Financial Statements for Fiscal 2002

March 2003

LIBRARY OF CONGRESS

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 2002 financial statements and accompanying opinion of the independent auditors, Kearney & Company.

The Library's major fiscal 2002 highlights include completing the congressionally mandated National Digital Information Infrastructure and Preservation Program plan; adding 14 new multimedia historical collections to the American Memory Web site, increasing to more than 7.8 million the number of items freely available on-line or in digital archives; responding to the September 11th terrorist attack and subsequent anthrax incidents by providing focused congressional support on terrorism and homeland security, and acquiring and preserving historically significant items to document and record the events for posterity; implementing three new fee-for-service revolving funds; reducing the Library's arrearage of uncataloged collections by more than one million items; and recording more than two billion electronic transactions on the Library's Web sites.

For the seventh consecutive year, the independent auditors have issued an unqualified "clean" opinion on the Library's Consolidated Financial Statements. The net cost of the Library's seven major programs totals $563.6 million and includes $59.8 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 $93.5 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, which total more than 126 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 am happy to bring the enclosed report to your attention.

Sincerely,

James H. Billington
The Librarian of Congress

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THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL YEAR 2002

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Management's Discussion and Analysis

March 2003

Library of Congress

THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 2002

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 2002.

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 126 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.

The Congress asked the Library in December 2000, to develop a plan and lead an effort to make sure that digital materials can be preserved for our national information reserve. The new digital technology offers great promise, but it also creates an unprecedented surfeit of data in an unstable and ephemeral environment. The Library's National Digital Information Infrastructure and Preservation Program (NDIIPP) plan was submitted to the Congress on October 3, 2002, and the plan envisions the establishment of a national network of committed partners, collaborating in a digital preservation architecture with defined roles and responsibilities. Over the next two to five years, the Library plans to seed practical projects and research that advance the

development of a national digital preservation infrastructure. To begin building the preservation infrastructure, the Library is working on the two key components that support it: developing a network of participants and building the technical framework. By establishing NDIIPP, the Congress recognized that the Library is uniquely positioned to bring together all the stakeholders in this new digital landscape – creators, distributors, and users – to address the problem of sorting and preserving significant content in the burgeoning world of digital information. The Library has a long history as a trusted convener able to facilitate the development of standards and best practices in librarianship and cultural stewardship across the country and internationally.

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 126 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; 900,000 motion pictures, including the earliest movies ever made; 5 million pieces of music; 56 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 2002 include: the *Carte des Etats De L'Amerique Suivant le Traite de paix de 1783, Dediee et presentee a s. Excellence Mr. Benjamin Franklin*--one of the earliest maps to identify the United States as an independent country and includes extensive marginal text which reports the military events of the American Revolution; the papers of Jackie Robinson--comprehensive in scope, the collection of more than 7,000 items richly chronicles all aspects of his life; the Thomas Kane Library of Ethiopia, regarded as the most important body of works on Ethiopia; *Takvim-ut-Tevarih*, published in Instanbul in 1733 and one of the first books printed by Muslims (Turks) using movable type; twenty-six rare Afghan monographs that were smuggled out of Afghanistan during the Taliban era; sixty-seven North Korean movies, the first North Korean videos acquired by the Library; the Aaron Zieglelman Foundation Collection, consisting of photographs, photographic negatives, letters, manuscripts, maps, videotapes, and ephemera that document a variety of cultural traditions and everyday life in the Jewish *shtetl* of Luboml, Poland, prior to the community's obliteration during World War II; and the Prelinger Collection, containing more than 48,000 historical "ephemeral" motion pictures, which brings together a variety of American ephemeral motion pictures–advertising, educational, industrial, amateur, and documentary films depicting everyday life, culture, and industry in America throughout the 20th century.

Every workday, the Library's staff adds some 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 810,000** congressional research responses and services, registering **more than 520,000** 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 300,000** books and serials and provides the bibliographic record inexpensively to the nation's libraries, saving them millions of dollars annually.

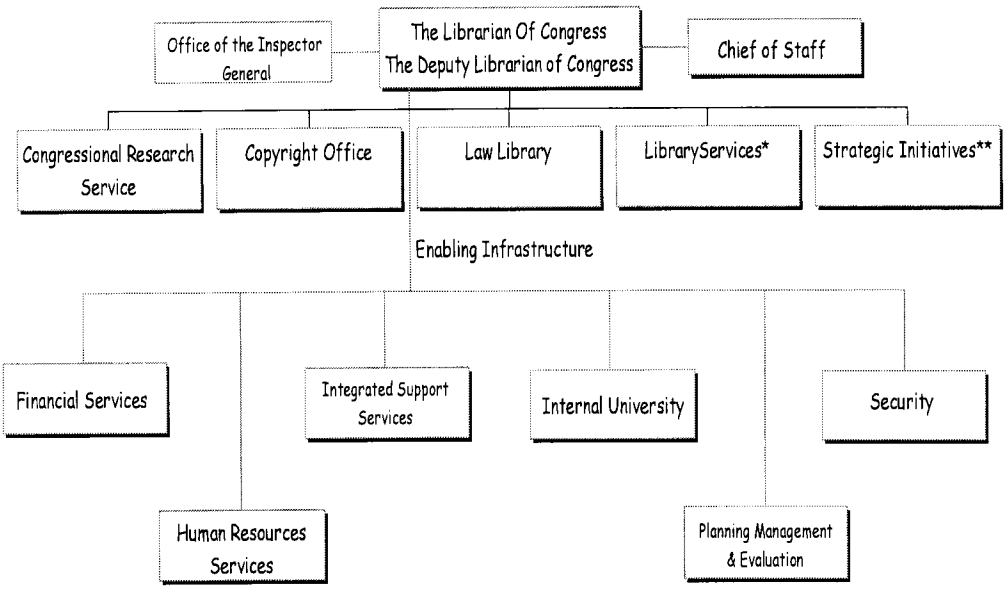
The Library also provides free on-line access, via the Internet, to its automated information files, which contain more than 75 million records -- to Congressional offices, Federal agencies, libraries, and the public. The Library's Internet-based systems include major World Wide Web (www) services (e.g., 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
- Revolving and Reimbursable 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 2002 and 2001, the Library has prepared a Consolidated Balance Sheet, a Consolidated Statement of Net Costs, a Consolidated Statement of Changes in Net Position, a Combined Statement of Budgetary Resources and a Consolidated 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, 2002 and 2001. 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, revolving and reimbursable funds.

Assets (in millions)			Liabilities and Net Position (in millions)		
	2002	2001		2002	2001
Entity Assets	$ 499.0	$ 479.6	Liabilities Covered by Budgetary Resources	$ 730.5	$ 633.4
Non-Entity Assets	657.7	555.0	Liabilities Not Covered by Budgetary Resources	32.7	31.7
			Total Liabilities	763.2	665.1
			Net Position	393.5	369.5
Total Assets	$ 1,156.7	$ 1,034.6	**Total Liabilites and Net Position**	$ 1,156.7	$ 1,034.6

The Library's assets total $1.2 billion for fiscal year 2002 and $1.0 billion in fiscal year 2001. Entity assets increased by $19.4 million during fiscal year 2002 primarily due to the $16 million supplemental appropriation for the Library's alternative computer facility that was unexpended as of September 30, 2002. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 57 percent and 54 percent of all assets and total $657.7 million and $555.0 million for fiscal years 2002 and 2001, respectively. Non-entity (custodial) assets increased by $102.7 million during fiscal year 2002 because current year royalty receipts were more than multiple prior-year royalty distributions to Copyright owners. The Copyright Office made four distributions of royalty fees, totaling $110 million, during fiscal year 2002 – a decrease of $156 million from fiscal year 2001. The Library is authorized to invest the royalty funds in U.S. Treasury securities until the funds are distributed.

The Library's liabilities total $763.2 million and $665.1 million for fiscal years 2002 and 2001, respectively, with custodial and deposit account activities (i. e., funds held for future distribution to copyright owners) as the major item. The custodial liability increased following the lower royalty distribution made during fiscal year 2002. Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various operating expenses.

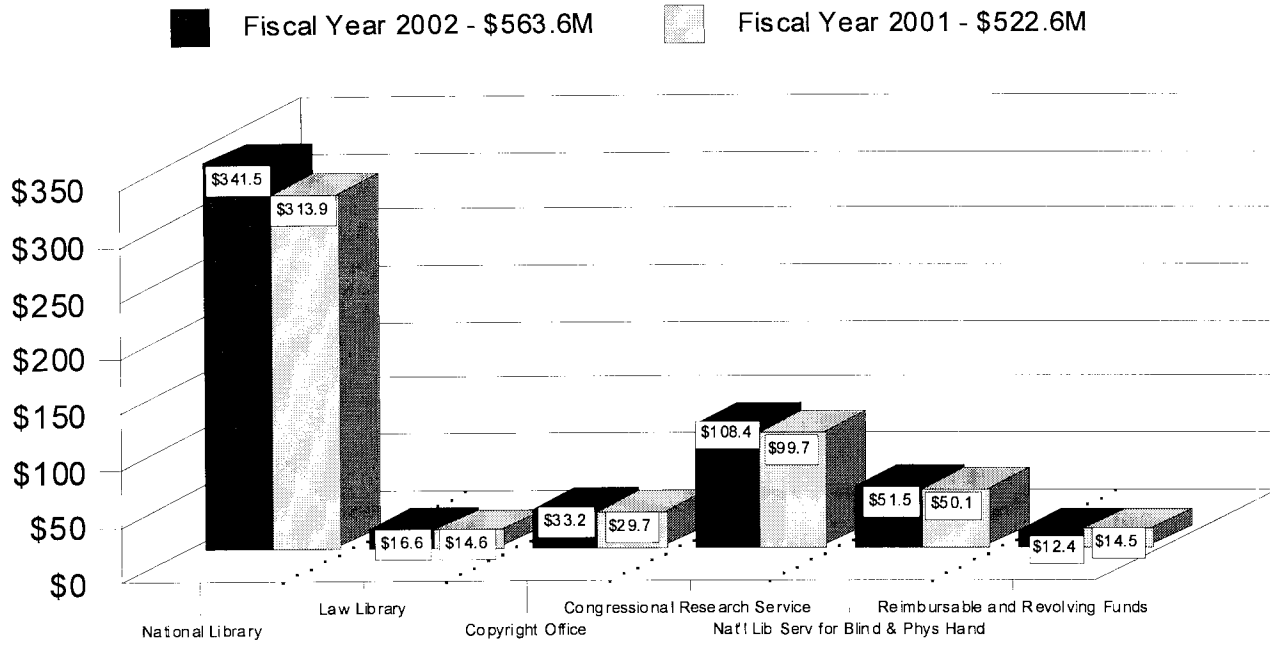
The accompanying Balance Sheet does not include the acquisition and improvement costs of the Library's buildings and grounds. By law, these buildings and grounds are under the structural and mechanical care of the Architect of the Capitol.

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 six programs for the fiscal years ended September 30, 2002 and 2001. In other words, the statement presents the net costs of our programs – $563.6 million and $522.6 million for the fiscal years 2002 and 2001, 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 $341.5 million and $313.9 million for fiscal years 2002 and 2001, 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 $7 million of cost incurred for the National Digital Library and the $5 million paid in fiscal 2002 for the Waldseemuller map. Earned revenue also decreased in fiscal 2002 because all receipts of coin surcharge, including $1.6 million in fiscal 2001, were paid to the Library by the end of fiscal 2001.

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 and develops policy and standards 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 over 25,000 requests for book loans from the Congress each year.
- **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 hundreds of thousands of 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 50 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.

- **Digital Initiatives** -- The Library oversees and coordinates cross-institutional digital initiatives, including the National Digital Information Infrastructure and Preservation Program (NDIIPP). The vision of NDIIPP is to ensure access over time to a rich body of digital content through the establishment of a national network of committed partners, collaborating in a digital preservation architecture with defined roles and responsibilities.

Law Library - The Law Library of Congress, with net program costs of $16.6 and $14.6 million for fiscal years 2002 and 2001, respectively, provides direct research service to the Congress in foreign, international, and comparative law. 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 $33.2 and $29.7 million for fiscal years 2002 and 2001, 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. In fiscal year 2002, the CO registered more than 520,000 claims to copyright, transferred nearly 900,000 works to the Library, recorded more than 10,500 documents containing more than 218,000 titles, logged 13 million electronic transactions to key pages of its Web site, and responded to almost 360,000 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 $108.4 and $99.7 million for fiscal years 2002 and 2001, 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. In 2002, CRS delivered more than 810,000 research responses and services.

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 695,000 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 2002 and 2001 net program costs for this segment were $51.5 and $50.1 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 readership of 695,907 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.

Revolving and Reimbursable Funds - Under the authority of 2 U.S.C. 182, the Library operates the Cooperative Acquisitions Program revolving fund, the revolving fund for duplication services associated with the audiovisual conservation center, the revolving fund for gift shop, decimal classification, photo duplication, and related services and the revolving fund for the Federal Library and Information Network (FEDLINK) program and Federal Research program. The Library also provides reimbursable accounting services for five legislative agencies under cross-servicing agreements (i.e., the Congressional Budget Office, the Office of Compliance, the Capitol Preservation Commission, Abraham Lincoln Bicentennial Commission, and the Center for Russian Leadership Development). 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 $65.0 and $57.2 million in fiscal years 2002 and 2001, respectively, reimbursable and revolving fund net program costs totaled $12.5 and $14.5 million, respectively. The net program costs were the result of the elimination of $6.3 and $6.2 million of intra-Library net revenues, $5.4 and $3.5 million in allocated administrative overhead, and $3.4 million in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds for fiscal years 2002 and 2001, respectively. The other $2.6 million of revenue for fiscal 2002 was primarily the result of $1.7 million of revenue recognized upon the conversion of the Federal Library and Information Network and the Federal Research Program from reimbursable to revolving funds and the successful operations of the Federal Research Program during fiscal 2002 ($0.9 million). The other $1.8 million of net program costs in fiscal 2001 was predominately the result of the declining operations of the Photoduplicaption Service, which had a loss of $1.3 million for fiscal year 2001. A general description of major revolving fund activities are:

- **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 million for both fiscal years 2002 and 2001.

- **Duplication Services** – Duplication Services provides preservation services for the Library's audio and visual collections, and products are also produced for sale to the general public. Earned revenues for both fiscal years 2002 and 2001 were each $0.6 million, of which $0.4 million was for intra-Library transactions which were eliminated for both years in the consolidated statements.

