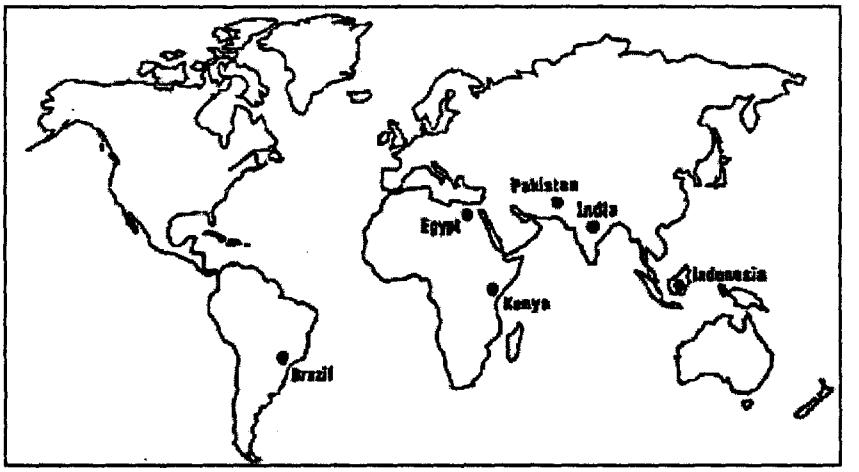
LIBRARY OF CONGRESS

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

FINANCIAL STATEMENTS FOR FISCAL YEAR 2004



Washington, DC
March 2005

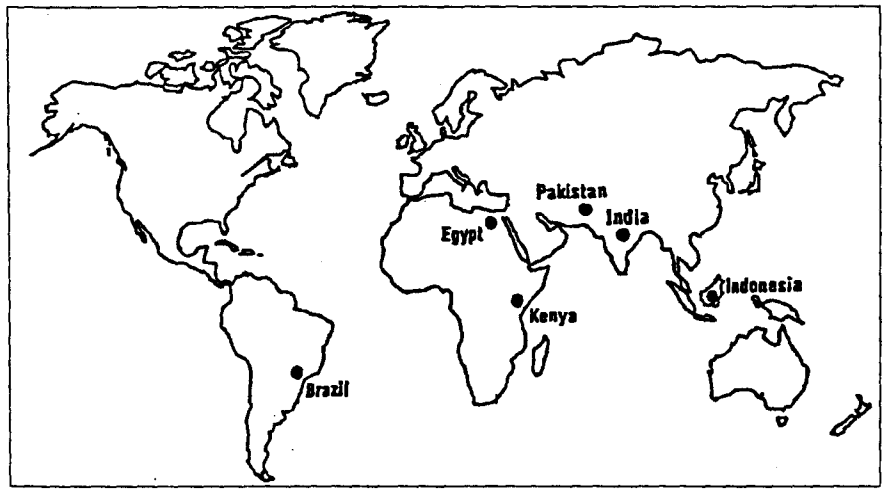
COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

FINANCIAL STATEMENTS FOR FISCAL YEAR 2004

TABLE OF CONTENTS

	PAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS	
Mission and Overview	*1*
History	*1*
Overview of Financial Statements	*2*
Limitations of the Financial Statements	*4*
FINANCIAL STATEMENTS AND NOTES	
Balance Sheets	*5*
Statements of Net Costs	*6*
Statements of Changes in Net Position	*7*
Statements of Budgetary Resources	*8*
Statements of Financing	*9*
Notes to the Financial Statements	*10*
SUPPLEMENTAL SCHEDULES	
Supplemental Schedules of Program Costs	*15*
Supplemental Schedule of Participants by State	*16*
REPORT OF INDEPENDENT AUDITORS	
Independent Auditor's Report	*18*
Comments by Management	*23*

MANAGEMENT'S DISCUSSION AND ANALYSIS



COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND OVERVIEW

The mission of the Library of Congress Cooperative Acquisitions Program is to support advanced research and study about all aspects of the less-developed areas of the world, through the acquisition and distribution of primary research materials published in more than 82 developing nations. These materials are not otherwise reliably available in the United States. Because of over forty years of participation in this program, the research libraries of the nation's most prestigious universities have developed unequaled collections which support advanced research about the developing world. In fiscal year 2004, the Library supplied more than 490,870 individual bibliographic pieces to more than 92 U.S. institutions of higher learning and academic institutions abroad.

