the appropriate level of control to particular segments of the collection. As an example, the Library has a vast collection of sheet maps that are not individually cataloged and are therefore controlled only at the collection level. As they are lacking item level control, the maps are only served to a reader under conditions of strict physical security. In contrast, most of the book

collections of the Library have item level control and may therefore circulate among the various reading rooms and even be loaned to other libraries. Throughout this report, examples will be given of the level of security that is appropriately applied to the various collections.

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. The most significant acquisition of fiscal 2001 was the long-sought-after and highly prized 1507 world map by Martin Waldseemüeller. One of the great treasures of the world and American history, the map is the earliest document on which the name "America" appears.

Bicentennial Celebration - The Library's bicentennial celebrating 200 years of stewardship concluded in October with three symposia looking at the roles of the national library, its collections, and the security and preservation of them. The Associate Librarian for Library Services and the director of the Center for the Book, with Librarian of Congress Dr. James H. Billington and Librarian Emeritus Dr. Daniel J. Boorstin, welcomed representatives from the national libraries of more than seventy countries to an international symposium, "National Libraries of the World: Interpreting the Past, Shaping the Future." The first two days of this symposium were devoted to the history of libraries and their place in society and culture; the final two days considered the future of libraries with participants

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reporting on digital activities in their countries and the issues facing all national libraries in the 21st century - acquiring and preserving a nation's digital heritage, collaborating in the digitization of collections, and the role of the national libraries in digital reference.

On October 30 and 31, 2000, 231 librarians, archivists, and museum curators, from as far away as Malaysia, Brazil, and Jamaica, came to the Library for a symposium titled "To Preserve and Protect: The Strategic Stewardship of Cultural Resources." In a unique forum combining preservation and security concerns, experts in cultural heritage covered myriad topics from developing preservation and security strategies, priorities and expectations to measuring the effectiveness of preservation and security programs; from coping with theft, vandalism, the deterioration of collections, and bad press to building a preservation and security budget; and from the preservation and security challenges of electronic information and digitization to innovations in security and preservation. This symposium provided the opportunity not only for discussion, but also for identifying possible next steps in cooperating nationally and internationally in preserving and securing collections, especially items "born digital" and those destined to be available solely in electronic form. The symposium was held in affiliation with the Association of Research Libraries and the Federal Library and Information Center Committee.

The concluding conference of the bicentennial was held November 15 -17, 2000, and brought together 136 authorities in the cataloging and metadata communities to discuss "Bibliographic Control for the New Millennium: Confronting the Challenges of Networked Resources and the Web." Together they examined the challenges of improving access to Web resources in a framework of international standards. The symposium celebrated the historic role of the Library of Congress in providing national and international leadership to the library professional in cataloging policy and to the library community with standardized cataloging records.

National Book Festival - The first National Book Festival was held on September 8, 2001, on the east lawn of the United States Capitol, in the James Madison Memorial Building and in the Thomas Jefferson Building. Sponsored by the Library of Congress and hosted by First Lady Laura Bush the event attracted nearly 30,000 people for a day of

author lectures and readings, storytelling, dance, music and book related activities such as conservation, calligraphy, and reading promotions, and special exhibitions of the Library's collections.

Response to September 11th - The terrorist attacks of September 11, 2001, deeply impacted the work of the Library of Congress. The Library began immediately to build an historic news collection of U.S. and foreign newspapers containing reports and photographs of the tragedy and its aftermath. The archive contains thousands of newspapers and continues to grow as the events develop. The invaluable collection has already been used by scholars. In collaboration with the Internet Archive, webArchivists.org and the Pew Internet and American Life Project, the Library launched a September 11 Web Archive. The archive preserves the Web expressions of individuals, groups, the press and institutions in the United States and from around the world in the aftermath of the attacks. The site has been included in the [Librarian's Index to the Internet](#), [The Scout Report](#), and was featured as a Yahoo Pick of the Week and a [USA Today](#) hot site. The Library's American Folklife Center called upon folklorists across the nation to document on audio tape the thoughts and feelings expressed by citizens following the tragic events. This "September 11, 2001, Documentary Project" presents the personal experience stories of average American in the wake of the terrorist attacks.