- **Gift Shop, Decimal Classification, Photo Duplication, and related services** – This revolving fund provides for the operation of a gift shop or other sales of items associated with collections, exhibits, performances, and special events of the Library of Congress; decimal classification development services; and the preservation and 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 $5.2 and $5.0 million in fiscal years 2002 and 2001, respectively, and intra-Library transactions of $1.1 and $0.6 million were eliminated during consolidation.

- **The FEDLINK program and Federal Research program** – The FEDLINK program 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. The Federal Research Program 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 FRP product, available on-line via the Library's home page, is the country study series of books. In fiscal years 2002 and 2001, earned revenues were $58.4 and $51.8 million, respectively.

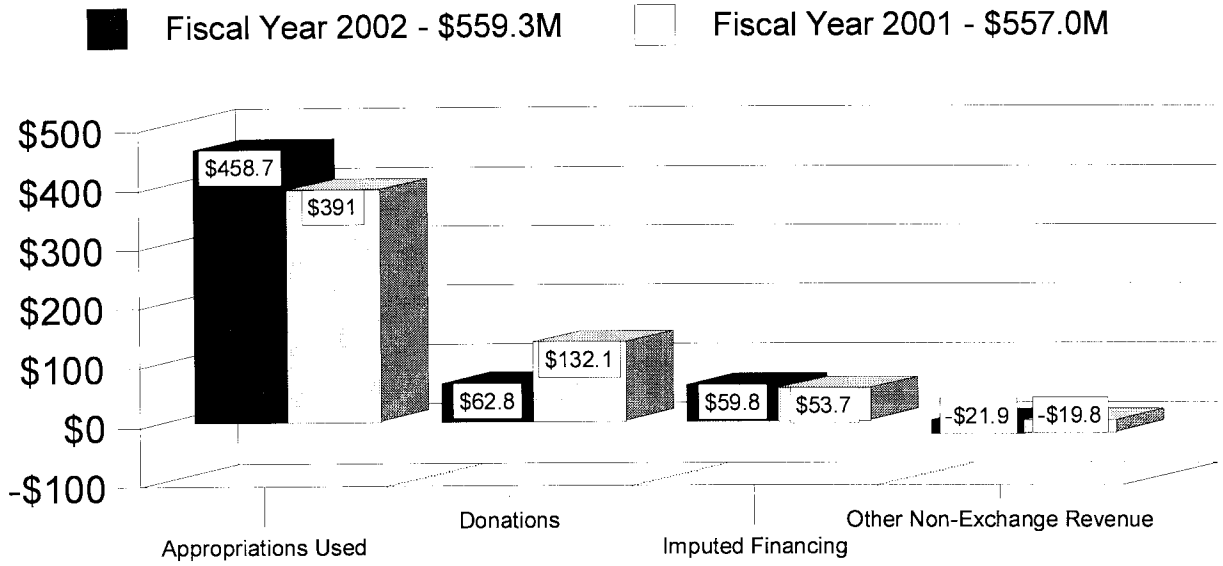
Consolidated Statement of Changes in Net Position

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 $559.3 and $557.0 million for the fiscal years ended September 30, 2002 and 2001, respectively.

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: National Library, 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, 2002 and 2001 totaled $458.7 and $391.0 million or 82 and 70.2 percent, respectively, of all financing. In addition to normal increases in salaries and other inflationary increases, the increase in appropriations used reflects larger costs incurred for digital initiatives and the acquisition of Library collections. The Library's donations decreased by $69.3 million during fiscal year 2002 following the acceptance of the $60 million John Kluge pledge, which occurred in fiscal 2001, and a $6.4 million decrease in donated Ad Council advertising services. 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 $59.8 and $53.7 million (imputed financing) for fiscal years 2002 and 2001, respectively. The support provided included structural care and maintenance of the Library's buildings and grounds ($35.2 million and $30.8 million), employee benefits ($23.9 million and $22.1 million), acquisitions exchange services ($0.7 million and $0.6 million) and settled legal claims ($0.2 million for fiscal 2001). Other non-exchange revenue is negative primarily as a result of a $22.2 million unrealized loss on non-treasury investments.

The Library's net position increased by $21.5 million during fiscal year 2002, primarily due to the $16 million supplement appropriation for the Library's alternative computer facility and the $5.6 million supplemented appropriation for the loss of Copyright Office receipts, which both were unexpended as of September 30, 2002.

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 2002 and 2001, of which $640.3 and $537.4 million were appropriated funds and $961.6 and $1,065.2 million were non-appropriated funds. Total outlays of $597.4 and $742.5 million were incurred with the outlays of appropriated funds ($467.1 and $394.6 million) combined with outlays of the non-appropriated funds ($130.3 and $347.8 million) in fiscal years 2002 and 2001. The decrease in outlays is primarily a result of the aforementioned decrease of distributions of royalty fees during fiscal year 2002.

Consolidated Statement of Financing

The Consolidated 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 ($611.4 and $740.3 million) and its net costs ($563.6 and $522.6 million) of $47.8 million and $217.7 million for fiscal years 2002 and 2001, respectively. This difference is primarily explained by the refunds of non-exchange revenue and copyright licensing royalties ($118.1 and $269.1 million) and capitalized costs ($26.8 and $73.9 million) being offset by increases of resources of non-budgetary donations ($52.1 and $58.9 million) and non-budgetary imputed costs ($59.8 and $53.7 million).

KEY PERFORMANCE MEASURES

Since 1998, the Library's collections have increased from 115.5 million to 126.1 million items -- an increase of 10.6 million or 9.1 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has decreased from 3,958 to 3,947 – a decrease of 11 FTE's or 0.3 percent. The Library's Internet transactions have grown dramatically from 615 million in fiscal year 1998 to 2 billion in fiscal year 2002. Internet-based systems include major World Wide Web services (e.g., THOMAS, LC-Web) and various file transfer options. 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 operates an educational Web site for families called "America's Library."

THE LIBRARY OF CONGRESS
COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS
For the Fiscal years 1998, 1999, 2000, 2001 and 2002

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	CHANGE 1998 – 2002	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	$377,207,000	$391,660,000	$427,457,610	$550,347,401	$525,837,000	+ $148,360,000	+ 39.4
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	3,958	3,923	3,919	3,891	3,947	- 11	- 0.3
SIZE OF LIBRARY COLLECTIONS	115,505,695	118,993,629	120,976,339	124,247,602	126,060,980	+ 10,555,285	+ 9.1
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	19,090,657	19,793,689	19,215,629	21,142,980	20,095,008	+ 1,004,351	+ 5.2
CRS - Requests & Services Provided Congress	560,423	545,663	584,384	711,612	811,467	+ 251,044	+ 44.8
Loans of Collections to Congress	30,614	26,193	29,276	25,713	25,099	- 5,515	- 18.0
Copyright Claims Registered	558,645	594,501	515,612	601,659	521,041	- 37,604	- 6.7
Copyright Inquiries	395,456	436,627	385,513	339,658	358,604	- 36,852	- 9.3
Services to the Blind & Physically Handicapped (BPH) - Readership	761,600	764,600	759,000	742,000	695,907	- 65,693	- 8.6
BPH - Books & Magazines; Total Circulated	22,553,100	22,665,000	22,825,000	23,100,000	23,464,309	+ 911,209	+ 4.0
BPH - New Braille & Audio Books & Magazines Titles	2,764	2,647	2,729	2,638	2,663	- 101	- 3.7
Print Materials Cataloged	274,890	205,893	224,544	273,534	310,235	+ 35,345	+ 12.9
National Coordinated Cataloging Operation (NACO) - LC Contribution	186,515	80,176	80,066	90,542	88,475	- 98,040	- 52.6
National Coordinated Cataloging Operation - Outside Contribution	173,721	133,011	128,160	143,031	162,363	- 11,358	- 6.5
Exhibits, Displays, & Publications (Funded by Appropriations)	25	25	32	35	37	+ 12	+ 48.0
Regular Tours (Participants)	60,465	64,489	59,536	105,988	112,423	+ 51,958	+ 85.9
Reference Service	1,101,717	967,387	912,120	828,533	775,115	- 326,602	- 29.6
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65		0
Items Circulated	2,105,278	1,767,565	1,694,582	1,580,162	1,362,724	- 742,554	- 35.3
Preservation Treatment - Original Format	354,027	472,027	263,817	326,623	666,422	+ 312,395	+ 88.2
Mainframe Computer Transactions	270,259,005	331,103,221	85,217,677	63,913,258	109,008,458	- 161,250,547	- 59.7
Integrated Library System Input/Update Transactions	0	0	59,319,648	65,663,286	91,834,274	+ 91,834,274	+ 100.0
Machine Readable Cataloging (MARC) Records	28,093,497	28,890,000	29,633,607	31,103,700	31,638,841	+ 3,545,344	+ 12.6
Internet Transactions (i.e., LOCIS, MARVEL, World Wide Web, and THOMAS public transactions)	615,149,938	728,226,616	931,256,160	1,283,747,169	2,039,268,542	+ 1,424,118,604	+ 231.5

Other noteworthy workloads include the following:

- The number of Congressional requests and services annually provided by the Congressional Research Service (CRS) increased from 560,423 in 1998 to 811,467 in 2002. 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 decreased by 37,604, from 558,645 in 1998 to 521,041 in 2002, and the number of copyright inquiries answered annually decreased by 36,852 from 1998 to 2002. 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. Decreases in registrations between 2001 and 2002 are a result of United States postal service mail stockpiled in the first half of fiscal year 2002 for testing for the anthrax bacteria. Once offsite testing facilities were established, the mail service resumed to the Library and the stockpile was processed, but the mail received since the opening of the facility was not completely processed by September 30, 2002.

- The number of print materials cataloged increased by 36,701 from 2001 to 2002 and arrearages decreased in 2002 due to the normalization of activities after 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 1998 to 775,115 in 2002, while the number of Internet transactions increased from 615 million

to 2.0 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 911,209 to 23.5 million in 2002.

- The number of items for preservation treatment increased by 339,799 from 2001 to 2002 primarily due to processing 250,000 of nitrate negatives that needed to be moved from the Library's storage facility in Suitland, Maryland.

- The number of mainframe transactions increased during 2002 because of increased use of the Copyright Office Publication and Interactive Cataloging System, which uses a database currently on the mainframe to satisfy data requests.

MAJOR GOALS AND ACCOMPLISHMENTS IN FISCAL YEAR 2002

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 2002 and the accomplishments of those goals:

National Library:

Goal: Develop a National Digital Information Infrastructure and Preservation Program (NDIIPP) plan.

Accomplishment: The Library's NDIIPP plan was submitted to the Congress on October 3, 2002.

Goal: Advance the Library's mission to better the services, access, and tools of the digital future.

Accomplishments: Created website collections for: The Olympics 2002 Collection pertaining to the February Olympics, the Election 2002 Collection of approximately 4,000 websites for the Election 2002 web archive, and released the complete Lincoln Papers that constitute approximately 20,000 items and 10,000 annotated transcriptions produced by the Lincoln Studies Center at Knox College. Received "Site of the Year" award from Yahoo! for the September 11 Web Archive (September11.archive.org).

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: While arrearage reduction targets originally set for fiscal year 2002 were not met, the Library continued to make progress on reducing the arrearage.

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: National Library developed internal policies and procedures for management and quality control of the inventory; implemented a new LC Directive on "Physical Security Compliance Policy;" played a key role in developing and implementing the Site Assistance Visit program to ensure units are complying with collections security requirements; and played a key role in developing security awareness programs, including both staff and public security websites.

Goal: Continue the preservation effort to treat 150,000 books and 1 million manuscripts as well as rescue selected "too brittle to serve" documents through paper strengthening; monitor collection storage environments, develop collection storage equipment specifications, develop a mitigation plan, and stabilize select general and special collections materials with cost-effective treatments and preservation quality housings.

Accomplishments: Ensured the longevity of 150,000 books through a mass deacidification treatment, completed the second year of a five-year contract to treat 1,000,000 books and 5,000,000 sheets of unbound materials. Successfully installed the single-sheet mass deacidification chamber onsite in the James Madison building and started treating manuscript materials.

Goal: Continue work on the off-site storage facilities, including building storage facilities at Culpeper, Virginia, and Ft. Meade, Maryland; move the collections to Ft. Meade, and begin shifting the collections in the Thomas Jefferson and John Adams buildings.

Accomplishments: The Library has continued to work on the off-site storage facilities, including building storage

facilities at Culpeper, VA, and Ft. Meade, MD. The AOC issued the Provisional Certificate of Occupancy for Ft. Meade on September 11, 2002, and the official opening of the Ft. Meade facility was scheduled for November 18, 2002. The shifting of the collections in the John Adams and Thomas Jefferson buildings cannot begin until later in fiscal year 2003. The Library has continued to work closely with Packard Humanities Institute, the AOC, and contractors to develop plans for the National Audio-Visual Conservation Center (NAVCC) in Culpeper, VA.

Goal: Conduct a physical inventory and shelflist conversion project for the general collections, Law and Area Studies collections.

Accomplishments: Issued a contract to begin the eight-year baseline inventory program; converted serials holdings data into the LC ILS environment; and created holdings and item records for serial and government publications collections.

Goal: Within American Folklife, implement operation vision, including the Veterans History Project.

Accomplishments: Received 3,210 individual Veterans History Project collections, which document the experiences of American war veterans through audio taped and videotaped oral histories, photographs, letters, publications, military documents, maps, diaries, journals, and ephemera collected from individuals and groups around the nation.

Law Library:

Goal: Eliminate four Law Library arrearages: looseleaf materials, loose materials for binding, government transfers, and conversion of titles into the LC ILS.

Accomplishments: Developed and implemented a plan to eliminate the four arrearages.

Goal: Manage in-coming looseleaf receipts on a current basis.

Accomplishments: Managed in-coming looseleaf receipts on a current basis, within five days of receipt.

Goal: Implement enhanced security procedures in the foreign law research division.

Accomplishments: Reviewed and modified security procedures, establishing an equipped emergency evacuation team with updated guidelines for staff and contractors. Also responded to Library-wide changes in mail handling and off-site processing of mail.

Goal: Begin to survey the collections and identify specific gaps in the area of legal treasures.

Accomplishments: Acquired the transcript of the trial of Gandhi's principal assassin for the rare book and trials collections; digitized the unique Law Library collections relating to slavery and the courts.

Copyright Office:

Goal: Formulate and provide expert advice to Congress, executive branch agencies, courts and international entities in furtherance of maintaining a strong and effective national and international copyright system.

