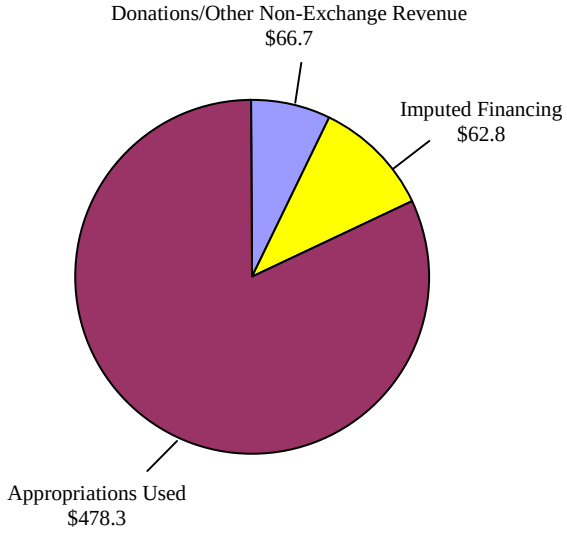
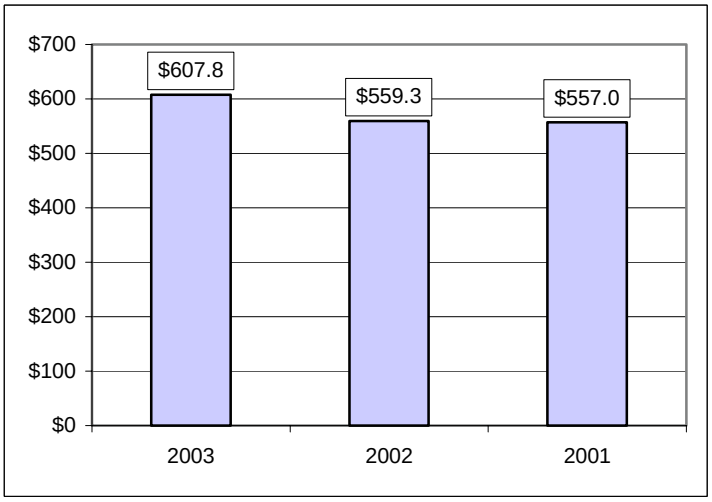
The Library of Congress
Financial Highlights – Fiscal Year 2003

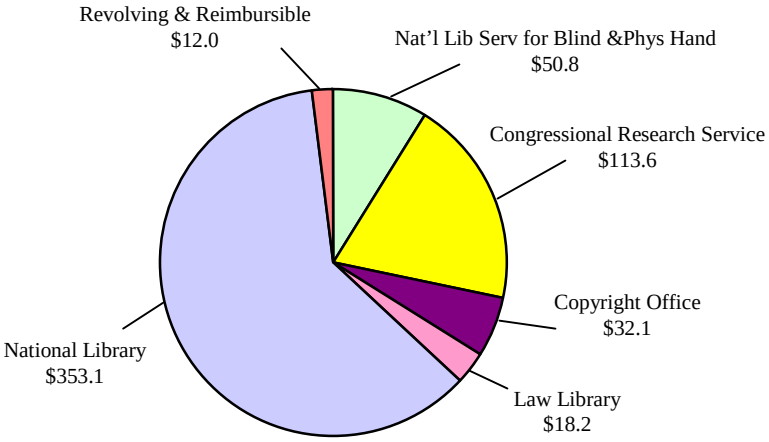
Sources of Financing, Fiscal Year 2003
$607.8 million