More than 200 new titles on hazardous materials, chemical and biological warfare, infectious diseases and other fields were immediately obtained to augment the already strong Science Reading Room's reference collections on these topics. Cataloging was expedited on material in subjects related to the attacks and the research materials were immediately provided to the Congress and to researchers.

At the time of the attacks, the Library was about to debut its International Portals Project, an on-line annotated listing of Web sites judged of value by area specialists, organized by country and world region. The pages for Afghanistan, India, Pakistan, Tajikistan, Uzbekistan, all countries with new prominence, were quickly made available to the public.

The September 11th terrorist attacks reordered congressional priorities, profoundly affecting many federal programs and policies. To assist Congress, the

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Congressional Research Service (CRS) instituted a service-wide, coordinated response that drew upon senior experts in all relevant fields to provide an interdisciplinary perspective. A new, comprehensive, electronic briefing book on terrorism and homeland security was launched soon after the attacks occurred, and was frequently updated.

Two additional seminars were held on legal and public health issues concerning homeland security, while others were planned. CRS specialists conducted a series of briefings for Members and congressional staff and prepared a broad range of new reports, including assessments of Federal Emergency Management Agency programs and general information on the federal role in emergency management.

Collections Policy

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

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 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.

The Collections Policy Committee of the Library reviews the allocation of the acquisitions budget and travel for the purpose of acquisitions. It also coordinates the review of the Collection Policy Statements and announces its work plan to all the recommending officers in the Library. The committee is comprised of the directors for Acquisitions, Cataloging, Public Service Collections, and Area Studies, and representatives from the Law Library and CRS.

The National Digital Infrastructure and Preservation Program - In fiscal 2001, the Library continued to develop comprehensive digital library strategies and programs. The Librarian of Congress established the position of Associate Librarian for Strategic Initiatives to develop a full range of digital policies and operations for acquiring, describing, and preserving content created and distributed in electronic form and for life-cycle management of digital materials as part of its universal collection for the nation.

The Library's primary focus in fiscal 2001 was to develop and implement a strategic plan for a National Digital Information and Infrastructure Preservation Program. A planned two-tier strategy would allow the Library to focus both internally and externally. The inward focus looks at the Library's technology infrastructure and policies. Internal groups were convened to identify issues and develop recommendations for a broad range of complex topics from rights management to criteria for universal collecting. The second tier focuses on collaboration with the public and private sectors. The National Digital Strategy Advisory Board met on May 1 to advise the Library on national strategies for the long-term preservation of digital materials, to promote collaboration among diverse stakeholders communities, and to assist in developing a national fund-raising strategy.

Building the Digital Collection - At the end of fiscal

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2001, there were 7.5 million Library of Congress items available online or in digital archives. The Election 2000 Collection was the first large-scale collection of Web sites archived and made available online. The collection was created by the Library, in concert with Alexa Internet, to preserve open-access Web materials pertaining to the November 2000 U.S. national election. The collection comprised more than two million megabytes, or about 87 million pages, of election-related information fathered between August 1, 2000 and January 14, 2001, including materials published on the candidates' Web site, political party sites, and major news sites.

Work was in progress on several other large collections. "Hisotrias/Paralelas/Parallel Histories" is a collaborative project between the Library of Congress and institutions in Spain, most notably the National Library of Spain and the Institucion Colombina. Drawing upon rich Library of Congress collections relating to Spain and Spanish America, staff selected items to digitize from the general collections, geography and map collections, the Law Library, manuscripts and rare books. Digitization work was also started on the two premier collections donated to the Library by Hans P. Kraus: the Sir Francis Drake collection of rare books and the Hans P. Kraus collection of manuscripts. During the year the Library's on-line collection were used an average of 28.5 million times per month.