Accomplishments: Provided advice and assistance to Congress on: the Intellectual Property Restoration Act regarding state sovereign immunity and copyright; the Office's Digital Millennium Copyright Act section 104 report regarding specific digital issues; Copyright Arbitration Royalty Panel reform; the Technology, Education and Copyright Harmonization Act regarding digital distance education and copyright; protection of authentication features; and piracy in peer-to-peer networks. Assisted in preparation of the respondent's brief to the Supreme Court in *Eldred v. Ashcroft*, a case challenging the constitutionality of the Sonny Bono Copyright Term Extension Act of 1998.

Goal: Provide copyright information and reference services to the public in a timely and efficient manner.

Accomplishments: Launched a re-designed Web site (www.copyright.gov) to provide enhanced access to frequently-requested pages, a new way to search the office's public records, a step-by-step guide to registration, and a streamlined look that makes locating information easier and faster. Logged 13 million hits to the Web site, an 8% increase, and responded to 358,604 in-person, telephone, and e-mail requests for information.

Goal: Continue the Business Process Reengineering by completing detailed process planning and reorganization packages.

Accomplishments: Continued the intensive multi-year effort to reengineer Copyright Office public services, such as registering claims, recording documents, acquiring works for the Library of Congress, answering public requests, maintaining records, and accounting for speedy, primarily electronic, delivery.

Goal: The Licensing Division will complete high priority tasks related to its automation initiatives, including changes to the remittance receipt record and refund-transfer processing functions as well as the use of Pay.gov.

Accomplishments: Initiated the use of Pay.gov, a form of electronic funds transfer, for internet-based royalty payments for over 90% of royalty remittances.

Congressional Research Service:

Goal: Support the Congress with research on terrorism and homeland security. CRS plans to provide analytical analysis and support on these issues and all other issues in congressional deliberations through workshops, seminars, and outreach programs to members of the congressional staff.

Accomplishments: Provided 811,467 research responses and services to assist Congress on policy issues, a 14 percent increase over fiscal year 2001. This included approximately 2,100 custom, confidential memoranda; more than 42,000 responses by telephone; and nearly 2,200 in-person briefings and consultations. CRS provided support on all of the major issues deliberated by the Congress: the global anti-terrorist campaign, Afghanistan, Iraq, laws governing intelligence gathering and the legal implications of that activity, war powers and the role of the Congress, creation of a Department of Homeland Security, bio-chemical terrorism possibilities, border and transportation security, return to deficit financing, corporate integrity, Medicare and Social Security reform, Education, and election reform.

Goal: Ensure CRS has the capacity to meet the needs of the Congress through the context of a new merit selection and hiring process. Hiring will focus on areas where CRS has major gaps in the capacity on current legislative activity, and to support new capacities funded by the Congress for the electronic era.

Accomplishments: Hired 27 staff members to satisfy the needs of the Congress, and used complementary contract support to acquire expertise in rapidly-evolving and highly specialized areas in which CRS has gaps in capacity. Continued external research partnerships with universities, foundations, and sister agencies to produce research to supplement that of CRS. Initiated a functional review of positions in the transformation of the global expansion of digital resources and processes.

Goal: Develop and implement a plan to provide delivery of CRS analysis to congressional clients via e-mail. Additional improvements will be made to the CRS Web site to improve functionality and accessibility. CRS will also complete a revision of its Business Continuity Contingency Plan.

Accomplishments: Made electronically available to the Congress all 4000+ CRS products via the Internet with a variety of access and printing methods. Introduced a new self-subscribe Web-based system to notify Members and staff about CRS workshops and seminars on policy issues, with live Webcasting of selected seminars. Implemented multiple Business Continuity Contingency Plan tasks, including upgrades to equipment to ensure secure communications with encrypted email.

National Library Service for the Blind and Physically Handicapped:

Goal: Strive to maintain the current level of service to library patrons, while simultaneously providing basic service to eligible individuals entering the program as new users.

Accomplishments: Circulated more than 23,460,000 audio and Braille books and magazines to the blind and physically handicapped readership.

Goal: Maintain a level of sound reproduction machines able to satisfy basic users' requirements while developing no waiting lines.

Accomplishments: Cassette book machines were available to all new patrons and existing patrons requiring replacement units.

Goal: Provide support for development of audit-recommended control systems.

Accomplishments: An experienced management consultant has been engaged to develop a support system for an audit-recommended control system.

Goal: Explore digital technological possibilities to the point of considering adaptations of a cost-effective, efficient, internationally acceptable, user-friendly delivery system through implementation of the National Information Standards Organization, American National Standards Institute, and International Standards Organization process.

Accomplishments: The NLS website was redesigned to improve usefulness, accessibility, and ease of navigation for the target audiences. Also, at the close of FY 2002, 2,078 users had signed up for the new free Internet service Web-Braille, accessing more than 4,175 digital Braille book files. NLS also hosted a digital talking book design competition, receiving 146 entries from 28 schools across the country. The winners models will be incorporated into the design for the Library's digital talking book, to be introduced in 2008.

Revolving and Reimbursable Funds:

Goal: Develop business plans for all fee-for-service activities including the goal of generating profits from certain activities to support core Library services.

Accomplishments: The FEDLINK program, which has the highest revenue of all the revolving and reimbursable funds, issued a business plan during fiscal year 2002.

Management Support Services:

NOTE: The Management Support Services, while not listed as a program on the Statement of Net Cost as their costs are allocated to the programs, have goals and accomplishments tracked separate from the major programs.

Goal: The Office of the Librarian will sustain effective and efficient priority program activities to meet the requirements of the Congress, focused specifically on security and safety initiatives, processes and functions related to human resources, and aid in the transition from traditional formats to the digital future.

Accomplishments: The Office of the Librarian responded to thousands of congressional inquiries about the Library's collections, activities, policies, and facilities and continued to develop electronic educational content for the Library's website as well as obtained rights clearances for use of the Library collections of its website www.loc.gov. The Library also sponsored the National Book Festival, hosting more than 70 authors, illustrators, and storytellers for readings and performances.

Goal: Provide customer support by Human Resources Service ensuring responsive, efficient, and effective personnel administration.

Accomplishments: HRS implemented a new, more strategically-focused, organization, including the five major components of strategic planning and automation, workforce acquisition, workforce management, workforce diversity and accommodations, and work life services center. All office directors, along with two Special Assistants to the Director for Human Resources, have been selected and HRS staff reassigned.

Goal: Continue to maintain the Library's technology infrastructure and support the Library's technology needs and transformation into the digital age during the fiscal year 2002.

Accomplishments: Information Technology Services provided reliable and responsive support to the Library and external customers, processing more than two billion transactions. The Digital Scan Center processed 22,500 images, and the Hotline formally logged 10,445 requests and problem reports. Telephone operators responded to 59,720 telephone calls. The Library's primary web pages completed 54 consecutive weeks in the top ten federal government websites for fast and reliable response times.

Goal: Integrated Support Service plans to reduce health and safety threats to the Library's staff by serving on joint Congressional and Library task forces on mail solutions, developing a plan to handle Library mail, and processing Library mail off-site in conjunction with Capital Hill off-site mail facility.

Accomplishments: Participated in emergency management activities throughout the year, and with particular intensity following the anthrax attack of October that temporarily closed the Library and suspended the delivery of 1st class mail and flats for six months. These activities included: assisting the Office of the Attending Physician with anthrax testing and counseling, conducting numerous briefings for Library staff; conducting a ground-breaking study that examined the impact on staff of handling irradiated mail; developing and implementing an environmental testing and monitoring plan for Library Buildings; and, by serving on the Congressional and Library of Congress Joint Committee on Mail Solutions, establishing and

assisting with the implementation of protocols for offsite receipt, irradiation, and x-raying of all future incoming mail for the Library, House, and Senate.

Goal: Monitor Architect of the Capital (AOC) construction and installation of improved internal and perimeter security, including bollards, curb walls, police shelters, vehicle barriers, modifications to building entrances to accommodate enhanced security screening, additional exterior CCTV, and improved exterior lighting around the Library's Capitol Hill buildings.

Accomplishments: Initiated construction of a consolidated police communication center to integrate the Library's access control, intrusion detection, security, and environmental monitoring systems. Instituted full staff entry screening with X-ray machines and metal detectors, as well as beginning the installation of perimeter security enhancements including exterior monitoring cameras and lightening, barriers, and garage and parking lot safeguards.

MANAGEMENT CONTROL PROGRAM

The Library has a management control program (MCP) that requires annual risk (vulnerability) assessments and periodic detailed reviews of internal controls based on the results of the vulnerability assessments. The MCP is designed to ensure that: (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use or misappropriation; (3) revenues and expenditures are properly accounted; and (4) program activities are carried out in the most efficient, effective, and economical manner possible.

During the fiscal year 2002, Library staff performed vulnerability assessments on all of the 187 identified financial and non-financial modules and assigned, based on a scoring system, a high, medium or low risk to the modules. Then, based on risk and scheduling, Library staff performed 58 detailed control reviews in fiscal 2002 to examine the controls in place in the selected modules. Plans to correct any deficiencies in controls were derived based on the examination results and will be tracked at an agency level by program officials until the deficiencies are resolved.

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 2002 and 2001. 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 at that time, determined its collections were within the stewardship resource classification and prepared its first stewardship report. 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.

Financial Statements and Notes

March 2003

Library of Congress

THE LIBRARY OF CONGRESS

Consolidated Balance Sheets

As of September 30, 2002 and 2001

(Dollars in Thousands)

	2002	2001
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 314,638	$ 291,566
Investments (Note 5)	706,522	606,214
Accounts Receivable, Net (Note 6.A)	7,576	5,447
Other Assets	5,493	1,759
Investments (Note 5)	49,365	59,432
Accounts Receivable, Net (Note 6.A)	444	257
Pledges Receivable - Donations (Note 6.B)	11,064	10,591
Cash and Other Monetary Assets (Note 3)	978	700
Inventory (Note 7)	2,010	2,100
Property and Equipment, Net (Note 8)	58,073	56,504
Other Assets	583	35
Library Collections (Note 1.M)		
Total Assets	$ 1,156,746	$ 1,034,605
LIABILITIES		
Intragovernmental liabilities		
Accounts Payable	$ 1,814	$ 1,101
Advances from Others	25,360	25,930
Accrued Funded Payroll, Benefits	1,168	2,675
Accrued Unfunded Workers' Compensation (Note 11)	1,633	1,742
Accounts Payable	29,482	24,857
Advances From Others	2,791	2,522
Custodial Liability (Note 4)	657,665	556,147
Accrued Funded Payroll, Benefits	7,144	15,549
Deposit Account Liability	5,090	4,598
Accrued Unfunded Annual and Compensatory Leave	19,218	18,430
Actuarial Unfunded Workers' Compensation (Note 11)	9,087	9,404
Deferred Credits - Pledges	35	0
Capital Lease Liability (Note 10.A)	620	633
Other Liabilities (Note 13)	2,140	1,547
Total Liabilities	763,247	665,135
NET POSITION		
Balances:		
Unexpended Appropriations (Note 15)	230,690	202,329
Cumulative Results of Operations	162,809	167,141
Total Net Position	393,499	369,470
Total Liabilities and Net Position	$ 1,156,746	$ 1,034,605

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

THE LIBRARY OF CONGRESS

Consolidated Statements of Net Costs

For the Fiscal Years Ended September 30, 2002 and 2001

(Dollars in Thousands)

	2002	2001
Net Costs by Program Area:		
National Library:		
Program Costs	$ 346,131	$ 320,508
Less Earned Revenue	4,611	6,648
Net Program Costs	341,520	313,860
Law Library:		
Program Costs	16,596	14,642
Less Earned Revenue	20	8
Net Program Costs	16,576	14,634
Copyright Office:		
Program Costs	57,008	54,293
Less Earned Revenue	23,822	24,572
Net Program Costs	33,186	29,721
Congressional Research Service:		
Program Costs	108,365	99,743
Less Earned Revenue	0	0
Net Program Costs	108,365	99,743
National Library Service for the Blind and Physically Handicapped:		
Program Costs	51,538	50,109
Less Earned Revenue	0	0
Net Program Costs	51,538	50,109
Revolving and Reimbursable Funds:		
Program Costs	77,536	71,779
Less Earned Revenue	65,080	57,240
Net Program Costs	12,456	14,539
Net Costs of Operations	$ 563,641	$ 522,606

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

THE LIBRARY OF CONGRESS
Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2002 and 2001
(Dollars in Thousands)

	2002		2001	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning	$ 167,141	202,329	$ 132,792	78,690
Budgetary Financing Sources				
Appropriations Received		459,548		512,921
Appropriations transferred – in/out		31,075		6,600
Other adjustments (Recession, Cancelled Auth., etc.)		(3,611)		(4,906)
Appropriations Used	458,651	(458,651)	390,976	(390,976)
Non-Exchange Revenue	1,784		2,994	
Donations-Cash or securities	10,738		73,272	
Transfer in/out without reimbursement	(11,657)		16	
Other financing sources with budgetary impact	862		151	
Other Financing Sources				
Donations-Property and Services	52,060		58,861	
Transfer in/out without reimbursement	(118)		(453)	
Imputed Financing from costs absorbed by others	59,803		53,672	
Other	(12,814)		(22,534)	
Total Financing Sources	559,309	28,361	556,955	123,639
Net Cost of Operations	(563,641)		(522,606)	
Net Position, Ending	$ 162,809	230,690	$ 167,141	202,329

The accompanying notes are an integral part of these financial statements

THE LIBRARY OF CONGRESS

Combined Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2002 and 2001

(Dollars in Thousands)

	2002	2001
Budgetary Resources		
Budget Authority	$ 725,797	$ 818,823
Unobligated Balances - Beginning of Period	743,624	680,374
Spending Authority from Offsetting Collections	108,804	95,134
Adjustments, net	13,304	8,324
Total Budgetary Resources	$ 1,591,529	$ 1,602,655
Status of Budgetary Resources		
Obligations Incurred, New	$ 738,054	$ 849,666
Unobligated Balance - Available	847,028	734,499
Unobligated Balance - Not Available	6,447	18,490
Total, Status of Budgetary Resources	$ 1,591,529	$ 1,602,655
Outlays		
Obligations Incurred, New	$ 738,054	$ 849,666
Less: Spending Authority from Offsetting Collections and Adjustments	126,600	109,325
Subtotal	611,454	740,341
Obligated Balance, net - Beginning of Period	135,614	137,719
Less: Obligated Balance, net - End of Period	149,652	135,614
Total Outlays	$ 597,416	$ 742,446