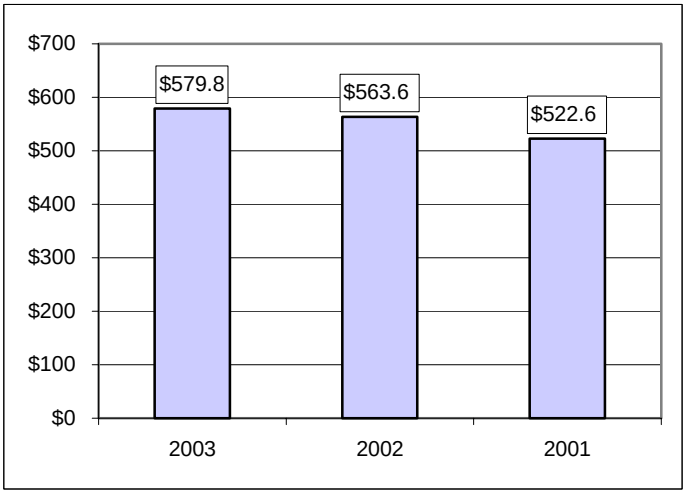
Sources of Financing Totals



Net Costs, Fiscal Year 2003
$579.8 million



Net Costs Totals



THE LIBRARIAN OF CONGRESS

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

SIRS:

It is my pleasure to submit to you the Library's fiscal year 2003 financial statements and accompanying opinion of the independent auditors, Kearney and Company, P.C.

In fiscal 2003 the Library provided concerted congressional research support in more than 150 major policy areas (e.g., terrorism, education, space exploration), handling more than 875,000 on-line and customized congressional inquiries and requests.The Library also received congressional approval for the plan for the National Digital Information Infrastructure and Preservation Program; expanded the Global Legal Information Network to include the laws of 48 countries and international organizations; added seven new multimedia historical collections to the American Memory Web site; increased to more than 8.5 million the number of items freely available on-line or in digital archives; recorded more than 2.6 billion electronic transactions on the Library's Web sites; registered more than 534,000 copyright claims; added more than 1.8 million items to our collections; opened the off-Capitol Hill storage facility at Ft. Meade, Maryland; and circulated more than 23 million audio and braille books to the blind and physically handicapped. The Library made notable new acquisitions, including the great Alan Lomax collection of Americana and brought a new cohort of both senior and junior scholars into the Thomas Jefferson Building with the opening of the privately funded John W. Kluge Center.

For the eighth consecutive year, independent auditors have issued an unqualified "clean" opinion of the Library's Consolidated Financial Statements. The net cost of the Library's seven major programs totaled $579.8 million; including $62.8 million in costs in support of the Library's programs incurred by four other agencies (i.e., Architect of the Capitol, Government Printing Office, Office of Personnel Management, and the Department of the Treasury); and $97.5 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, placing great emphasis on ensuring the security of our staff and collections, which now total approximately 128 million items. We need to improve further our computer and collections controls as documented in the accountability reports, and are executing corrective measures as part of our strategic planning process.

We are all grateful for the continued support of the Congress and proud of the Library's record of service and stewardship of its financial affairs. I will be glad to provide further details on any matter that you might like to discuss in the enclosed report.

Sincerely,

James H. Billington
The Librarian of Congress

101 Independence Avenue, S.E. Washington, DC 20540–1000 Tel.: (202) 707–5205 Fax: (202) 707–1714 E-mail: libofc@loc.gov

THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL YEAR 2003

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FINANCIAL STATEMENTS FOR FISCAL YEAR 2003

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THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 2003

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 2003.

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 128 million items – many of them unique and irreplaceable – in more than 450 languages. It directly serves not only the Congress, but also 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 has six diverse programs, staffed by more than 4,000 people. They serve the Congress with nonpartisan analysis of legislative issues and preserve a universal record of intellectual creativity. All libraries – and especially the Library of Congress – must deal with the greatest upheaval in the transmission of information and knowledge since the invention of the printing press – the electronic onslaught of digitized multimedia communications. The Library is responding to this challenge, with the program-focused goals and outcomes contained in its 2004 –2008 strategic plan. The overall objective is to superimpose a new digital networked environment on top of its traditional artifactual collections while continuing to acquire, secure, preserve, and make its invaluable collections accessible to Congress and the nation. The key objectives within the plans 18 goals are: serving the Congress, sustaining and preserving our collections, getting the National Audio Visual Conservation Center up and running, implementing the Copyright Office's reengineered processes, converting to digital talking book technology for blind and physically handicapped persons, strengthening the digital competencies of our knowledge navigator – curators, and moving to a networked digital environment.