A traditional role of the Library of Congress within the library community is that of standards development and bench marking. During this year the Library engaged in efforts to broaden access to the unique materials digitized for American Memory and to encourage interoperability among repositories of cultural heritage. The descriptive records for four LC collection have been made available for sharing with other institutions using the emerging standard of the Open Archives Initiative. The Digital Library Federation (of which the Library of Congress is a founding member) is encouraging its members to make records for their digital resources accessible to other institutions in the appropriate format so they may be used comprehensively to build pooled resources or selectively to build services for specialized scholarly communities.

Also in the area of standards, the Library convened a working group with the charge to recommend a standard for digital reference works. The Library has been at the

forefront of digital reference services and has led the organization of the Collaborative Digital Reference Service, a group of libraries from around the world that have made a formal commitment to answer questions posed from other members. The broad geographical spread of the participants ensures that there is a library open for business 24 hours a day with the resources and staff to handle the most difficult reference query.

Acquiring Research Materials for the Library - 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 2001, research materials obtained for the collections through copyright deposits totaled more than 728,034 items.

The Cataloging in Publication Program is the other principal source of U.S. published books that the Library acquires. A mainstay of U.S. library service for thirty 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. The Library also acquires U.S. publications through the Preassigned Card Number Program. In fiscal 2001, the Library obtained 60,121 titles through the two programs. The Electronic Cataloging in Publication Program grew to include 1,067 publishers an increase of 78 percent over the previous year.

The Library also acquires materials by purchase, 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

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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.

In fiscal 2001, the Library received approximately 211,107 items through its exchange relationships.

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 2000, the Library received 126,590 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 that 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 follows:

	1997	1998	1999	2000	2001
Annual Appropriations Authorized	\$ 8,458,000	\$ 9,619,000	\$10,119,000	\$10,321,000	\$10,456,000
Estimated Value of Copyright Deposits Transferred to the Library	\$25,183,884	\$26,991,776	\$36,435,429	\$32,308,047	\$31,857,394
Government Printing Office Appropriation (part of Superintendent of Documents) for International Exchange	\$537,000	\$444,000	\$527,000	\$687,000	\$635,000

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Acquisitions by source:

Source	Pieces 1997	Pieces 1998	Pieces 1999	Pieces 2000	Pieces 2001
Purchases:					
Appropriated - GENPAC/LAW	522,040	676,287	776,712	811,566	711,133
Appropriated Other	38,267	55,303	45,601	54,024	58,667
Special Foreign Currency	55,090	47,294	0	0	0
Gift and Trust Funds	3,499	3,028	4,076	8,090	4,514
Total Purchases	618,896	781,912	826,389	873,680	774,314
Non-Purchases: Exchange					
Government Transfers	310,849	313,224	288,538	249,854	211,107
Gifts	486,280	538,611	116,088	124,142	126,590
Cataloging in Publication/PCN	1,116,626	1,577,561	1,709,712	965,364	44,504
Copyright Deposits	82,301	72,283	79,046	68,416	71,963
	862,207	845,826	954,081	751,944	728,034
Total Non-Purchases	2,858,263	3,347,505	3,147,465	2,159,820	1,182,198
Total All Acquisitions	3,477,159	4,129,417	3,973,854	3,033,500	1,956,512

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

During fiscal 2001, the Preservation Directorate provided a comprehensive range of services to preserve and protect the Library's extensive collections. Through the coordinated efforts of staff in the directorate's five divisions and two special programs, 530,309 items were preserved at a total cost of \$9.5 million. The average per-item cost was \$17. In all preservation efforts, the guiding principle is "fitness for purpose," with the most common purpose being defined as in a suitable condition to be served to a researcher. The Library devotes much of its preservation resources to preventive conservation.