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

THE LIBRARY OF CONGRESS

Consolidated Statements of Financing

For the Fiscal Years Ended September 30, 2002 and 2001

(Dollars in Thousands)

	2002	2001
Obligations and Nonbudgetary Resources		
Obligations incurred, new	$ 738,054	$ 849,666
Spending authority from offsetting collections and adjustments	(126,600)	(109,325)
Donations not in the budget	52,060	58,861
Imputed financing	59,803	53,672
Transfers-in (out)	(118)	0
Exchange revenue not in the budget	(300)	(141)
NonExchange revenue not in the budget	108	0
Trust/Special fund exchange revenue receipts	(4,301)	(10,269)
Other	(12,814)	0
Total obligations as adjusted and nonbugetary resources	705,892	842,464
Resources Not Funding Net Costs of Operations		
Increase in budgetary resources for undelivered orders	(24,864)	(1,406)
Increase in unfilled customer orders, excluding unearned refunds	6,348	2,015
Costs capitalized on the balance sheet	(26,828)	(73,895)
Financing sources that fund costs of prior periods	0	(131)
Adjustments for Trust fund outlays not affecting net cost	(14,566)	(32)
Refunds of nonexhange revenue and Copyright Licensing royalties	(118,089)	(269,137)
Total resources not funding net costs of operations	(177,999)	(342,586)
Costs That Do Not Require Resources		
Depreciation and amortization	22,581	22,379
Bad debt from public vendor overpayment receivables	2	(1)
Revaluation of Assets and Liabilities	12,824	0
Disposition of Assets	(3)	3
Other costs	(81)	347
Total costs that do not require resources	35,323	22,728
Financing Sources Yet to be Provided		
Increases in unused annual leave and actuarial liability	425	0
Net Cost of Operations	$ 563,641	$ 522,606

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

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2002 and 2001

1 *Summary of Significant Accounting Policies*

A. Reporting Entity

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

The Library's programs and operations are subject to oversight by the Joint Committee on the Library, which is comprised of members of the U.S. House of Representatives and Senate. The Library relies primarily on appropriated funds to support its programs and operations. Budget requests are subject to review by the House and Senate Appropriations 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 administers several fee-service revolving funds and 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 2002 and 2001. 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 budgetary 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 operations. All significant intra-agency balances and transactions have been eliminated in consolidation.

The statements include 5 (5) appropriated fund accounts; 12 (11) revolving (and gift revolving) funds;

reimbursable funds; 100 (98) trust funds; and 127 (133) gift funds for fiscal year 2002 (and 2001, 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 Library's financial statements conform to accounting principles generally accepted in the United States of America as promulgated by the Federal Accounting Standards Advisory Board (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. 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 revolving funds that generate revenues from the sale of various products and services to the public and federal customers. Appropriations are recognized as revenues at the time they are expensed. Other revenues are recognized when earned. Revolving and reimbursable fund revenue is recognized when goods have been delivered or services rendered.

E. Gift and Trust Funds

The Library administered 227 and 231 gift and trust funds with combined asset value of approximately $120 million and $109 million during fiscal years 2002 and 2001, 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 2002 and 2001:
  - Vanguard 500 Index Fund
  - Vanguard Total Stock Market Index Fund
  - Vanguard Prime Money Market Fund
  - Fidelity Fifty Fund
  - Fidelity Stock Selector
  - Robertson Stephens Funds – The Emerging Growth Fund

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

Under 2 U.S.C. 158, up to $10 million of the Library's gift and trust funds may be invested with the U.S. Treasury as a permanent loan at a floating rate of interest, adjusted monthly, but no less than four percent per annum. The permanent loan is an interest bearing investment recorded at cost, which is market value.

Treasury securities are intended to be held to maturity, are valued at cost, and are adjusted for the amortization of discounts and premiums. Interest is computed using the straight-line method, which approximates the effective interest method.

Stock and money market funds are stated at current market value and are considered available for sale. Unrealized gains and losses are recognized and recorded as a component of 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 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 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 was recorded for the acquisition and maintenance of these buildings for fiscal years 2002 and 2001, respectively, and was offset by an imputed financing source, which represents the amount being financed by the Architect. For fiscal years 2002 and 2001, the Architect received appropriations totaling $21.8 and $16.0 million to fund the structural and mechanical care of these buildings, respectively. 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 "heritage assets," and their value is not presented on the financial statements. Stewardship information covering the acquisition, use, preservation, and security of the collections is contained in a supplementary Stewardship Report.

N. Liabilities

Liabilities represent the amounts that are likely to be paid by the Library as a result of transactions that have already occurred. Liabilities for which an appropriation has not been enacted, or 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 revolving programs 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.

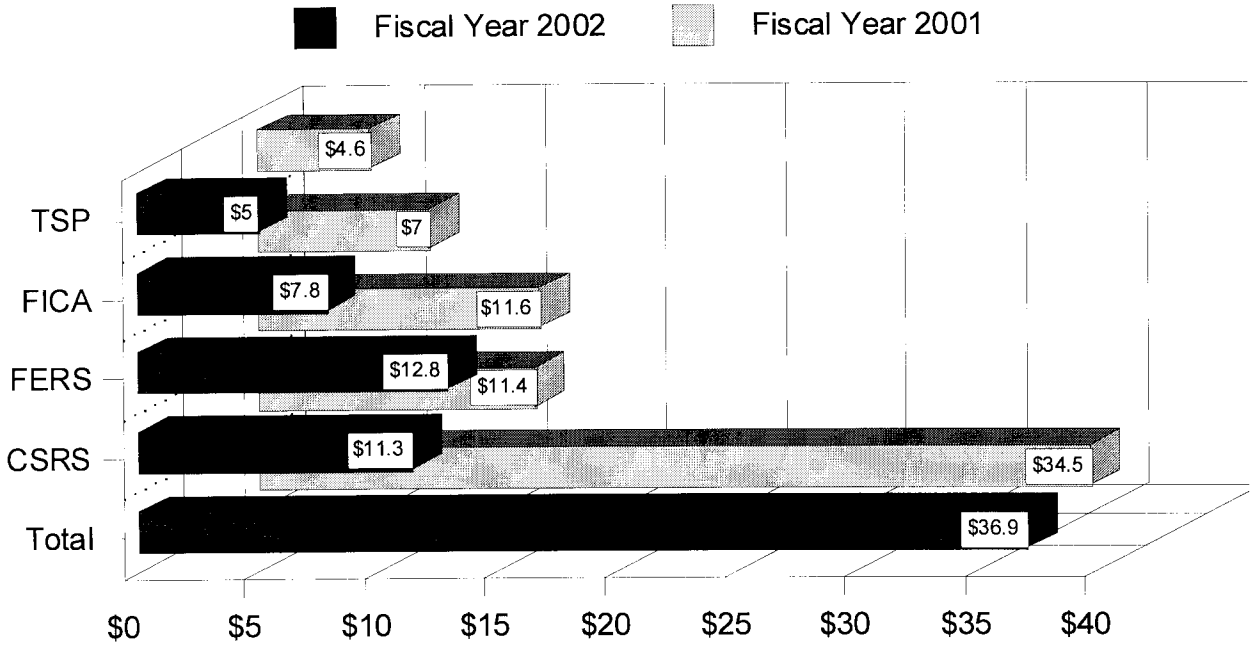
Capital Lease Liabilities are liabilities resulting from capital leases of equipment.

O. Federal Employee Benefits

Approximately 41 percent and 46 percent of the Library's employees participated in the Civil Service Retirement System (CSRS) during fiscal years 2002 and 2001, 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 49 percent and 48 percent of the Library's employees were covered by the Federal Employees Retirement System (FERS) during fiscal years 2002 and 2001, 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 ten percent and six percent during fiscal year 2002 and 2001, 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.

Contributions To Federal Employment Programs For Fiscal Years 2002 and 2001



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 were recorded for the service cost of the Library's employee retirement, health and life insurance benefits during fiscal years 2002 and 2001, 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 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 2002 and 2001, the Library paid $511,473 and $497,203 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 $891,356 and $1,123,586 for these support services in fiscal years 2002 and 2001, respectively.

- General Services Administration (GSA) provides building and vehicle leasing services for the Library. (See Note 10B)

c. As noted under Note 1.L, the Architect of the Capitol provides the structural and mechanical care of the Library's Capitol Hill facilities and remote storage site at Fort Meade, Maryland.

Q. Related Party Organizations and Transactions

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

1. 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.

2. 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 $128,917 and $83,893 for these benefits in fiscal years 2002 and 2001, respectively. 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.

3. 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 $4,295,139 and $5,429,764 at September 30, 2002 and 2001, 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 2002 and 2001, the Library received $191,296 and $165,882 from the trust, respectively.

4. 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 $256,769 and $439,478 in goods, services and direct contributions from the trust during fiscal year 2002 and 2001, respectively.

R. Presentation Reclassifications

Certain amounts for 2001 have been reclassified to conform with the 2002 presentation of those amounts.

2 *Fund Balance With Treasury*

A. Fund balance with Treasury at September 30, 2002 and 2001, is summarized as follows:

(Dollars in Thousands)

	2002	2001
Appropriated Funds	$248,804	$228,828
Revolving and Reimbursable Funds	49,451	48,146
Gift and Trust Funds	13,405	12,560
Custodial Deposit – Other Funds	2,978	2,032
Total	**$314,638**	**$291,566**

(1) At September 30, 2002 and 2001, the gift and trust fund balance with Treasury included $10 million invested in the permanent loan, which is included in fund balance with Treasury, at interest rates of percent 4.4 and 5.3 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.

B. Status of Fund Balance with Treasury

	2002	2001
Unobligated Balances Available	$146,196	$132,783
Unobligated Balances Unavailable	18,012	23,419
Obligated Balances not yet Disbursed	150,430	135,364
Total	**$314,638**	**$291,566**

3 *Cash and Other Monetary*

Cash and Other Monetary Assets consists of the following:

(Dollars in Thousands)

	2002	2001
Cash On Hand:	$612	$361
Imprest Funds	41	48
Deposits In Transit	325	291
Total	**$978**	**$700**

4 *Custodial Funds*

The Library of Congress Copyright Office Licensing Division administers the compulsory and statutory licenses covered by the Copyright Act (17 U.S.C.). The Licensing Division receives royalty fees from 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.

Custodial activity consists of the following:

(Dollars in Thousands)

	2002	2001
Source of Cash Collection:		
Licensing Fees	$206,811	$190,073
Investment Interest	12,265	21,234
Total Cash Collections	219,076	211,307
Investment Amortizations/Accruals	(606)	(898)
Total Custodial Revenue	**$218,470**	**$210,409**
Disposition of Collections:		
Payments to Copyright Owners	(110,002)	(264,751)
Refunds	(1,921)	(1,196)
Change in Investment Premium	(537)	2,211
Retained by Copyright Licensing for Administrative Costs	(4,491)	(2,853)
Net Custodial Activity	101,518	(56,180)
Beginning Custodial Liability	556,147	$612,326
Ending Custodial Liability	**$657,665**	**$556,147**

5 *Investments, Net*

Investments at September 30, 2002 and 2001 are as follows:

(Dollars in Thousands)

	2002			2001		
	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	$704,666		$704,666	$603,725		$603,725
Cost		81,701	81,701		78,944	78,944
Unamortized Premium	1,685		1,685	2,271		2,271
Unrealized Discount	358		358	612		612
Interest Receivable	529		529	830		830
Investments, Net	**706,522**	**81,701**	**788,223**	**606,214**	**78,944**	**685,158**
Market Value	**$706,999**	**$49,365**	**$756,364**	**$606,746**	**$59,432**	**$666,178**

A. Intragovernmental Investments

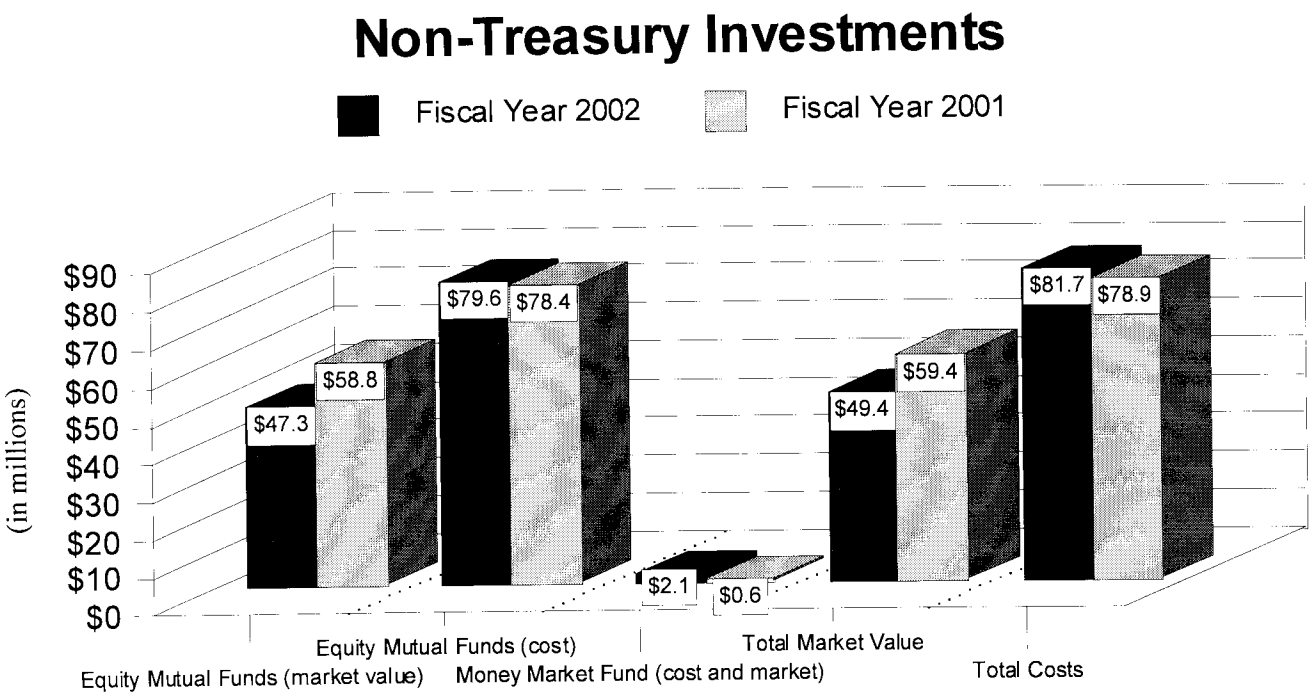
Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Trust fund investment maturity dates for fiscal years 2002 and 2001 range from October 3, 2002 to May 15, 2006 and October 4, 2001 to February 15, 2005, respectively, and interest rates for the same fiscal year ranges from 1.4 percent to 10.8 percent and 2.1 percent to 10.8 percent, respectively.