HISTORY

In 1958, Congress approved Public Law 83-480, Section 104n, which amended the Agricultural Trade Development and Assistance Act of 1954 (popularly known as Public Law 480) and authorized the Librarian of Congress to use foreign currencies that accrued to the government in connection with the sales of agricultural commodities to finance "the acquisition of books, periodicals, and other materials...of cultural or educational significance...and the deposit thereof in libraries and research centers in the United States specializing in the areas to which they relate."

This amendment led to the formation of the Library's overseas offices and Cooperative Acquisitions Program. The overseas offices were created due to the ineffectiveness of conventional international commercial methods in acquiring books and other research materials from less-developed countries. Because of the lack of established publishing industries or international vendors, poor book distribution systems, and the political and economic instability of the nations of the developing world, a local presence is the only effective way to acquire the needed primary source materials.

In 1962, the Library opened the New Delhi Office, and by 1964 had opened offices in Karachi, Pakistan; Dacca, Pakistan (now Bangladesh); Cairo, Egypt; Tel Aviv, Israel; and Jakarta, Indonesia. In 1965, Congress expanded the Library's overseas offices through Public Law 89-329, the Higher Education Act of 1965, Title II-C, known as the National Program for Acquisitions and Cataloging (NPAC).

Between 1962 and 1986, twenty-three overseas offices were funded for operations; all but six were closed when no longer needed. Since 1987, the Library has operated six overseas offices: New

Delhi, India; Cairo, Egypt; Rio de Janeiro, Brazil; Jakarta, Indonesia; Nairobi, Kenya; and Islamabad, Pakistan.

These six overseas offices are responsible for acquiring materials for the Library of Congress collections and, on a cost recovery basis, for the participants in the Cooperative Acquisitions Program. The offices are under the administrative control of the Library's African/Asian Acquisitions and Overseas Operations Division.

OVERVIEW OF FINANCIAL STATEMENTS

Fiscal year 2004 is the seventh year of operation for the Cooperative Acquisitions Program Revolving Fund (CAPRF). Section 207 of the Legislative Branch Appropriations for fiscal year 1998 (P.L. 105-55) established CAPRF from the existing balances in the gift fund program, and mandated that the Library submit annual audited financial statements for the revolving fund. CAPRF is authorized to acquire foreign publications and research materials on behalf of participating institutions on a cost recovery basis. In accordance with Federal accounting standards, the Library has prepared Balance Sheets, Statements of Net Costs, Statements of Changes in Net Position, Statements of Budgetary Resources, and Statements of Financing for CAPRF.

Balance Sheets

The purpose of the balance sheets are to provide financial statement users with information about CAPRF's assets, liabilities, and net position as of September 30, 2004 and 2003. CAPRF's net position consists of the funds approved in Public Law 105-55 to initially capitalize the fund and the net results of operations through September 30, 2004 and 2003.

Assets			**Liabilities and Net Position**		
	2004	2003		2004	2003
Intragovernmental	$ 3,768,111	$ 3,609,723	Intragovernmental Liabilities	$ 322,104	$ 254,085
Other	99,935	210,684	Other Liabilities	2,984,157	2,872,220
			Net Position	561,785	694,102
Total Assets	$3,868,046	$3,820,407	**Total Liabilities and Net Position**	$3,868,046	$3,820,407

CAPRF's assets total $3.9 million and $3.8 million in fiscal years 2004 and 2003, with the Fund Balance with the Department of the Treasury as the major item. CAPRF's liabilities total $3.3 million and $3.1 million for fiscal years 2004 and 2003, consisting of accounts payable ($0.4 and

$0.4 million for fiscal years 2004 and 2003) and the advances received from the program participants ($2.6 million and $2.1 million for fiscal years 2004 and 2003 that would be refunded to participants upon program termination, and $0.4 million and $0.6 million for fiscal years 2004 and 2003 that would not be refunded upon program termination).

Statements of Net Costs

The purpose of the Statements of Net Costs are to provide financial statement users with information about the program costs ($2.4 million and $2.2 million) and earned revenues ($2.2 million and $2.2 million) for CAPRF for the fiscal years ended September 30, 2004 and 2003. In other words, the statements present the net costs of the program: net costs of $0.1 million for fiscal year 2004 and net costs of under $0.1 million for fiscal year 2003. As cited in Public Law 105-55, CAPRF recovers its full costs over a reasonable period of time.