Notable accomplishments included the provision of 30,000 hours of preventive and remedial conservation services for

items and collections in the Library's custodial divisions; establishment of new methods for predicting the life expectancies of organic materials; successful integration of labeling and binding preparation processing into non-preservation divisions; deacidification of 103,522 books and the award of a five-year contract that will enable the Library to treat 1,000,000 books and 5,000,000 sheets of unbound materials such as manuscripts; increased public access to Overseas Operations-produced microfilm through the acquisition of 2,086 positive service copies of all New Delhi office microfilm and creation of master negative microfilm at a cost of \$19 per reel (a cost reduction of \$30 per reel); restructuring of Photoduplication Services to meet business requirements and introduction of a scan-on-demand service as an adjunct to analog services; and the successful delivery of 18,000 bibliographic records describing foreign newspapers to the Center for Research

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Libraries' database for the International Coalition on Substantial progress was made in enhancing security and preservation of the Library's collections. Data gathered from custodial units on the state of collections was entered into a database and control measures were written to address areas of risk that if left unchecked could result in damage to or loss of collection materials.

Designs were completed and cost estimates prepared for three high-security vaults to be located in select custodial divisions. These vaults will house platinum and gold level items.

To advance awareness around the need to preserve our recorded heritage and to develop a national plan of action, the Library hosted a two-day symposium "Folk Heritage Collections" in Crisis to share information about the preservation of recorded sound collections.

In the days immediately following the September 11, 2001, terrorist attacks on the United States, the Library prepared a supplemental request to Congress to support enhanced security measures in the Library. This request included resources to plan an expanded high-security, environmentally-controlled safe haven vault for the Library's top treasures, and funds to acquire freezers and additional emergency response supplies for collections.

The preservation staff participated in and advanced the goals and objectives of the National Digital Information Infrastructure and Preservation Program (NDIIPP) by mounting an exhibition on preservation program activities for the first meeting of the NDIIPP advisory committee and by participating in digital preservation and preservation metadata policy development. The Library hosted the visits of digital preservation experts from the U.S., Denmark, and the Netherlands to meet with staff to discuss digital preservation issues.

As construction of the Library's storage facility at Fort Meade, Maryland, moved forward, the Library worked closely with the Architect of the Capitol to monitor progress and advise on technical matters affecting preservation of the collections, such as fire suppression, commissioning of the HVAC system, and shelving systems for the facility. Considerable effort was placed on addressing issues related to preparing the audio-visual collections for their move to the National Audio-Visual

Newspapers International Union List of Newspapers.

Conservation Center to be located in Culpeper, Virginia. A comprehensive survey of the paper-based materials in the Moving Image Section, Motion Picture, Broadcasting and Recorded Sound Division, was conducted and a list of storage containers needed to package these materials prior to the move was compiled. The Library developed a new record-cleaning solution to clean records prior to packaging.

The Preservation Directorate of the Library continued to serve as the International Federation of Library Associations and Institutions Preservation and Conservation Regional Center for North America. The directorate also provided technical consultation to the Mariinsky Theater Archive in St. Petersburg, Russia. The goal of this multi-year initiative, carried out in collaboration with the Music Division, was to help the archive establish a preservation program.

To advance preservation education and training, the directorate successfully obtained a \$141,000 grant from the Getty Grant Program to support preventive conservation. The first of three conservators to be trained over the next three years in conservation techniques began training in September.

The Library was given congressional approval to implement year one of a five-year, six million-dollar preventive conservation project to conduct a pollution survey and develop a mitigation plan, explore the efficacy of paper strengthening, carry out basic cost stabilizing treatments for collections in urgent need of care, and develop specifications for collection storage systems.

Conservators treated approximately 4,000 rare books, manuscripts, and photographs and provided preventive housing for approximately 15,000 items. Rare items treated included 80 wood block prints and 40 books for the exhibition The Floating World of Ukiyo-E: Shadows, Dreams and Substance; the Ocharte Graduale, the first piece of music printed in the new world; the last diary of George Washington (1799); an important Armenian book of hours (1687); and two Andrew Jackson letters. In addition, the conservators provided full documentation and treatment of the 1507 Waldseemüller Map of the World (Cosmographia Mundi).

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A condition survey of rare books in the Rosenwald Collection in the Rare Book and Special Collections Division was completed. It provided detailed information regarding the needs of this tremendously important collection and will be the basis of a future conservation work plan.