Custodial funds investment maturity dates for fiscal years 2002 and 2001 range from October 3, 2002 to August 31, 2003 and October 4, 2001 to August 31, 2002, and interest rates for the same fiscal years range from 1.6 percent to 5.5 percent and 2.0 percent to 6.6 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.

Balances at September 30, 2002 and 2001, are as follows:



6 *Receivables*

The breakdown of consolidated gross and net accounts receivable at September 30, 2002 and 2001, are as follows:

A. Accounts Receivable

(Dollars in Thousands)

	2002	2001
Intragovernmental		
Accounts Receivable, Gross	$7,576	$5,447
Allowance for Doubtful Accounts		
Accounts Receivable, Net	7,576	5,447
Other		
Accounts Receivable, Gross	485	279
Allowance for Doubtful Accounts	41	22
Accounts Receivable, Net	444	257

B. Pledges Receivable

At September 30, 2002 and 2001, the Library had unconditional pledges of contributions totaling $11.5 million and $11.1 million, which were discounted through fiscal years 2007 and 2006 at a market discount rate and included in the statement of financial position at their discounted value of $11.1 million and $10.6 million, respectively.

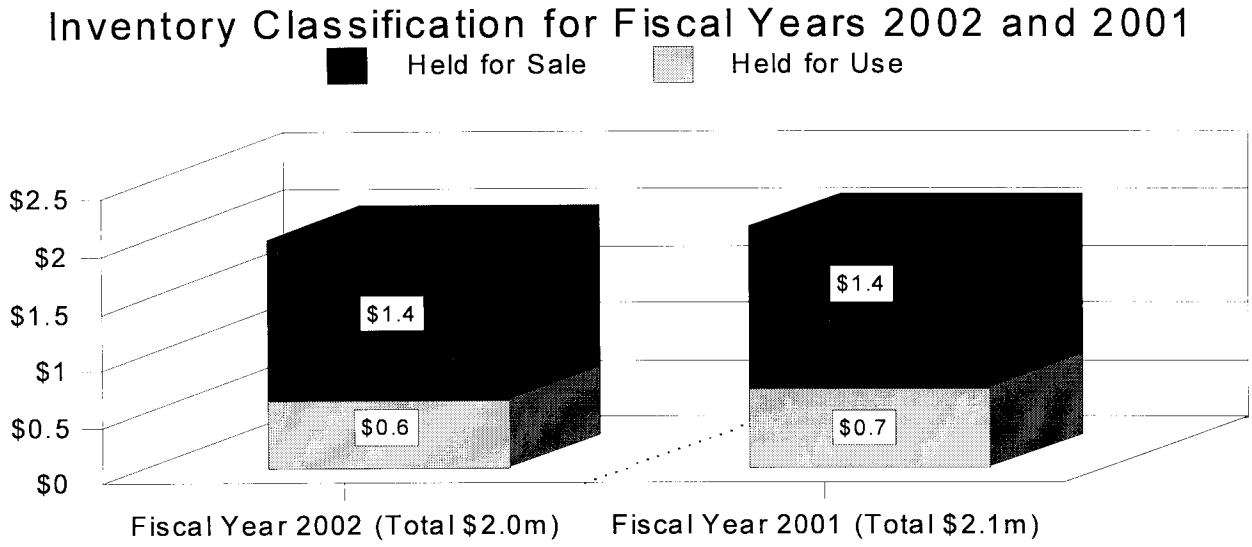
The amounts due in future years, at September 30, at their current discounted value are:

(Dollars in Thousands)

Fiscal Year	2002	2001
2002	-	$6,688
2003	$6,356	2,238
2004	2,233	1,149
2005	690	178
2006	552	338
2007	1,233	-
Total	**$11,064**	**$10,591**

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, 2002 and 2001:

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 the Integrated Support Services Administrative Working Fund are recorded in the reimbursable fund. Property and equipment purchased by FEDLINK, the Federal Research Program, Document Reproduction and Microfilm Service, Audio Visual Services, 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, 2002 and September 30, 2001.

(Dollars in Thousands)

	2002			2001		
Classes of Property and Equipment	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Security Improvements – Leasehold Improvements in-progress	$3,811	0	$3,811	0	0	0
Operating equipment	59,218	$52,735	6,483	$54,233	$45,636	$8,597
Software	9,520	4,841	4,679	7,660	4,110	3,550
Furniture & Furnishings	985	369	616	960	320	640
Capital Leases	1,020	576	444	1,081	508	573
Leasehold Improvements	10,679	8,549	2,130	10,652	7,767	2,885
NLS/BPH Equipment - loan to public	93,920	54,010	39,910	89,576	49,317	40,259
Total	**$179,153**	**$121,080**	**$58,073**	**$164,162**	**$107,658**	**$56,504**

9 *Entity and Non-Entity Assets*

(Dollars in Thousands)

	2002			2001		
	Entity	**Non-Entity**	**Total**	**Entity**	**Non-Entity**	**Total**
Intragovernmental Assets						
Fund Balance with Treasury	$313,542	$1,096	$314,638	$291,525	$41	$291,566
Investments	49,953	656,569	706,522	51,207	555,007	606,214
Accounts Receivable, Net	7,572	4	7,576	5,443	4	5,447
Other Assets				1,759		1,759
Investments	49,365		49,365	59,432		59,432
Accounts Receivable, Net	443	1	444	256	1	257
Pledge Receivable - Donations	11,064		11,064	10,591		10,591
Cash and other Monetary Assets	978		978	700		700
Inventory	2,010		2,010	2,100		2,100
Property and Equipment, Net	58,073		58,073	56,504		56,504
Other Assets	6,076		6,076	35		35
Total	**$499,076**	**$657,670**	**$1,156,746**	**$479,552**	**$555,053**	**$1,034,605**

10 *Leases*

A. Capital Leases

The Library has capitalized leases for machinery and equipment at a net book value of $443,852 and $573,105 as of September 30, 2002 and 2001, 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 2002 and the leases were converted to property, plant and equipment as of September 30, 2002. Estimated future minimum lease payments are as follows:

(Dollars in Thousands)

Fiscal Year Ended September 30	2002	2001
2002	$0	$293
2003	292	239
2004	270	155
2005	179	128
2006	23	0
2007	0	0
Total Future Lease Payments	764	815
Less: Imputed Interest	144	182
Net Capital Lease Liability	**$620**	**$633**

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 2002 and 2001 amounted to $2,626,504 and $2,462,329 respectively. Estimated future minimum lease payments through fiscal year 2007 are as follows:

(Dollars in Thousands)

Fiscal Year Ended September 30	2002	2001
2002		$2,416
2003	$2,578	2,373
2004	2,545	2,394
2005	2,412	2,279
2006	805	739
2007	55	0
Total Estimated Future Lease Payments	**$8,395**	**$10,201**

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 $1,632,452 and $1,741,546 of unbilled or unpaid workers' compensation costs as of September 30, 2002 and 2001, respectively, and established an estimated unfunded liability for future costs based on historical claims rates. The estimated future unfunded liability is $9,086,707 and $9,403,630 as of September 30, 2002 and 2001, 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.

13 *Other Liabilities*

Other Liabilities as of September 30, 2002 and 2001 are comprised of the following:

(Dollars in Thousands)

	2002 Current	2001 Current
Deferred Credits	$2,067	$1,533
Contingent Liability-Heritage Assets	60	0
Accounts Payable – Cancelled Appropriations	2	0
Liability with Treasury Cash in Safe	6	8
Custodial Liability	5	6
Totals	**$2,140**	**$1,547**

14 *Liabilities Covered and Not Covered by Budgetary Resources*

(Dollars in Thousands)

	2002	2001
Liabilities Covered by Budgetary Resources	$730,514	$633,379
Liabilities Not Covered by Budgetary Resources	32,733	31,756
Total Liabilities	**$763,247**	**$665,135**

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.

15 *Unexpended Appropriations*

The components of unexpended appropriations at September 30, 2002 and 2001 are as follows:

(Dollars in Thousands)

	2002	2001
Undelivered Orders	$90,764	$66,249
Unobligated		
(a) Available	132,679	128,183
(b) Unavailable	7,247	7,897
Total Unexpended Appropriations	**$230,690**	**$202,329**

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, 2002 and 2001, for goods and services, which were ordered, but had not been received, by that date.

16 *Eliminations*

A. Balance Sheets

(Dollars in Thousands)

	2002	2001
	Eliminations	**Eliminations**
Assets:		
Intragovernmental		
Accounts Receivable	$1,327	$1,275
Other Assets		
Total Eliminations	**$1,327**	**$1,275**
Liabilities: **Intragovernmental**		
Accounts Payable	$1,328	$1,274
Advances from Others	0	0
Accrued Funded Employee Benefits	(1)	1
Total Eliminations	**$1,327**	**$1,275**

The elimination amounts in this note have been excluded from the corresponding line amounts on the consolidated statements, as these amounts result from intra-Library activity.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2002 and 2001

B. Net Costs

(Dollars in Thousands)

	2002	2001
	Eliminations	Eliminations
Program Costs:		
National Library	$4,655	$4,237
Law Library	107	95
Copyright Office	4,831	5,290
Congressional Research Service	784	741
National Library Service for the Blind and Physically Handicapped	102	130
Revolving and Reimbursable Funds	1,876	1,899
Total Eliminations	**$12,355**	**$12,392**
Earned Revenue:		
Copyright Office	$4,138	$4,283
Revolving and Reimbursable Funds	8,217	8,109
Total Eliminations	**$12,355**	**$12,392**

The elimination amounts in this note have been excluded from the corresponding line amounts on the consolidated statements, as these amounts result from intra-Library activity.

17 *Program Costs by Budget Object Classification*

(Dollars in Thousands)

Consolidated	2002	2001
Personnel Services and Benefits	$348,927	$326,985
Travel and Transportation	3,479	3,053
Rental, Communication and Utilities	8,336	8,054
Printing and Reproduction	6,211	5,944
Contractual Services	177,271	155,430
Supplies and Materials	7,458	7,828
Library Materials	66,710	58,993
Non-Capitalizable Equipment	12,477	17,165
Depreciation and Amortization	22,581	22,382
Grants, Subsidies and Contracts	3,677	5,104
Other Program Costs	47	136
Total Program Costs	**$657,174**	**$611,074**

The Library's collections are classified as "heritage assets", $20,442 and $13,078 of the amount designated as "Library Materials" above represents the fiscal years 2002 and 2001 cost incurred by the Library for "heritage assets".

18 *Program Costs and Earned Revenue by Functional Classification*

Program Costs by Functional Classification - Consolidated

(Dollars in Thousands)

Function Classification	2002	2001
International Affairs		
Commerce and Housing Credit	$56,668	$54,063
Education, Training, Employment and Social Services	493,151	458,075
General Government	107,327	98,868
Income Security	28	68
Other		
Total	**$657,174**	**$611,074**

Earned Revenue by Functional Classification – Consolidated

(Dollars in Thousands)

Function Classification	2002	2001
Commerce and Housing Credit	$23,850	$24,598
Education, Training, Employment and Social Services	69,644	63,853
General Government	38	17
Total	**$93,532**	**$88,468**

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 2002	Intragovernmental		Public		Total
	Production	Non-Production	Production	Non-Production	
National Library	$82,390	($5)	$263,718	28	346,131
Law Library	5,380	1	11,215		16,596
Copyright Office	16,866	28	40,114		57,008
Congressional Research Service	28,511	9	79,845		108,365
National Library Service for the Blind and Physically Handicapped	4,621	1	46,916		51,538
Revolving and Reimbursable Funds	7,654	27	69,858	(3)	77,536
Costs not Assigned to Programs					

(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
Revolving and Reimbursable Funds	7,779	9	63,991		71,779
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 2002 and 2001 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 $59.8 million and $53.7 million of imputed financing for fiscal years 2002 and 2001, respectively, consists of $35.2 million and $30.8 million to offset the recorded costs of the Architect of the Capitol (Library buildings and grounds costs), $0.7 million and $0.6 million to offset the recorded costs of the Government Printing Office (exchange program costs), $23.9 million and $22.1 million to offset the recorded costs of the Office of Personnel Management (staff benefits costs) and $0.2 million in fiscal year 2001 to offset the recorded costs of the Treasury Judgment Fund for settled legal claims for fiscal years 2002 and 2001, respectively.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2002 and 2001

22 *Budgetary Resources*

Budgetary resources are classified as follows:

(Dollars in Thousands)

	2002			2001		
	Appropriated Capital	Non-Appropriated Capital	COMBINED	Appropriated Capital	Non-Appropriated Capital	COMBINED
Budgetary Resources:						
Budget Authority	$490,623	$235,174	$725,797	$519,754	$299,069	$818,823
Unobligated balances - beginning of period	135,985	607,639	743,624	16,542	663,832	680,374
Spending authority from offsetting collections	875	107,929	108,804	(289)	95,423	95,134
Adjustments, net	12,831	473	13,304	1,415	6,909	8,324
Total budgetary resources	$640,315	$951,214	$1,591,529	$537,422	$1,065,233	$1,602,655
Status of Budgetary Resources:						
Obligations incurred, new	$500,412	237,642	$738,054	$401,396	$448,270	$849,666
Unobligated balance - available	133,538	713,490	847,028	128,184	606,315	734,499
Unobligated balance - not available	6,365	82	6,447	7,842	10,648	18,490
Total, status of budgetary resources	$640,315	$951,214	$1,591,529	$537,422	$1,065,233	$1,602,655
Outlays:						
Obligations incurred	$500,412	$237,642	$738,054	$401,396	$448,270	$849,666
Less: spending authority from receipts and adjustments	17,277	109,323	126,600	6,030	103,295	109,325
Subtotal	483,135	128,319	611,454	395,366	344,975	740,341
Obligated balance, net - beginning of period	92,905	42,709	135,614	92,174	45,545	137,719
Less: obligated balance, net - end of period	108,950	40,702	149,652	92,904	42,710	135,614
Total outlays	$467,090	$130,326	$597,416	$394,636	$347,810	$742,446

The net amount of budgetary resources obligated for undelivered orders-unpaid, ending balance, is $117.9 million and $97.3 million, which consists of $84.7 million and $64.5 million of appropriated funds and $33.2 million and $32.8 million of non-appropriated funds for the fiscal years 2002 and 2001, respectively.