Statements of Changes in Net Position

The purpose of the Statements of Changes in Net Position are to provide financial statement users with information about CAPRF's financing sources and the components of the changes in net position. The CAPRF net position decreased by the net program costs ($0.1 million), which included imputed costs that is equally offset with an imputed financing source.

Statements of Budgetary Resources

The Statements 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 statements presents the total budgetary resources available to the CAPRF. The Status of Budgetary Resources section of the statements presents information about the status of budgetary resources at the end of the period. Finally, the Outlays section presents the total outlays of CAPRF and reconciles obligations incurred to total outlays.

CAPRF's budgetary resources were $5.7 million and $5.2 million for fiscal years 2004 and 2003, of which $2.7 million and $2.6 million was the unused balance from the previous fiscal year and $2.5 million and $2.5 million was obtained from the participants in fiscal years 2004 and 2003. Negative outlays of $0.2 million and $0.5 million were a result of the incoming amounts from participants exceeding outlays of funds for the program activities for fiscal years 2004 and 2003.

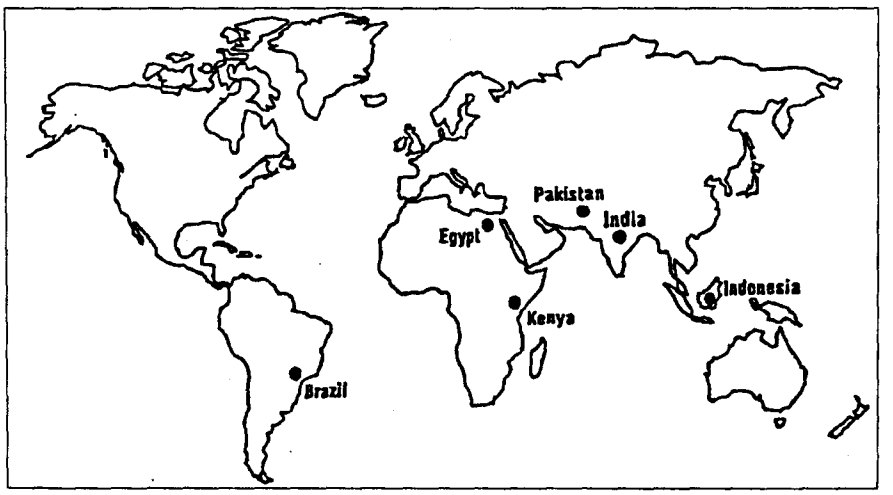
Statements of Financing

The Statements of Financing are presented to explain how budgetary resources obligated during the fiscal year (presented on the Statements of Budgetary Resources) relate to the net costs of operations of the CAPRF (presented on the Statements of Net Costs). The CAPRF had $0.2 million and $0.1 million difference between its net obligations ($63 thousand and $0.2 million for fiscal years 2004 and 2003) and its net cost ($0.1 million in fiscal 2004 and under $0.1 million in fiscal 2003) due to the change in unfilled participant orders ($0.2 million and $0.2 million in fiscal years 2004 and 2003), and imputed financing (under $0.1 million for both years).

LIMITATIONS OF THE FINANCIAL STATEMENTS

CAPRF'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 CAPRF, 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 of Congress, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that obligations and subsequent liabilities cannot be incurred without legislation that provides authority to do so.

FINANCIAL STATEMENTS AND NOTES



COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

Balance Sheets

As of September 30, 2004 and 2003

	2004	2003
ASSETS		
Entity Assets:		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 3,768,111	$ 3,492,035
Accounts Receivable, Net (Note 3)	0	117,688
Cash and Other Monetary Assets (Note 4)	88,665	199,211
Inventory and Related Property (Note 5)	11,270	11,473
Total Assets	$ 3,868,046	$ 3,820,407
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 6)	$ 322,104	$ 254,085
Advances from Others (Note 7)	2,553,536	2,136,480
Accounts Payable (Note 6)	45,569	171,914
Other Liabilities (Note 8)	385,052	563,826
Total Liabilities	3,306,261	3,126,305
NET POSITION		
Cumulative Results of Operations	561,785	694,102
Total Liabilities and Net Position	$ 3,868,046	$ 3,820,407