The Library's four priorities are:

1. to make information, knowledge and creativity available to and useful for the United States Congress;

2. To acquire, organize, preserve, secure, and sustain 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 Library's collections and enhance and highlight the Library's contributions to the nation's creative work, scholarly activity, and future progress.

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, as soon as it moved to the new capital city of Washington in 1800, established the Library based on an initial collection of law and reference books, 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 a wide variety of subjects, 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 centralized the nation's copyright functions in the Library 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; (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 1931 law that established the program in the Library to create and supply free library materials to blind and physically handicapped readers throughout the country. The 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 1832, the Congress established the Law Library as the first separate department of the Library of Congress, reflecting the Library's origins as a collection of law books to support the legislative work of the Congress. The Law Library remains the only source for the Congress to research and reference services in foreign, comparative, and international law.

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 its committees.

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.

In December 2000, Congress tasked the Library (P.L. 106-554) to develop a plan and lead an effort to make sure that important 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 approved by the Congress in December 2002 and 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 to sponsor research-advancing development of a national preservation infrastructure.

To begin building that infrastructure, the Library is developing (a) a preservation network of partners to preserve and provide long-term access to digital content and (b) the architecture components that will permit digital preservation. By establishing NDIIPP, Congress chose to capitalize on the Library's long history and unique position in analog selection and preservation to become a steward of the digital preservation infrastructure. As a trusted convener, the Library will continue to bring together all the stakeholders in this new digital landscape – creators, distributors, and users – to

build a digital preservation infrastructure that fosters creativity, protects the rights of individuals, and balances the claims of creators for protection and of users to access information and the legacy of innovation.

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 nearly 128 million items include almost all languages and media through which knowledge and creativity are preserved and communicated.

The Library has more than 29 million books and other print items, including 5,706 volumes printed before the year 1500; 12 million photographs; 4.8 million maps; 2.7 million audio materials; 925 thousand films, television, and video items, including the earliest movies ever made; five million pieces of music; 57 million manuscripts, including those of 23 Presidents of the United States; and hundreds of thousands of scientific and government documents.

New treasures are added each year. Notable acquisitions during fiscal year 2003 include: the original kinescope and videotape collection from the Ed Sullivan Show, the seminal American television variety program (1948-1971), in addition to new broadcast quality viewing copies; the scrapbooks and papers relating to the careers of television legends Lucille Ball and Desi Arnaz, including more than 300 arrangements for Desi's Cuban band, including the "I Love Lucy" theme song; and 1,000,000 images of digitized documents from the Comintern archive, along with the full database of descriptors used in the archive which was the culmination of a 7-year international project involving the national archival services of Russia, France, Germany, Italy, Spain, and Switzerland in which the Library of Congress was the U.S. partner.

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 875,000 congressional research responses and services, registering more than 534,000 copyright claims, and circulating 23.8 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.