Installation was completed of custom-designed, environmentally controlled display cases in the Whittall Pavilion to safely house and display the Library's treasured collection of Stradivarius stringed instruments and the prized Dayton C. Miller flute collection. Temperatures in the Rare Book and Special Collections Division stacks were reduced, a change that substantially increases the life of the rare collections.

Binding and Collections Care - This was the first year that the Library Binding Section (LBS) worked directly with Contracts & Logistics (C&L) in negotiating and administering the Library's binding contract. Without third party involvement, LBS has been able to monitor the contract more efficiently and effectively and achieve more timely payments. During the year 199,233 volumes were bound for the collections.

Research and Testing - Several years of research and testing carried out in the Library's laboratory and at the Canadian Conservation Institute culminated this year in the development of a new accelerated aging test for paper. Besides its demonstrated similarity to the natural aging of paper, the new accelerated aging test is five to six times faster and is much more economical to perform than currently available tests.

The program begun in fiscal 2000 to laser-engrave compact discs (CDs) with Library of Congress property information continued. While preliminary findings determined this was the most appropriate method of safely identifying discs, a project was started this year to investigate any long-term effects as discs age. A natural aging program for studying the long-term effects of routine handling and storage on the playability of commercial CDs continued in this year.

The Preservation Research and Testing Division tested 100 Edison cylinder storage containers to determine whether the components of the container met Library requirements for

permanence and durability, leading to procurement of a revised cylinder package next year.

Three new specifications were developed for pressure-sensitive adhesive security strips for: a) inside the spines of bound books, b) text pages of bound books, and c) plastic video tape cassettes.

A new storage strategy for the preservation of cellulose acetate-based motion picture film was drafted during the year. It featured the removal of the accumulated acetic acid from film before it is sealed under vacuum for economic storage in freezers, as compared to cold vaults which need to control the relative humidity. Preliminary laboratory work conducted this year qualitatively demonstrated the feasibility of such a storage system.

The Library participated in the work of Association for Information and Image Management's standards committees relating to image quality, XML, tagging, metadata, and next-generation storage systems. Of particular note is the ongoing involvement of the Library's preservation staff with the JPEG-2000 Committee in evaluation of various options for the new algorithm which is scheduled for release in the spring of 2002.

Preservation Reformatting - The preservation microfilming program produced 4,084,909 exposures on preservation-quality microforms for service to the public. This is a 55 percent increase over the previous year, due in large part to a new program in the New Delhi office to acquire positive service copies from New Delhi where the master negative microfilms were created. The program completed microfilming of Pennsylvania telephone directories covering the period 1911-1987/88 producing a total of 1,135 reels. Staff completed and delivered reels for Feb. 1968-Jan. 1978, The Ring, an important and badly embrittled heavily illustrated boxing magazine.

The Library awarded a new, expanded microfilming contract for the preparation and microfilming of all types of materials. The contractor successfully completed an earlier contract to microfilm serials, including newspapers, which was critical to eliminating or reducing arrearages and other backlogs in custodial divisions.

The Digital Preservation Reformatting Program converted paper and photographic materials to 12,350 digital images.

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Through this reformatting the Library has made available a presentation of *De Musica*. Attributed to Johannes Afflighemensis, this 12th-century Latin musical treatise was handwritten on vellum.

Mass Deacidification - During fiscal year 2001, the Library completed its 1997-2001 mass deacidification contract, treating 306,000 books, 41.5 percent over goal. Included were 90,000 volumes that were treated at a 16.7 percent reduced cost by taking advantage of a production incentive clause built into the contract, which resulted in a \$200,000 savings. Since 1996 (including an earlier 18-month contract), the Library has extended the life of more than 400,000 books through its mass deacidification. Preservation statistics for fiscal 2001 are as follow:

program. In fiscal 2001, the Library awarded a contract that will result in deacidification of 1,000,000 books and 5,000,000 manuscript sheets during the first five-year increment of the Library's 30-Year (One Generation) Mass Deacidification Plan.