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

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

Statements of Net Costs

For the Fiscal Years Ended September 30, 2004 and 2003

	2004	2003
Net Costs by Program Area:		
Cooperative Acquisitions Program:		
Program Costs	$ 2,369,885	$ 2,182,513
Less Earned Revenue	(2,231,665)	(2,165,591)
Net Costs of Operations	$ 138,220	$ 16,922

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

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2004 and 2003

	2004	2003
	Cumulative Results of Operations	
Net Position, Beginning	$ 694,102	$ 702,236
Other Financing Sources		
Imputed Financing (Note 11)	5,903	8,788
Total Financing Sources	5,903	8,788
Net Costs of Operations	138,220	16,922
Net Position, Ending	$ 561,785	$ 694,102

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

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2004 and 2003

	2004	2003
Budgetary Resources		
Unobligated Balance:		
Beginning of Period	$ 2,738,892	$ 2,613,959
Spending Authority from Offsetting Collections		
Earned		
Collected	2,266,829	2,167,722
Receivable from Federal Sources	(4,023)	4,023
Change in Unfilled Customer Orders		
Advance Received	260,457	326,848
Without Advance from Federal Sources	(22,175)	22,175
Subtotal	2,501,088	2,520,768
Recoveries of Prior Year Obligations	358,644	97,532
Temporarily not Available Pursuant to Public Law	110,548	(27,201)
Total Budgetary Resources	$ 5,709,172	$ 5,205,058
Status of Budgetary Resources		
Obligations Incurred, New	$ 2,796,544	$ 2,466,166
Unobligated Balance, Available	2,912,628	2,738,892
Total Status of Budgetary Resources	$ 5,709,172	$ 5,205,058
Relationship of Obligations to Outlays		
Obligated Balance, Net, Beginning of Period	$ 753,143	$ 409,024
Obligated Balance, Net, End of Period:		
Accounts Receivable from Federal Sources	0	(4,023)
Unfilled Customer Orders from Federal Sources	0	(22,175)
Undelivered Orders, Unpaid	487,810	444,832
Delivered Orders, Unpaid	367,673	334,509
Total Obligated Balance, Net, End of Period	855,483	753,143
Outlays:		
Disbursements	2,361,757	1,998,318
Collections	(2,527,286)	(2,494,570)
Total Outlays	$ (165,529)	$ (496,252)

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

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Statements of Financing
For the Fiscal Years Ended September 30, 2004 and 2003

	2004	2003
Resources that Used to Finance Activities		
Obligations Incurred	$ 2,796,544	$ 2,466,166
Spending Authority from Offsetting Collections and Recoveries	(2,859,733)	(2,618,300)
Net Obligations	(63,189)	(152,134)
Other Resources		
Imputed Financing from Costs Absorbed by Others	5,903	8,788
Total Resources Used to Finance Activities	(57,286)	(143,346)
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	195,303	157,861
Resources that Finance the Acquisition of Assets	203	2,407
Total Resources Used to Finance Items not Part of the Net Cost of Operations	195,506	160,268
Total Resources Used to Finance the Net Cost of Operations	138,220	16,922
Net Costs of Operations	$ 138,220	$ 16,922

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

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2004 and 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Cooperative Acquisitions Program Revolving Fund (CAPRF) was authorized by Public Law 105-55 on October 7, 1997. The Library of Congress (the Library) operates CAPRF on a cost recovery basis to acquire foreign publications and research materials for participating institutions. The operations of CAPRF are managed by the African/Asian Acquisitions and Overseas Operations Division (AfA/OVOP). Fees charged to the participants are set and approved by the Library to recover the full direct and indirect costs of the program incurred by the Library over a reasonable period of time.

The institutions that participate in the program constitute more than 92 academic libraries. The program is managed by six overseas field offices: Jakarta (Indonesia), Nairobi (Kenya), Cairo (Egypt), Rio de Janeiro (Brazil), New Delhi (India), and Islamabad (Pakistan).

B. Basis of Presentation

The accompanying financial statements and schedules report the financial position, operations, changes in net position, and the budgetary resources of CAPRF for fiscal years 2004 and 2003. These statements and schedules include amounts of all funds designated by law and managed for the purpose of CAPRF. The statements were prepared from the Library's financial management system in accordance with the form and content for entity financial statements specified by the Library's financial management regulations and directives and the accounting policies summarized in this note.