In fiscal year 2001, 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.

For trust funds, approximately $9.7 million and $9.1 million of unobligated authority for fiscal years 2002 and 2001, respectively, 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 $72.1 and $69.5 million of restricted authority has been obligated and expended to invest in non-Treasury securities for the fiscal years 2002 and 2001, respectively.

23 *Subsequent Events*

On January 27, 2002, The Faxon Company (a subsidiary of RoweCom, Inc.) filed for Chapter 11 bankruptcy protection. They intend to submit a reorganization plan that calls for the purchase of the company by EBSCO Industries. Faxon, a vendor for the Library's FEDLINK program revolving fund, provides library materials (subscriptions) to participating institutions. The Library has established a claim for unfilled orders totaling $4.2 million. At the time of the preparation of this report, the ultimate liability for the Library or the FEDLINK revolving fund customers is unknown, but the Library believes a substantial portion of the orders will be filled and the claim thereby satisfied.

Stewardship Report

March 2003

Library of Congress

THE LIBRARY OF CONGRESS

STEWARDSHIP REPORT

HERITAGE ASSETS

September 30, 2002

Overview of the Library Collections

The Library of Congress has the world's largest library collection 126 million items, including research materials in over 450 languages and various media. The collections include more than 28 million books and other printed materials, 56 million sheets of manuscripts, 12 million photographs, more than 4 million maps, 5 million pieces of music, 2 million audio recordings, and 900 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 workday 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 of 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. 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 recent map acquisition is the highly prized 1507 world map by Martin Waldseemüeller. One of the great treasures of the world and American history, the map is the earliest known document on which the name "America" appears. During fiscal year 2002, the Library placed its collecting emphasis on documenting the events of September 11, 2001, and the anthrax attacks of October 2001.

Aftermath of Terrorist Attacks. The terrorist attacks of September 11, 2001, occurred in the last month of the previous fiscal year. Library Services staff worked tirelessly throughout 2002 to safeguard the Library's priceless collections, support the Congress and the nation in responding to the attacks, and document and record for posterity the attacks, their causes and impact, and reactions to these tragic events. Library Services, with all other units of the Library of Congress, responded in the early weeks of the new fiscal year by

preparing and communicating with staff in the event of an evacuation or other emergency.

The Library of Congress, the Internet Archive and WebArchivist.org collaborated to create *The September 11 Web Archive*, a digital archive of Web sites relating to the events and immediate aftermath of the terrorist attacks. The archive received the "Site of the Year" award from *Yahoo!*

The American Folklife Center called upon folklorists and other cultural specialists across the nation to document on audiotape the thoughts and feelings expressed by average citizens in reaction to the tragic events of that day. The September 11, 2001, Documentary Project includes audio-taped interviews and supporting materials that present the personal experiences of average Americans in the wake of the terrorist attack. In addition, the collection includes photographic documentation of the memorial tributes that sprang up near the Pentagon and at the site of the World Trade Center disaster. These recordings and supporting documentary materials have become part of the Center's Archive of Folk Culture, and were used in the Library of Congress exhibition "Witness and Response: September 11 Acquisitions at the Library of Congress."

On the afternoon of September 11, 2001, the Serial and Government Publications Division began collecting U.S. and foreign newspapers that recorded the immediate horror of the day. By the first anniversary commemorating September 11, the Division had collected thousands of newspapers for the Historic Events Newspaper collection, and continued to solicit additional missing issues through copyright deposit, acquisition, and gift, including a plea for particular issues on an LC cybercast presentation about the September 11 attacks.

The critical importance of the Library's unparalleled international collections after the terrorist attacks was highlighted by two discoveries. The first was the discovery and translation of a 1991 memoir by Osama bin Laden recounting his experiences fighting the Russians in Afghanistan. This prophetic publication, titled (in translation) *The Battles of the Lion Den of the Arab Partisans in Afghanistan*, was found by an alert specialist in the African and Middle East Division who promptly translated and made it available for use by the Congress and various government agencies. The second was the media's discovery on the Library's Website of a 1999 study by the Federal Research Division titled *The Sociology and Psychology of Terrorism: Who Becomes a Terrorist and Why?* The study predicted, two years in advance, that a member of al Qaeda might indeed crash an aircraft into the Pentagon, CIA headquarters, or the White House. The report was mounted on the Library's website and by the end of the fiscal year it had received 103,000 hits.

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 Library publishes the Collection Policy Statements on its website, providing immediate access to them for staff and other research institutions.

The Collections Policy Committee of the Library reviews the allocation budgets for acquisitions and travel for the purpose of acquiring materials. 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.

Digital Preservation – A primary focus of the Library's efforts concerning digital preservation in fiscal 2002 was planning for the development and implementation of a congressionally approved National Digital Information Infrastructure and Preservation Program (NDIIPP). The program is funded by a fiscal 2001 appropriation of $99.8 million from the U.S. Congress. The goal of the NDIIPP program is to encourage shared responsibility for digital content and to seek national solutions for the continuing collection, selection, and organization of historically significant cultural materials regardless of evolving formats; the long-term storage, preservation, and authenticity of those collections; and persistent, rights-protected access for the public to the digital heritage of the American people. Developing the NDIIPP plan began with a yearlong, nationwide, fact-finding effort and included four major activities: consultation with stakeholders in the archival and information technology community, background research, scenario planning, and defining the components of the digital preservation infrastructure. Details of NDIIPP are now available on the program's new Web site at **www.digitalpreservation.gov**.

During fiscal 2002, the National Digital Library (NDL) program continued to receive widespread acclaim as a provider of free, high-quality, educationally valuable American cultural and historical resources on the Library's American Memory Web site. Digital conversion activities at the Library of Congress are the product of an integrated program coordinated by the Public Service Collections, Area Studies Collections, and the Office of Strategic Initiatives in cooperation with other Library divisions and other repositories. At year's end, more than 7.8 million items from the Library of Congress and other institutions were available online or in digital archives.

Building the Digital Collection - During fiscal year 2002, the Library continued its three-prong approach to making digital materials available to researchers: 1) born digital materials are acquired for the permanent collections; 2) born digital materials are accessible in the Library but they are archived elsewhere; and 3) digital copies of tangible materials are created or acquired by the Library. During the year, the Library acquired approximately 30,000 web sites through its MINERVA web preservation project. Event based collections were developed, which included sites related to September 11, 2001, the 2002 Olympic games, and the 2002 midterm election. A multi-disciplinary team representing the cataloging, legal, public services and technology services continues to study methods to evaluate, select, collect, catalog, provide access to, and preserve these materials for future generations of researchers.

Digitizing of endangered sound recordings as part of the Save Our Sounds preservation project continued. The Audio-Visual Digital Protyping Project refined a digital object metadata system that captured METS (Metadata Encoding and Transmission Standard) digital object metadata in Oracle and Java applications hosted by the Library. More than 500 METS digital objects were added to the database.

NBC News gave the Library authorization to mount all NBC Radio Collection news broadcasts on the Library's Web pages.

New initiatives for the National Preservation Boards and Foundations this year included the National Film Registry Website. The National Recording

Preservation Board convened for the first time in March 2002. The Motion Picture, Broadcasting and Recorded Sound Division laid the groundwork for an Internet-based Moving Image Gateway, a collaborative project of the Association of Moving Image Archivists and the Library of Congress. A $900,000 National Science Foundation grant, announced in September, would fund the two-year development of the Web portal (now known as MIC [Moving Image Collections]), which would eventually be hosted by the Library of Congress.

The full integration of digital library activities into other processing and cataloging work resulted in many additions to the Prints and Photographs Online Catalog . In fiscal 2002, 120,926 new digital images were added to the catalog for a new total of 958,307 images accessible worldwide via the Internet.

The Library acquired from ProQuest Information and Learning access to the Digital Sanborn Maps, 1867 - 1970 website which provides digital access to 700,000 large scale maps documenting structures in more than 12,000 American towns and cities. This electronic database was created from a microfilm copy of the Sanborn fire insurance map collection held in the Library of Congress.

The Digital Acquisitions Project pursued the double goals of establishing electronic resources as a standard component of the research materials acquired for the Library's collections, and utilizing electronic commerce technology in support of standard business practices. During the fiscal year all the e-journals available at the Library were put under the control of a single electronic journals management system. By the end of the year, 15,000 LC electronic journals were accessible. The Project group developed model e-journal licensing agreements to cover instances in which the Library sought to gain (1) access only, (2) the right to download, provide access from a Library server, and permanently archive, and (3) a combination of options (1) and (2). At year's end, agreements to acquire a significant collection of Russian electronic journals and newspapers, as well as the electronic publication collection of the Organization for Economic Cooperation and Development and the World Bank were nearly complete.

Bibliographic Enrichment Activities. The Library initiated research and development to increase the value to users of cataloging products. During the year, more than 40,000 catalog records were enriched with electronic tables of contents (TOC). It also enhanced online bibliographies and provided direct access from the Library of Congress Online Catalog to full electronic text of more than 7,000 working papers and research monographs.

The ONIX Descriptions project, launched this year, reciprocally linked publishers' online descriptions of books to bibliographic records in the Library of Congress Online Catalog. The project created approximately 27,600 records in fiscal 2002. The Web Access to Works in the Public Domain project linked bibliographic records for selected works that the Library holds in print to full-text electronic copies in trusted repositories. The initial implementations of this project resulted from cooperative agreements with the University of Michigan for materials digitized in its *Making of America* project, and Indiana University for works in its *Wright American Fiction, 1851-1875* project.

The project enhanced printed library bibliographies by placing them on the Web in electronic form, adding and linking annotated citations, tables of contents, indexes, and back-of-book bibliographies cited therein. Completed during this year were two bibliographies on Thomas Jefferson and five separate parts of a large-scale undertaking on Immigrant Arrivals to the United States.

International Digital Projects. In cooperation with the National Digital Library, the European Division continued to manage the joint United States-Russia *Meeting of Frontiers* project. The fifth and sixth expansions of the *Meeting of Frontiers* Website were completed in January and September 2002, and featured additional items from the collections of the Library of Congress, the Russian State Library in Moscow, the National Library of Russia in St. Petersburg, and seven institutions in the West Siberian cities of Kemerovo, Novosibirsk, Omsk, and Tomsk. The site contained more than 111,000 digital items, including 6,800 digitized from the Library of Congress collections. Scanning activities continued in Western Siberia and the Russian Far East.

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The European Division also continued to represent the Library of Congress on the International Committee for the Computerization of the Comintern Archive (INCOMKA) and to manage the Library's participation in the Comintern digitization project. The Russian partner reported that it had completed scanning of the one million images specified in the project plan.

The Hispanic Division and the Librarian's Office began collaboration with the National Library of Brazil on a project to digitize historical documents about Brazil and its relationship with the United States, focusing on the nineteenth century. The division continued to select materials for inclusion in a cooperative Website with the National Library of Spain called *Spain, The United States and the American Frontier: Parallel Histories.* Digitization of the Library's Sir Francis Drake collection was almost complete at year's end.

The online Portals to the World project was almost halfway completed, with approximately 100 portals mounted. A wide range of Web sites link to the site, an indication of its relevance to international organizations, government agencies, academic institutions, academic librarians, public libraries, schools and others.

Standards Setting. A traditional role of the Library of Congress within the library community is that of standards development and bench marking. In fiscal 2002, the Library developed a standard XML version of the MARC 21 format, and an accompanying tool box of transformations using the MARCXML schema that will assist libraries trying to take advantage of the XML environment for digital resources. The Library led development of the Metadata Object Description Schema (MODS), a simpler XML companion to MARCXML that is targeted especially for digital resource description. It carried out development and maintenance agency responsibilities for Version 1.1 of the Metadata Encoding and Transmission Standard (METS) for digital object metadata, an important component of digital repository management that is being rapidly taken up internationally. It developed the Metadata for Images in XML schema (MIX), a companion schema to METS, that carried technical metadata for still images according to the National Information Standards Organization (NISO) standard data dictionary for them.

Other accomplishments included finalizing the specifications of the Z39.50-International Next Generation (ZING) protocols that will evolve the widely implemented Z39.50 information retrieval protocol to a new Web-definition service. The Library created a Spanish interface for the MARC 21 Web site to serve the increasing numbers of South American users of the format; and completed agreements and format changes needed to bring the British Library into a partnership with the Library of Congress and the National Library of Canada for the MARC 21 formats, making possible a greater sphere for sharing data.

Digital Reference. The Library launched QuestionPoint, a new online reference service, in collaboration with the OCLC Online Computer Library Center of Dublin, Ohio. The QuestionPoint service provides library users with access to a growing collaborative network of reference librarians in the U.S. and around the world, through their local libraries' Web sites.

A "live chat" reference service was provided from the Library's online reference service called, "Ask a Librarian" at www.loc.gov/rr/askalib which allows users to send questions and receive answers by email. The service was supported by the Library's new QuestionPoint software.

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 2002, research materials obtained for the collections through copyright deposits totaled 896,504 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.

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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 2002, the Library obtained 67,971 titles through the two programs.

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 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 2002, the Library received approximately 163,138 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:

	1998	1999	2000	2001	2002
Annual Appropriations Authorized	$ 9,619,000	$ 10,119,000	$ 10,321,000	$ 10,456,000	$ 15,824,474
Estimated Value of Copyright Deposits Transferred to the Library	$ 26,991,776	$36,435,429	$ 32,308,047	$ 31,857,394	$ 31,302,048
Government Printing Office Appropriation (part of Superintendent of Documents) for International Exchange	$ 444,000	$ 527,000	$ 687,000	$ 630,000	$ 718,000

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Acquisitions by source:

Source	Pieces 1998	Pieces 1999	Pieces 2000	Pieces 2001	Pieces 2002
Purchases:					
Appropriated - GENPAC/LAW	676,287	776,712	811,566	711,133	897,193
Appropriated Other	55,303	45,601	54,024	55,564	34,397
Special Foreign Currency	47,294	0	0	0	0
Gift and Trust Funds	3,028	4,076	8,090	4,514	393
Total Purchases	781,912	826,389	873,680	771,211	931,983
Non-Purchases:					
Exchange	313,224	288,538	249,954	211,107	163,138
Government Transfers	538,611	116,088	124,142	126,590	179,088
Gifts	1,577,561	1,709,712	965,364	1,760,344	864,398
Cataloging in Publication/PCN	72,283	79,046	68,416	71,963	67,971
Copyright Deposits	845,826	954,081	751,944	728,034	896,504
Total Non-Purchases	3,347,505	3,147,465	2,159,820	2,898,038	2,171,099
Total All Acquisitions	4,129,417	3,973,854	3,033,500	3,669,249	3,103,082

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 2002, 1,126,598 items in the Library's collections were preserved at a total cost of $11,205,276. The average per-item cost was $9.95.