United States Newspaper Program - The National Endowment for the Humanities announced U.S. Newspaper Program (USNP) grant awards totaling \$1.4 million in fiscal 2001 to fund projects in Illinois, Oregon, and Virginia. State projects were completed in Florida, Nebraska, South Dakota, Texas, and Vermont. In April, the Library hosted fifty-five librarians from USNP projects throughout the U.S. for the USNP annual meeting.

Treatment:	
Volumes treated	3,157
Unbound items treated, paper-based	3,236
Photographs (examined, treated, housed)	868
Commercial library binding, volumes	199,233
Mass Deacidification, Volumes (3rd contract year)	103,522
Housing/Rehousing:	
Protective boxes constructed	2,035
Items rehoused, paper-based	2,292
Copying/Reformatting:	
Preservation photocopying	138
Paper-based materials converted to microfilm, items	4,084,909
Audio materials converted to magnetic tape, titles	3,795
Paper based materials converted to digital image	17,350

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 public. 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

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.

call slips to the staff, who retrieve the items from the secured collections storage areas and deliver them to the reader. In fiscal 2001, the Library issued reader registration cards to 41,386 new on-site readers. The

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Loan Division is responsible for retrieving, packaging, and preparing loan charge records for materials that circulate outside the Library. In fiscal 2001, 58,835 items were circulated to other authorized borrowers.

Collections Security

Building on the fiscal 1999 implementation of a new, Integrated Library System (LC ILS) that provides the platform for future enhancements in collections security efforts, several procedural changes were initiated. All non-rare monographs are now bar-coded and linked to a specific holdings record at the first stage of the acquisitions process. Both the bar-coding and the creation of a holdings record is an enhancement provided by the LC ILS. The system will allow item-level tracking of collection items, and facilitate collection inventory. During the year holdings records of serials being actively collected by the Library were converted from paper files. With those records now accessible from anywhere in the Library, two pilot projects were initiated to check-in serial issues at the point of acquisition.

Previous editions of this report have indicated forcefully how important the implementation of the LC ILS was as a platform from which a collections inventory could be conducted. With the implementation completed successfully, the Library is proceeding to each of the next steps in preparation for an inventory, while it remains thoroughly cognizant that an inventory of a collection the size of the Library's will take years to conduct and significant additional resources to complete.

Throughout the year the Library continued to implement the security plan adopted in 1997. Specific action taken include:

Book theft detection targets were installed in 364,124 volumes in the general collections and incoming materials in the Copyright Office. Since 1992, targets have been installed in 7,472,629 collection items or 63 percent of the general collections. The installation of theft detection targets is an example of an asset control applied at the item level.

Bar codes and item level records needed to track materials during the process stream were installed in all

new non-rare monographs received in the Acquisitions directorate.

Congressional approval for additional contract guard coverage permitted establishing personal belongings restrictions in the Madison and Adams buildings, access control/exit inspections in four reading room facilities: 2 areas in the Law Library, the Serial and Government Publications reading room, and the Science, Technology and Business reading room, as well as expanded random patrols in other reading rooms.

Contract Library security officers posted in the Manuscripts Reading Room intercepted the removal of high-risk collection items on 11 separate occasions over the last 12 months.

Security specialists designed and installed electronic and physical security systems protecting priceless items on exhibit, including the Stradivarius instruments in the Whittall Pavilion, the World Treasures, Thomas Jefferson's library and Margaret Mead exhibitions.

Electronic and physical security controls systems supporting the opening of the first storage module at Fort Meade, Maryland, were designed and installed. Systems include primary and secondary intrusion detection, closed circuit television, and perimeter and interior access control.

The Library's year-long security awareness campaign generated numerous articles highlighting collections security issues in the Gazette newspaper.

A new Web site advising researchers on collections security issues was made available via the Library's Web site.