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 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.

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 incurred, without regard to receipt or payment of cash.

The Library's financial statements conform to accounting principles generally accepted in the United States of America as promulgated by the FASAB. The American Institute of Certified Public Accountants recognizes FASAB Standards as generally accepted accounting principles for federal reporting entities.

The statements were also prepared based on guidance published in the Office of Management and Budget Bulletin 01-09, Form and Content of Agency Financial Statements. The Library is not required to adopt this bulletin, and accordingly has elected to use the disclosures management deems necessary for the fair presentation of financial statement information.

D. Financing

CAPRF is credited with advances and amounts received as payment for purchases under the program and for services and supplies furnished to program participants. For accounting and reporting purposes, AfA/OVOP management has segmented the Cooperative Acquisitions Program into six field offices.

E. Use of Estimates in Preparing Financial Statements

The preparation of financial statements, in conformity with Federal accounting standards, requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Note 2. Fund Balance with Treasury

The amount shown as Fund Balance with Treasury represents CAPRF's obligated and unobligated balances, which are as follows:

	2004	2003
Obligated	$ 855,483	$ 753,143
Unobligated	2,912,628	2,738,892
Fund Balance with Treasury	$3,768,111	$3,492,035

Note 3. Accounts Receivable, Net

Intragovernmental accounts receivable represent amounts due from the appropriated fund for amounts originally charged against CAPRF. Net and gross amounts are equal because no bad debt expense is expected.

Note 4. Cash and Other Monetary Assets

Cash represents CAPRF cash on hand that was not deposited with the United States Treasury as of September 30, 2004 and 2003.

Note 5. Inventory and Related Property

CAPRF inventories are primarily comprised of postage that will be consumed in future operations.

Note 6. Accounts Payable

The Intragovernmental accounts payable amount primarily represents accrued payments due to the appropriated fund for fiscal years 2004 and 2003. The non-governmental accounts payable amount represents accrued operating expenses of the program, such as payments to vendors for materials and services and accrued funded employee benefits.

Note 7. Advances from Others

This unearned revenue account represents current liabilities for funds collected in advance from the program participants. These collections are for direct expenses, such as the cost of materials acquired on the participants' behalf. These funds are available for obligation upon receipt of the advance. The advances are accompanied by an order profile from the participating institution. If a program participant cancels an order, these amounts are either applied to subsequent orders or are refunded.

Note 8. Other Liabilities

Other liabilities consist of funds collected in advance from the program participants and unearned for indirect expenses (overhead) associated with the administration of the program. The unearned funds are available for obligation upon receipt of the advance. If a program participant cancels an order, these amounts are immediately recognized as revenue and are not refunded.

Note 9. Intra-governmental Activities

The financial activities of CAPRF interact with and depend on the services of the U.S. Air Force (for military postal service postage) and the Department of State for administrative support.

Note 10. Earned Revenues

Revenues are recognized as earned based on (1) actual expenses incurred for materials, binding, and shipping; and (2) CAPRF overhead applied according to the overhead rate applicable for each field office. CAPRF overhead rates are updated each year according to an overhead model

consistent with the concept of full cost described in SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." The driver for CAPRF overhead rates is the direct cost of materials.

Note 11. Library Overhead Costs Included in Program Costs and Imputed Financing Sources

Certain Library overhead costs were included in the program costs for each field office. In compiling CAPRF's fiscal years 2004 and 2003 financial statements, the Library allocated Library-wide overhead costs to the revolving fund programs using the direct method of allocating service department costs. The two types of Library-wide overhead costs are costs associated with the Office of the Chief Financial Officer, and Integrated Support Services. These overhead costs were further allocated to the six field offices of CAPRF using a rational and systematic allocation base. The total amount of overhead allocated over the six field offices was $73,728 and $50,957 for fiscal years 2004 and 2003. Of the fiscal year amount, $67,825 and $42,169 was charged to the field offices through the Library's administrative working funds for fiscal years 2004 and 2003. A corresponding imputed financing source of $5,903 and $8,788 was recognized for the unreimbursed portion of the allocated Library overhead for fiscal years 2004 and 2003. As administrative working funds rates are derived bi-annually and are based on prior year data, fluctuations between years can occur.