Notable accomplishments included the provision of 30,000 hours of conservation for custodial division collections, including the selection and stabilization of 220 items for American Memory; the successful completion of the first year of a five-year preventive preservation initiative; deacidification of 150,000 books and the installation of a flat sheet mass deacidification treatment device in the Library that will rescue one million books and five million manuscripts over a five-year period; completion of the first year of a multi-year project to determine the life expectancy of compact disc (CD) media; the preservation microfilming of 2,334,737 exposures (4.7 million pages) to be served to the public, and the development of a Request for Proposal (RFP) for preservation digitizing.

Digital preservation activities included hosting visits to LC by national and international digital preservation experts and contributing to the efforts of the National Digital Information Infrastructure and Preservation Program.

The preservation staff participated in the work of the Library's Emergency Management Team and the Collections Security Oversight Committee. Guidelines for responding to water-related emergencies were revised; key areas in the Preservation Office were recommended for security upgrades; and a review of platinum level items was coordinated with the director for Acquisitions and curators. Space was secured should the Library decide to move certain collections

off Capitol Hill and work continued with the Architect of the Capitol to construct a high security vault with a state-of-the-art preservation environment. To enhance emergency preparedness, the Library deployed 100 collection emergency response kits and commissioned the purchase of a mobile flash freezer unit to stabilize water damaged library materials.

The preservation Beeper Team responded to ten water-related incidents during fiscal 2002. Their quick response substantially reduced damage to collections.

The anthrax attack on the U.S. Capitol caused the Library to learn more about the effects of biohazard remediation on library materials. Working in collaboration with the Environmental Protection Agency, sample library materials in various housings were placed into a chlorine dioxide chamber, exposed, and then evaluated for damage. The results of these tests were shared with the Architect of the Capitol and with LC officials involved in biohazard remediation.

To support the Library's digital preservation efforts, the Directorate developed a technical plan for a digital preservation lab and program. The plan focused specifically on the development of digital reformatting capabilities and methods for evaluating technical approaches to the preservation of born digital information. The program involved development of a laboratory to test approaches to preserving digital content. The lab would also serve as a training center for staff and interns and function as a clearinghouse for information related to digital preservation.

To better understand the life expectancy of digital media (CDs, digital video disks (DVDs), etc.), the Library continued its study into CD aging, with a report of findings for the first phase of this work to be issued early in the next fiscal year.

To support the off-site storage of LC collections, a program to preserve, package, and label items continued in advance of their relocation to the storage facilities at Culpeper, Va., and Fort Meade, Md.

Working under time constraints, brought on by the need to vacate a leased storage facility in Suitland, Maryland, Library staff relocated 250,000 pieces of flat film and 10,000 reels of nitrate film from Suitland to Wright - Patterson Air Force Base in Dayton, Ohio.

In fiscal 2002, the Library implemented the first year of a five year special project to preserve 'at-risk' collections, improve environmental storage conditions, develop specifications for storage furniture, and conduct a pilot project into paper strengthening.

The Library completed the third year of an environmental monitoring project with Image Permanence Institute (IPI) to optimize collection environments using existing equipment. Temperatures in the Rare Book and Special Collections Division were lowered slightly, an adjustment that was expected to add approximately twenty additional years of life to the materials stored in this area. Library staff continued to work closely with the Architect of the Capitol in improving conditions in all storage areas and assisted in the deployment of additional environmental sensors and data loggers in key stack locations.

Conservators treated more than 7,000 rare books, manuscripts and photographs and provided preventive housing for more than 270,000 items from eleven custodial divisions. Treatments included 4,551 unbound paper items and photographs and 2,653 volumes and sheets. Additionally, 9,465 items were housed or rehoused.

Individual rare items treated included the 1507 Waldseemuller Map of the World (Cosmographia Mundi); three volumes of the Gutenberg Bible and two volumes of the Mainz Bible (both digitized by the Octavo Corporation); 37 ancient cuneiform tablets; one of the Library's oldest Armenian Gospels; the Megilat Esther scroll; items from the Joseph Pennell collection; an important medieval music manuscript on vellum sheets that was conserved and bound in wooden boards with alum tawn skin; early music books; Herblock cartoons; and watercolors of the White House and Capitol following attack by the British.

Notable preventive treatments completed during the year included housing and/or rehousing over 4200 items, such as 130 large size maps and books from Geography and Map Division; treatment of an over-sized collage of Playbills from the Roger Stevens collection for an exhibition; and assistance in reboxing

all collections in the Music Division's processing area to recover from an insect infestation.

More than 1,000 unbound and 400 bound items from ten collections in five divisions were reviewed and treated prior to digitization. These included the Wright Papers, the Captain Reynolds Papers, the *Freedom's Fortress* website materials, State Songs, National Anthem materials, Civil War Sheet Music, the Edison Collection, the North American Woman's Suffrage Association Collection, material from the Kraus Collection, and pamphlets, diaries, letters and other rare items for the *African American Odyssey* website.

In the first year of an initiative to preserve 'at-risk' collections by replacing acidic housings with permanent and durable enclosures, more than sixty collections from eleven divisions were selected for rehousing. By the close of the fiscal year, approximately 3,000 items had been successfully rehoused, including materials from the Theodore Roosevelt Collection, the Opera Libretto collection, and the early U.S. newspaper collection.

Research on the efficacy of paper strengthening was launched during fiscal 2002 by forming an advisory committee charged with assisting the Library in evaluating commercially available paper strengthening processes. A pilot project was planned to select materials that might benefit most from paper strengthening.

The Library continued its successful program hosting fifteen conservation interns from two U.S. graduate programs (Winterthur and University of Texas) and Argentina, Armenia, Brazil, India, Italy, Japan, Russia, South Africa, and Switzerland. Four staff education and user awareness workshops were held for 100 staff in the American Folklife Center and the National Digital Library. The Library's Conservation staff presented over 20 lectures and workshops in the U.S. and ten other countries.

Binding and Collections Care. In fiscal 2002, the Library labeled a total of 167,939 volumes, quality reviewed 218,950 volumes, and prepared 105,685 volumes for binding. The total number of volumes sent for commercial binding during the fiscal year was 225,635. Contractors processed 35,019 monographs and 47,871 serials. The staff of the Cataloging Directorate continued to collaborate on the labeling of items.

Research and Testing. Research in the preservation laboratory on the development of a new accelerated aging test yielded new evidence regarding the reaction mechanism by which paper ages.

The recipe for a new cleaning solution developed by the Library's Research and Testing Division was made available via the Preservation Directorate's Web site. This one-step cleaning solution offered the public and the audio preservation community an effective and convenient solution to cleaning records of various types.

The Library continued to work in the development of preservation standards: a new accelerated aging test for paper was developed jointly with the Canadian Conservation Institute, based entirely upon findings developed in LC laboratories, which has now been accepted by the American Society for Testing and Materials (ASTM) as a new standard (ASTM D6812-02); with the Association for Image and Information Management's (AIIM) Standards Board, a PDF (Portable Document Format) standard, "PDF-A," for archival or permanent documents. A Library staff member chaired the ASTM Subcommittee D14.50 for Hot Melts, Pressure Sensitive and Archival Adhesives, to develop international standards for label and pressure-sensitive adhesive materials for libraries and archives. Staff also continued to develop specifications for permanent and durable materials to house Library collections. Work this year included specifications for pressure-sensitive adhesive products intended for theft detection strips for books and video cassettes.

Preservation Reformatting. The preservation microfilming program produced 2,334,737 exposures (4.7 million pages) on preservation-quality microforms for service to the public. Materials reformatted included numerous American, Middle Eastern, European, and Asian-language newspapers; Copyright Playscripts; and Law Library periodicals. In addition, the Library worked with the Photoduplication Service to process brittle materials for filming, collating over 666,000 pages of foreign language newspapers, including 400,000 in the Arabic language. The Paper Facsimile Copy Program replaced 97 embrittled

reference volumes from the Library's reading rooms with preservation-quality, acid-free paper facsimile volumes bound to the Library's standards.

The digital preservation reformatting program instituted digitization of books requested for interlibrary loan and completed digitization of a set of Memorial Volumes for the Humanities and Social Sciences Division, adding 5,300 images to the Library's digital collections. Through affiliation with Harvard University's Arnold Arboretum, Preservation Reformatting Division received a 24,000 term computerized index to *Garden and Forest*, a 19th century horticultural journal previously digitized by the Library, and also added five scholarly essays to the website for that publication.

Mass Deacidification. Since the 1970's, the Library has provided international leadership in solving the worldwide problem of deteriorating, acidic paper. With a successful mass deacidification program in place since 1996, the Library has extended the useful life of more than 550,000 books through utilization of this new preservation technology that neutralizes the acid in paper. In fiscal 2002, the Library treated 150,000 books, achieving the second year goal of a five-year contract that would enable the Library to deacidify 1,000,000 books. Initiating another important objective of its Thirty Year (One Generation) Mass Deacidification Plan, the Library negotiated with the deacidification contractor to build a new single-sheet treatment cylinder at the contractor's expense. This equipment, installed at the Library late in fiscal 2002, will permit deacidification of 1,000,000 pages of non-book, paper-based materials annually, including non-book collections materials that are too valuable to be transported to the vendor's plant.

United States Newspaper Program. The National Endowment for the Humanities (NEH) announced United States Newspaper Program (USNP) grant awards totaling $1.7 million in fiscal 2002 to fund projects in four states: Illinois, Michigan, New York and Tennessee. State projects were completed in Connecticut, the District of Columbia, and Oregon. Active projects continue in Arizona, California, Illinois, Michigan, New York, Tennessee, and Virginia. To date, NEH has provided $48.2 million in support of USNP projects. Non-federal contributions total approximately $19.3 million. Completed and current projects would produce records of 163,600 newspaper titles and would microfilm 63.3 million pages of newsprint by the conclusion of all projects.

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Preservation statistics for fiscal 2002 are as follow:

Treatment:	
Volumes treated	5,179
Unbound items treated, paper-based	4,459
Photographs (examined, treated, housed)	250,052
Commercial library binding, volumes	225,635
Mass Deacidification, Volumes (3rd contract year)	150,000
Housing/Rehousing:	
Protective boxes constructed	12,070
Items rehoused, paper-based	9,465
Copying/Reformatting:	
Preservation photocopying	67
Paper-based materials converted to microfilm, exposures	2,334,737
Audio materials converted to magnetic tape, titles	4,396
Paper based materials converted to digital image	5,300

Service

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

To use Library collections, researchers identify the items they want through on-line and card catalogs, finding aids, and bibliographies. To request items, readers first register with photo-identification, and then may submit call slips to the staff, who retrieve the items from the secured collections storage areas and deliver them to the reader. In fiscal 2002, the Library issued reader registration cards to 37,828 new on-site readers. The Loan Division is responsible for retrieving, packaging, and preparing loan charge records for materials that circulate outside the Library. In fiscal 2002, 100,764 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.

Previous editions of this report have highlighted 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.

Baseline Inventory Program. The Baseline Inventory Project to inventory collections in advance of the move to offsite storage began during the year included preparation and award of a Request for Proposal; planning and outfitting of work space in the Jefferson and Adams buildings; testing of workflow scenarios; and documentation of procedures and creation of a training manual. The contractor started work on September 16, 2001. Using Library staff and temporary appointees, the project was able to inventory 109,129 volumes. Of these items, 4.65% or 5,074 volumes required problem resolution. Planning continued to expand the inventory to all collections over the next eight years.

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 328,362 volumes in the general collections and incoming materials in the Copyright Office. Since 1992, targets have been installed in 7,800,991 collection items or 65 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.

Two new security vaults were planned, for the Geography and Map and Music divisions. The Architect of the Capitol gave approval for the construction of the Secure Storage Area (SSA) on the microfilm deck to house all 18th- century newspaper and comic book "Gold" collections in the custody of the Serial and Government Publications Division. The outdated Suitland Film Vaults were closed and all holdings transferred to the environmentally stable and physically secure nitrate preservation facility at Wright-Patterson Air Force Base in Dayton, Ohio.

On January 1, contract security guards were hired to monitor the security of the collections and facilities of the Science and Business Reading Room and the Computer Catalog Center on the fifth floor of the John Adams Building. In July, a contract security guard station opened inside the Newspaper & Current Periodical Reading Room, in addition to cameras, Kno-go gates, and theft tags that were in place.

During this fiscal year, the Office of Security in collaboration with the Collections Security Oversight Committee inaugurated a Site Assistance Visit to improve collections security. The program's objectives are to: strengthen the Library's security, enhance staff awareness of best security practices and the Library's collections security program, provide a follow-up mechanism for divisions that have participated in a formal risk assessment conducted by outside auditors, and address control weaknesses and shortfalls identified in the 2002 collections security audit conducted by the Library's Office of the Inspector General.

During the fiscal year, a team composed of a security expert and a librarian visited and briefed five of the Library's divisions.

Arrearage Reduction

The Cataloging Directorate of the Library of Congress achieved extraordinary success in fiscal year 2002, overcoming the difficulties of the year to produce more catalog records than ever before, provide leadership to the national and international cataloging communities, foster professional development and advancement, and collaborate with other units for the benefit of the entire Library.

The Cataloging Directorate and Serial Record Division (SRD) achieved record high production in fiscal 2002, processing more than 300,000 items for the first time in their history. Staff cataloged 310,235 bibliographic volumes on 291,749 bibliographic records, at an average cost of $94.58 per record including fringe benefits and overhead costs--a significant improvement over the average cost of $122.60 per record in fiscal 2001. In addition, the Cataloging Directorate created 41,776 inventory-level records for arrearage items.