During fiscal year 2001, the Library secured its computer digital assets through the implementation of technology solutions and oversight. To secure remote access, a virtual private network telecommunication package was installed. A firewall was implemented for the library office in Cairo, Egypt. Email filtering software for GroupWise attachments intercepted more than 9,000 potential viruses sent to or from Library workstations. Firewall monitoring was enhanced to adhere more closely to current industry standards. Automatic distribution and updating of antivirus software was implemented. And,

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finally, a strong publicity campaign that included the first Computer Security Day celebration, distribution of educational materials, articles in the Gazette and staff seminars on security issues kept emphasizing the importance of good computer security practices.

Arrearage Reduction

While the size of the arrearage increased overall by 1.9 million items during fiscal year 2001, the Library made progress in many arrearage reduction areas as staff increased their mastery of the LC ILS. The Geography and Map Division cataloged 22,242 maps on 7,404 bibliographic records. Although the division processed 6,734 more sheets than in fiscal 2000, the map arrearage grew because of increased acquisitions and staffing shortages. A total of 1,038 atlases were controlled by 811 bibliographic records. The Manuscript Division's Preparation Section processed 927,806 items, including 50 new collections as well as 29 additions to collections already listed among the division's holdings. The number of individual collections processed increased 22 percent from 61 to 79. The section's catalogers created 40 full-level and 29 minimal-level new records for the Library's online catalog, upgraded 504 records to reflect current cataloging practice, and completed 492 name authority records, increases of 58 percent and 25 percent respectively. The manuscript portion of the Marian Carson collection of early Americana was also thoroughly arranged and described (14,250 items). Work began on extensive additions to the papers of former ambassador and senator Daniel Patrick Moynihan (100,000 items). The Music Division completed the processing and made available the Laurindo Almeida collection of 40,000 and the Dexter Gordon collection of 10,579 items, as well as the Library of Congress program collections of 9,265

items. The Serial and Government Publications Division cleared 42,697 items from division arrearages, a 61 percent increase over the number of items cleared in fiscal 2000.

The Prints and Photographs Division processed and cataloged 276,882 items, including 70,465 photographs from the Historic American Buildings Survey/Historic American Engineering Record (HABS/HAER), and 82,251 unpublished color slides and transparencies from the years 1970B71 in the LOOK magazine photographic archive. Other accomplishments included the processing of 127 rare stereo graphs from the Marian S. Carson collection of americana; 20 drawings related to the California Gold Rush by Daniel Jenks; 135 prints by the quintessential Mexican printmaker José G. Posada; 1,100 photo-lithograph color views, called photochroms, of European and North African tourist destinations; about 400 American World War I posters; and 991 black-and-white photographs to complete the processing of that medium in the Work of Charles and Ray Eames collection. Staffing for arrearage work in this division was thirty percent lower than five years ago.

Within the Cataloging Directorate production reached the highest level since fiscal year 1998. The directorate and the Serial Record Division together cataloged 270,801 bibliographic volumes on 235,565 bibliographic records and cleared an additional 67,837 items from arrearages. Division were able to complete 95.4 percent of current new receipts. The Directorate's arrearage of non-rare books stood at 128,750 volumes at the start of the year, peaked at 152,639 and dropped to 145,089 by the end of September.

Arrearage statistics for fiscal 2001 are as follows:

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Items in Arrearage	2000	2001	Change	Percent Change
Print Materials	1,512,948	1,290,415	222,533	14.7
Special Materials	17,702,681	19,852,565	-2,149,884	(12.1)
Total	19,215,629	21,142,980	-1,927,351	(10.0)

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 stewardship 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 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 which the Library reports on the number of items in the collection or the number of collections) and shall have the condition of the "heritage assets" described (for which the Library uses exception reporting by describing the preservation steps being taken for the items that are not considered in acceptable condition). No heritage asset amounts are shown on the Library's balance sheet.

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, 2001:

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	18,306,178	326,616	805	18,631,989	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.	9,480,511	150,343	2,889	9,627,965	
Total Print Collections	27,786,689	476,959	3,694	28,259,954	

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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	93,189,650	2,810,560	12,562	95,987,648	Acquisitions: Copyright deposits, purchase; exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA.
Total Collections	120,976,339	3,287,519	16,256	124,247,602	