Note 12. Budgetary Resources Obligated for Undelivered Orders

Budgetary resources obligated for undelivered orders at September 30, 2004 and 2003, for each of the six field offices are as follows:

	2004	2003
Jakarta, Indonesia	$ 183,892	$ 25,550
Nairobi, Kenya	57,608	60,454
Cairo, Egypt	37,163	21,138
Rio de Janeiro, Brazil	17,315	678
New Delhi, India	175,183	268,947
Islamabad, Pakistan	16,649	673
Total	$ 487,810	$ 444,832

Note 13. Total Cost and Earned Revenue by Budget Functional Classification

A. Total Cost by Functional Classification

Function Classification	2004	2003
Education, Training, Employment and Social Services	$2,369,885	$2,182,513

B. Total Earned Revenue by Budget Functional Classification

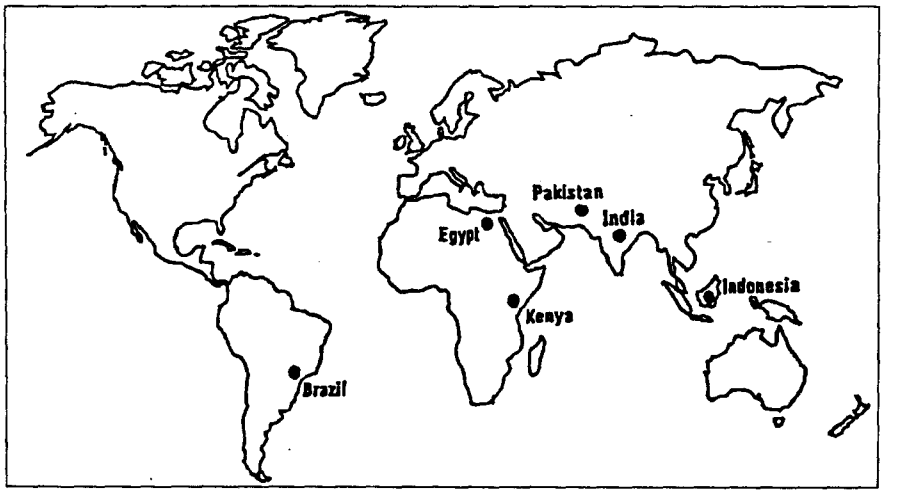
Function Classification	2004	2003
Education, Training, Employment and Social Services	$2,231,665	$2,165,591

Note 14. Total Cost By Program Activity

Cooperative Acquisitions Program:	2004	2003
Intragovernmental Costs	$ 531,253	$ 375,126
Public Costs	1,838,632	1,807,387
Total Program Costs	$2,369,885	$2,182,513

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

SUPPLEMENTAL SCHEDULES



COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Supplemental Schedules of Program Costs
For the Fiscal Year Ended September 30, 2004 and 2003

Net Costs (Production Costs) by Program Area:	Program Segment Field Office Totals 2004	2003
Jakarta, Indonesia:		
Intragovernmental	$ 110,715	$ 95,525
Public	405,634	354,543
Subtotal Program Costs	516,349	450,068
Nairobi, Kenya:		
Intragovernmental	95,321	50,407
Public	214,981	171,062
Subtotal Program Costs	310,302	221,469
Cairo, Egypt:		
Intragovernmental	80,229	93,402
Public	190,960	216,939
Subtotal Program Costs	271,189	310,341
Rio de Janeiro, Brazil:		
Intragovernmental	37,891	28,154
Public	56,717	78,315
Subtotal Program Costs	94,608	106,469
New Delhi, India:		
Intragovernmental	181,036	75,103
Public	770,164	859,446
Subtotal Program Costs	951,200	934,549
Islamabad, Pakistan:		
Intragovernmental	26,061	32,535
Public	200,176	127,082
Subtotal Program Costs	226,237	159,617
Totals:		
Intragovernmental	531,253	375,126
Public	1,838,632	1,807,387
Total Program Costs	$ 2,369,885	$ 2,182,513

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Supplemental Schedule of Participants by State
For the Fiscal Year Ended September 30, 2004

Arizona
- Arizona State University
- University of Arizona

California
- Stanford University
- U.C., Berkeley
- U.C., Los Angeles
- U.C., Riverside
- U.C., San Diego
- U.C., Santa Barbara
- U.C., Santa Cruz
- University of Southern California