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This extraordinary production occurred despite three weeks of production lost to the anthrax-related closure in October and the Voyager software upgrade in February. The increased production reflects improved productivity, careful monitoring of arrearage and work on hand, the use of automated copy matching services, and streamlined and innovative workflows. Productivity increased through full implementation of the core-level record as the base level of cataloging for all teams and the use of data from the 955 field of every bibliographic record to increase individual accountability. To streamline work flows, cataloging teams instituted "assembly lines" to process older items that were about to age into the arrearage. The Music and Sound Recording Teams, Special Materials Cataloging Division, implemented a new workflow using the RetroCon batch automated searching service from OCLC, Inc., for the approximately 30,000 new CD-ROM sound recordings received each this year.

The Veterans History Project received 3,210 collections and 1,934 were processed and entered into a multiple access-point database. In the Geography and Map Division, a total of 17,575 maps were controlled by 5,815 bibliographic records and a total of 777 atlases were controlled by 623 records. Additionally, the division completed processing ninety percent of the 350,000- item transfer from the National Imagery and Mapping Agency in fiscal 2000. The Manuscript Division Preparation Section processed 879,539 items, a decrease of 5.2 percent from the 927,806 items cleared in fiscal 2001, attributable to staff transfers and a concentration on smaller, more complex collections and additions; 116 new collections were processed, including the papers of Daniel Patrick Moynihan, Sigmund Freud, Lucy Kroll, and Giles Rich.

The total sound recording arrearage in the Motion Picture, Broadcasting and Recorded Sound Division was reduced to approximately 900,000, the lowest level since the arrearage project began in 1989. For moving image materials, 145,628 items were cleared on inventory records, and nearly 5,000 arrearage items were processed through efforts of two staff detailed from Conservation Division in the fourth quarter.

The Recorded Sound Processing Unit developed a workflow system with the MBRS Recording Laboratory in which all recordings preserved receive initial bibliographic control in the LC ILS before preservation and complete records after preservation. There was no systematic program for control of preservation work until this project was developed. The system was further developed to include creation of Metdata Encoding and Transmission Standard records for the collections digitally preserved.

In the Music Division, 335,478 items were cleared from the arrearage, including 102,567 from the Irving Berlin collection and 169,805 from the Theodore Presser Music Company Archives.

Arrearage statistics for fiscal 2002 are as follows:

Items in Arrearage	2001	2002	Change	Percent Change
Print Materials	1,290,415	577,963	- 712-542	(55.2)
Special Materials	19,852,565	19,517,045	- 335,520	(1.7)
Total	21,142,980	20,095,008	-1,047,972	(5.0)

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.

THE LIBRARY OF CONGRESS

Stewardship Report

Estimated Quantity of Each Category of Collection Materials at September 30, 2002:

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	18,631,989	362,696	1,411	18,993,274	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.	9,627,965	70,298	2,378	9,695,885	
Total Print Collections	28,259,954	432,994	3,789	28,689,159	

Stewardship Report

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	95,987,648	1,532,811	148,638	97,371,821	Acquisitions: Copyright deposits, purchase; exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA.
Total Collections	124,247,602	1,965,805	152,427	126,060,980	

Management Report

March 2003

Library of Congress

THE LIBRARY OF CONGRESS
MANAGEMENT ASSERTION ON CONTROLS
FOR THE COLLECTIONS

Fiscal Year Ended September 30, 2002

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 more than 126 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 available as soon 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 the entire Library's audiovisual 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 began in FY 2002 while preparation continued on additional modules. As part of the security supplemental appropriated in the wake of the September 11, 2001 tragedy, the Library is authorized to work with the Architect of the Capitol on the design of and site selection for a high security off Capitol Hill storage facility for its highly valued collections.

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 leading to deacidification, storage, audio preservation; studies of longevity of new digital media, etc.; and special Congressionally-mandated preservation programs such as the National Film and Sound Preservation Boards, American Television and Radio Archive, and the National Recording Preservation Board.

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, 2002, 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 initiated the first year of a multi-year effort to conduct an inventory of the general collections. 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, 2002, the Library had reduced the arrearage count of print materials to 577,963 items but an influx of newly acquired materials for the non-print collections increased the total arrearage to 20,095,008 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 shelf list of printed books. The conversion of the active serials check-in file was 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 move of collections into the 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 2002, 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 as a part of the Library's overall information technology security.

The Copyright Office is using laser-engraving equipment to mark compact disks (both music and computer) and audio and videocassettes 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.

Donald L. Scott
Deputy Librarian of Congress

Report of Independent Auditors

March 2003

LIBRARY OF CONGRESS

UNITED STATES GOVERNMENT LIBRARY OF CONGRESS

Memorandum ***Office of the Inspector General***

TO: James H. Billington
Librarian of Congress

March 13, 2003

FROM: Karl W. Schornagel
Inspector General

SUBJECT: Results of the Library of Congress FY 2002 Financial Statements Audit

The independent firm of Kearney & Company, retained by the Office of the Inspector General to audit the Library of Congress' FY 2002 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, and compliance with laws and regulations. A separate report (also attached) addresses Library management's assertion about the effectiveness of internal control over safeguarding collection assets.

We are pleased to report for the seventh 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 reportable conditions,[1] a reportable instance of noncompliance with laws and regulations, and limitations in internal control over collection assets. The following paragraphs 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 although there are two reportable 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 does not comply with the 1987 Computer Security Act. Specific needed improvements include documenting the Library-wide IT security program, updating risk assessments, implementing a certification and accreditation program, enhancing application change and system development controls, improving controls over access to the Library's data center, updating logical access controls, segregating the assignment of IT security duties, and completing a computer security awareness training program.

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 an agency-wide disaster recovery plan, establish data center emergency response and processing procedures, relocate its alternate computer processing facility, and develop written policies for performing data backups.

[1] According to federal financial audit criteria, audit findings are classified as to their significance. A 'reportable condition' in the auditor's opinion represents a deficiency in the design or operation of an internal control which could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with assertions made by management in the financial statements. 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 misstatements in amounts that would be material in relation to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

Compliance With Laws and Regulations

There is one reportable instance of noncompliance. During FYs 2002 and 2001, 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 Section 3 of these financial statements a stewardship report, and makes an assertion in Section 4 about the effectiveness of the internal control over collection assets.

The auditors evaluated internal controls over collection assets according to attestation standards[2] by examining, on a test basis, evidence supporting management's assertion and performing such other procedures as they considered necessary in the circumstances. The auditors believe that because of inherent limitations in internal control, unauthorized acquisitions, use, or disposition of collection assets may occur and not be detected, and that the Library fairly represents that it cannot assert that collection inventory controls are fully implemented for the in-processing and in-storage life cycles as of September 30, 2002.

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

Attachments

cc: Deputy Librarian
Director, Financial Services

[2] The auditors' evaluation of internal control over collection assets took the form of an attestation engagement rather than an audit as defined by the American Institute of Certified Public Accountants. This type of engagement involves the application of a reasonable level of examination to 'attest' to the assertion about internal control made by management. Forming an opinion on these controls is not formally part of the financial statement audit because collection assets are not reported on the balance sheet.

Independent Auditor's Report

Inspector General, Library of Congress

We have audited the accompanying consolidated balance sheet of the Library of Congress (Library) as of September 30, 2002, and the related consolidated statements of net costs, changes in net position and financing, and combined statement of budgetary resources for the year then ended. These consolidated financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that the Library's consolidated financial statements for the year ended September 30, 2002 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in no material weaknesses. The following items were identified as reportable conditions:

- Security Practices over Information Technology Systems Need to be Improved
- The Library Lacks a Comprehensive Disaster Recovery Program.

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

- Noncompliance with Congressional Accountability Act of 1995.

As a result of our examination of management's assertion, which is presented in Section 4, we concluded that management fairly stated the following control weaknesses:

- 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, 2002, for all of the Library's collections.

- The Library and management cannot assert that Library Collections inventory controls are fully implemented during the in-processing and in-storage life cycles as of September 30, 2002.

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The following sections discuss our opinion on the Library's consolidated financial statements, our consideration of the Library's internal control over financial reporting, our tests of the Library'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 consolidated balance sheet of the Library as of September 30, 2002, and the related consolidated statements of net costs, changes in net position and financing, and combined statement of budgetary resources for the year then ended. These consolidated financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the Library of Congress as of September 30, 2001, were audited by other auditors whose report dated February 27, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, the fiscal year 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 2002, and its net costs, changes in net position, budgetary resources and financing for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements referred to in the first paragraph. The information in the Management's Discussion and Analysis and the Stewardship Report is not a required part of the Library's consolidated 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 consisted 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Library's internal control over financial reporting by obtaining an understanding of the Library'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 our 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 Library'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 noncompliance may nevertheless occur and not be detected. However, 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.

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

There are several areas regarding the entity-wide security program that need to be improved. This entity wide security 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 is potentially 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 not documented.** The Library of Congress does not have a documented entity-wide security program in accordance with the Computer Security Act of 1987. The lack of an entity-wide security program may expose information resources to intentional or unintentional loss, impairment, destruction, or malicious damage.

- **Risk Assessment is outdated.** The Library of Congress last performed a risk assessment of the information technology environment in April 1997. In accordance with the National Institute of Standards and Technology (NIST) guidelines, a risk assessment should be re-evaluated every three to five years in order to determine changes and continuing areas of weakness in the technology environment. NIST also requires that a target date of completion be set as a risk assessment becomes outdated. The Library has not set such a date.

- **A certification and accreditation program is not in place.** Application controls do not include a program for the certification and accreditation of programs and applications utilized at the Library of Congress.

- **Application change and system development controls require enhancement.** 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 destructive code could be introduced.

  - There are no written standards to control production programs as they progress through testing to implemention. The lack of controls may result in inefficient or inadequate testing or an introduction of production programs that do not meet management's criteria.

  - There are no written procedures for program, application, or emergency change control.

- **Access control weaknesses related to the data center.** 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. During our review of access controls, we found that:

  - No formal procedures have been developed addressing physical access to the data center, including procedures for assigning data center access badges to maintenance staff and other third party contractors.

  - Entry to and exit from the Library's data center by visitors, third party contractors and housekeeping staff is not closely monitored. The visitor's log is consistently missing various pieces of information, including initials of the escorting party, and entry and exit times. In addition, we accessed the data center for audit purposes without being asked to sign the visitor log.

  - There are no maintenance logs to verify that scheduled maintenance of the Library's data center equipment had been performed, including documentation of the testing of the center's fire and smoke detectors, sprinklers and fire extinguishers.

- **Logical access control weakness.** The security package that protects the financial application is obsolete and is no longer supported by the vendor.

- **Segregation of duties should be enhanced.** Work responsibilities should be segregated so that one individual does not control more than one critical stage 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. 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. 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 administrators of one of the Library's financial support sub-systems: authority to customize configuration settings, set up users in the application, initiate user passwords, build profiles, add, modify, and delete user profiles, and add, modify, and delete financial data. The administrator activity is not logged or monitored.

  - There is no hierarchical oversight or monitoring of the activity of system administrators. Reviewing system-generated logs, which record application access, usage and violations of users is the responsibility of the system administrator. An appropriate individual and non-user of the system should review the activity of the administrator for appropriateness. The systems used at the Library have logging functions that are not being utilized.

- **Computer security awareness training program is incomplete.** Although the Library has developed and implemented a security awareness-training program, contractors are not yet required to complete the NIST required training. Also, one Library section developed its own training program apart from the one developed by Information Technology Services, but could not provide records of training to verify employee completion.

Recommendations:

Management needs to establish security of its information technology resources as 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. Specifically:

- Document the entity-wide security program
- Perform a risk assessment
- Implement a certification and accreditation program
- Document program, application, and emergency change control procedures
- Implement more rigorous and formalized access regulations with regard to the main information processing facility of the Library
- Obtain a security package supported by its vendor
- Separate incompatible operational functions
- Implement and complete security awareness training for all individuals utilizing Library systems.

2. THE LIBRARY LACKS A COMPREHENSIVE DISASTER RECOVERY PROGRAM

The Library of Congress does not have procedures in place to protect information resources and minimize risk of interruption, or a plan to recover critical operations should interruptions occur. As a result, the Library could lose the capability to process, retrieve, and protect electronic information, which could significantly impact the Library's ability to accomplish its mission.

Some weaknesses noted at the Library of Congress include:

- The Library has not developed and documented an entity-wide disaster recovery plan. Consequently, the Library does not have the necessary procedures in place to protect information resources and minimize the risk of unexpected interruptions and to recover critical operations when interruptions occur.
- Formal data center emergency response and processing procedures have not been established. Training has not been provided to Library employees and contractors to respond to emergencies.
- The Library's present alternate computer processing location is situated in the same geographic area as 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 an off-site storage location. Tape backup and rotation standards have not been developed or documented. Documentation to support that routine backups are being performed could not be provided.

Recommendations:

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. Specifically:

- Develop and document an entity-wide disaster recovery plan
- Document emergency response procedures for the data center and provide training to all personnel and contractors
- Obtain an alternate processing location outside of the Library's immediate geographic area.

In addition, we considered the Library's internal controls over Stewardship Information by obtaining an understanding of the Library's internal control, determined whether these controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB bulletin No. 01-02, and not to provide assurance on these controls. Accordingly, we do not provide an opinion on such controls.

Finally, with respect to internal control related to performance measures reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls. However, we noted certain significant deficiencies in internal control over reported performance measures that, in our judgment, could adversely affect the Library's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria. These deficiencies over the safeguarding of assets are discussed by management in their management assertion presented in Section 4 of the Financial Statements.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

- During fiscal year 2002, 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 year long 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.

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, management of the Library, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

February 14, 2008

KEARNEY& COMPANY

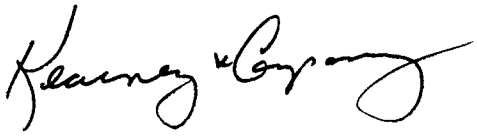
Independent Accountant's Report

We have examined management's assertions, which are 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 effective as of September 30, 2002. The control criteria include; bibliographical, inventory, preservation, and physical security controls as set forth in management's assertion. The Library's management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertion and performing such other procedures, as we considered necessary in the circumstances. We believe that 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, which is presented in Section 4, 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 Library Collection inventory controls were not fully implemented during the in-processing and in-storage life cycles, as of September 30, 2002, is fairly stated based upon the criteria described above.



February 14, 2003

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UNITED STATES GOVERNMENT

Memorandum

Library of Congress
Office of the Librarian
Deputy Librarian

TO : Karl Schornagel

March 17, 2003

FROM : Donald L. Scott
Deputy Librarian

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 2002 and 2001. The audit report makes many good recommendations, and the Library is taking steps to address these recommendations.

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

We recognize that 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.

LIBRARY OF CONGRESS