Connecticut
- Yale University

District of Columbia
- Department of the Treasury
- Inter-American Development Bank
- Johns Hopkins University

Florida
- University of Florida

Georgia
- Emory University
- University of Georgia

Hawaii
- University of Hawaii

Illinois
- Center for Research Libraries
- Northern Illinois University
- Northwestern University
- University of Chicago
- University of Illinois

Indiana
- Earlham College
- Indiana University
- University of Notre Dame

Iowa
- University of Iowa

Kansas
- University of Kansas

Louisiana
- Tulane University

Maryland
- National Agricultural Library
- National Library of Medicine
- University of Maryland

Massachusetts
- Boston Public Library
- Boston University
- Harvard University
- Holy Cross University

Michigan
- Michigan State University
- University of Michigan

Minnesota
- University of Minnesota

Missouri
- Washington University

New Jersey
- Rutgers University
- Princeton University

New Mexico
- University of New Mexico

New York
- Columbia University
- Cornell University
- Institute for Advanced Studies of World Religions
- New York Public Library
- New York University
- Open Society Institute
- SUNY, Binghamton
- Syracuse University

North Carolina
- Duke University
- North Carolina State University
- University of North Carolina

Ohio
- Cleveland Public Library
- Ohio State University
- Ohio University

University of Wooster

Oregon

Portland State University

Pennsylvania

American Institute of Pakistani Studies
Pennsylvania State University
Temple University
University of Pennsylvania
University of Pittsburgh

Rhode Island

Brown University

Tennessee

Vanderbilt University

Texas

Rice University
University of Texas

Utah

Brigham Young University
Genealogical Society of Utah
University of Utah

Virginia

American Institute of Sri Lankan Studies
School of Islamic and Social Sciences
University of Virginia

Washington

University of Washington
Western Washington University

Wisconsin

University of Wisconsin

Non-U.S. Libraries

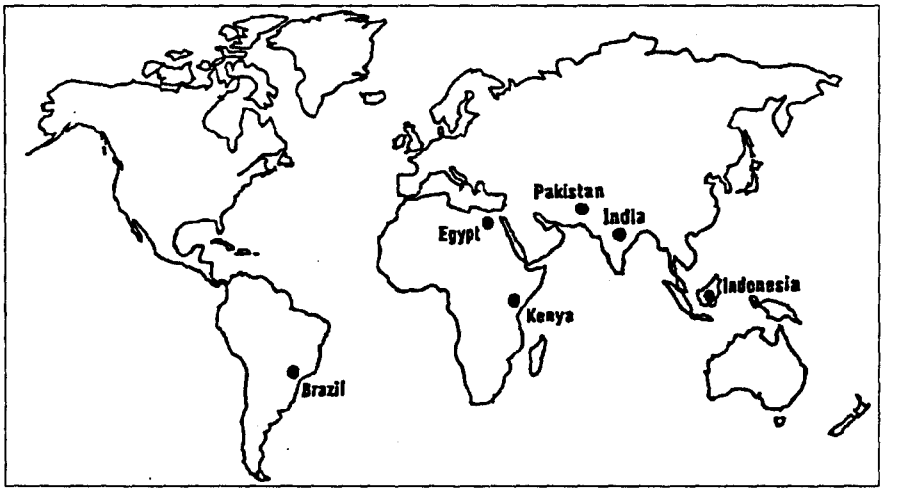
Canada

McGill University (Québec)
University of British Columbia
University of Toronto (Ontario)

Other Foreign Libraries

American University, Cairo (Egypt)
Ibero-Amerikanisches Institut (Germany)
Institute for Southeast Asian Studies (Singapore)
International Labour Organisation
King Abdul Aziz al-Saoud Foundation (Morocco)
National Diet Library (Japan)
National Library Board (Singapore)
National Library of Australia
National Library of South Africa
Royal Institute of Linguistics (Netherlands)
University of Essex (U.K.)
University of Exeter (U.K.)

REPORT OF INDEPENDENT AUDITORS



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Independent Auditor's Report

Inspector General, Library of Congress, and Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying balance sheet of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of September 30, 2004, and the related statements of net costs, changes in net position, budgetary resources, and financing for the year then ended. These financial statements are the responsibility of CAPRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

SUMMARY

As stated in our opinion on the financial statements, we concluded that CAPRF's financial statements for the year ended September 30, 2004 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting disclosed no material weaknesses. However, since the Library of Congress (the Library) processes all of CAPRF's financial transactions, any Library systemic reportable conditions are applicable to the subsidiary Funds. We identified the implementation and development of Information Technology Security Programs and Disaster Recovery Plans as reportable conditions in our audit of the Library.

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

- Non-compliance with the *Congressional Accountability Act of 1995.*

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

The following sections discuss our opinion on CAPRF's financial statements, our consideration of CAPRF's internal control over financial reporting, our tests of CAPRF's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of CAPRF as of September 30, 2004, and 2003, and the related statements of net costs, changes in net position, budgetary resources, and financing for the year then ended. These financial statements are the responsibility of CAPRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CAPRF as of September 30, 2004, and 2003, and its net costs, changes in net position, budgetary resources, and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The information in the Management's Discussion and Analysis is not a required part of CAPRF's financial statements, but is considered supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and express no opinion on it.

The accompanying supplemental information contained in Schedules A and B is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered CAPRF's internal control over financial reporting by obtaining an understanding of CAPRF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives, as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. We noted certain matters discussed in the following paragraphs involving internal control and its operations that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

CAPRF is a component of the Library's consolidated financial statements. We identified two reportable conditions in performing our audit of the Library's financial statements for the year ended September 30, 2004. Both findings related to Information Technology and its role in financial transactions. The Library processes all of CAPRF's financial transactions. Therefore, the weaknesses which we identified in the Library's financial audit also affect CAPRF's internal control structure.

- The Library has not implemented an Entity-Wide Security Program in compliance with Library of Congress Regulation (LCR) 1620, "Information Technology Security Policy of the Library of Congress." LCR 1620 addresses risk management, system certification and accreditation, and security plans. The

Library has not fully implemented LCR 1620 or developed an overall plan, procedures, security structure, or roles and responsibilities to implement, enforce, and monitor LCR 1620. We recommended that the Library develop a plan to implement, enforce, and monitor compliance with LCR 1620 and related directives. We also recommended that the Library develop an entity-wide security plan encompassing Policy Development, Roles and Responsibilities, Design, Implementation, Monitoring, and Awareness, Training, and Education.

- The Library has initiated development of both a Continuity of Operations Plan (COOP) and a Disaster Recovery Plan (DRP), but has not implemented or tested the plans. The Library is working to correct omissions of necessary elements in the COOP, and the DRP does not contain the FFS financial system. Since the Library uses the FFS system to process payments as well as maintain required accounting records, we believe that the Library should include the core financial system when considering potential impact to ongoing operations. As a result, the Library and CAPRF may not be able to effectively and efficiently continue critical operations in the event of a disaster. We recommended that the Library establish a contingency planning process which incorporates the National Standards and Technology methodology including a planning policy statement, business impact analysis, preventive controls, recovery strategies, IT contingency plans, plan testing, training, and exercises, and plan maintenance.

COMPLIANCE WITH LAWS AND REGULATIONS

The management of CAPRF is responsible for complying with laws and regulations applicable to CAPRF. As part of obtaining reasonable assurance about whether CAPRF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to CAPRF.

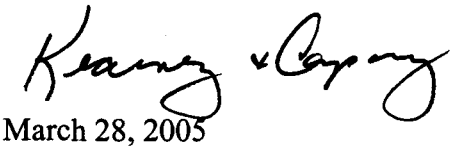
The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed an instance of non-compliance, described below, with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

- CAPRF 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 of the Legislative Branch. In 1997, other provisions of the CAA applied fire safety standards to Congressional buildings. The Office of Compliance conducted a year-long fire safety investigation that culminated in a report issued in January 2001 that identified numerous safety hazards in the three Capitol Hill Buildings utilized by CAPRF.

KEARNEY&
COMPANY

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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



March 28, 2005
Alexandria, Virginia

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March 31, 2005

Dear Mr. Kubistal:

Thank you for the opportunity to review and comment on your audit report of the Library of Congress's Cooperative Acquisitions Program Revolving Fund financial statements for fiscal year 2004.

We are very pleased that for the sixth consecutive year, the Cooperative Acquisitions Program Revolving Fund financial statements have received an unqualified audit opinion.

Please accept my appreciation for a professional audit report.

Sincerely,

Deanna Marcum

Deanna B. Marcum
Associate Librarian
for Library Services

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