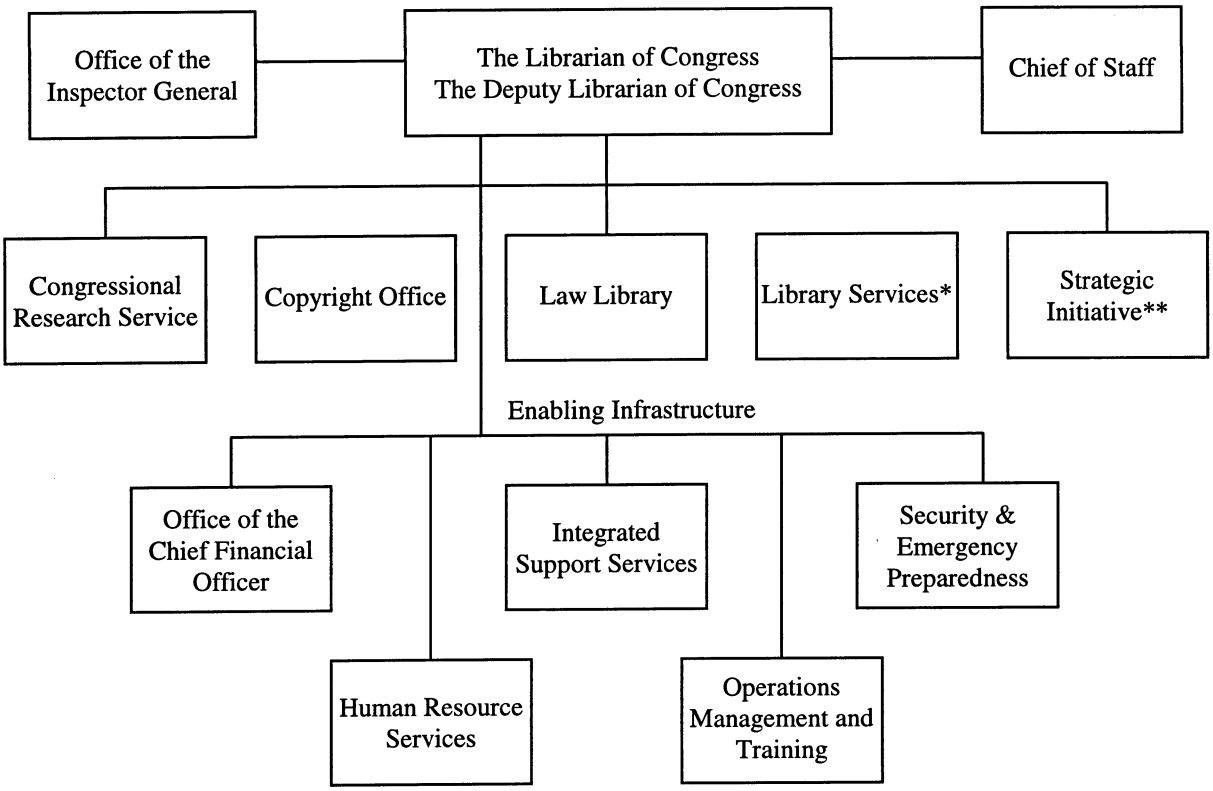
The Librarian of Congress, appointed by the President with the advice and consent of the Senate, directs the Library. The Deputy Librarian of Congress is the Chief Operating Officer who manages the day-to-day operations through five service units and an enabling infrastructure (see organizational chart).

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. Funding for furniture and furnishings, which was provided under a separate appropriation prior to fiscal year 2003, is now provided under the salaries and expense appropriations cited above.

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 2003 and 2002, the Library has prepared Consolidated Balance Sheets, Consolidated Statements of Net Costs, Consolidated Statements of Changes in Net Position, Combined Statement of Budgetary Resources and Consolidated Statements 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, 2003 and 2002. 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 with a monetary value. 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)		
	2003	2002		2003	2002
Entity Assets	$ 514.1	$ 499.0	Liabilities Covered by Budgetary Resources	$ 873.3	$ 730.5
Non-Entity Assets	794.7	657.7	Liabilities Not Covered by Budgetary Resources	32.8	32.7
			Total Liabilities	906.1	763.2
			Net Position	402.7	393.5
Total Assets	$ 1,308.8	$ 1,156.7	**Total Liabilities and Net Position**	$ 1,308.8	$ 1,156.7

The Library's assets total $1.3 billion for fiscal year 2003 and $1.2 billion in fiscal year 2002. Entity assets increased by $15.1 million during fiscal year 2003. Significant increases include $10.8 million of unrealized gains in the Library's non-Treasury investment and $9.7 million appropriated by Congress for the Library's public address and financial management systems that were unexpended as of September 30, 2003. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 61 percent and 57 percent of all assets and total $794.7 million and $657.7 million for fiscal years 2003 and 2002, respectively. Non-entity (custodial) assets increased by $137.0 million during fiscal year 2003 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 $66 million, during fiscal year 2003 – a decrease of $44 million from fiscal year 2002. The Library is authorized to invest the royalty funds in U.S. Treasury securities until the funds are distributed.

The Library's liabilities total $906.1 million and $763.2 million for fiscal years 2003 and 2002, 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 2003. Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various operating expenses.

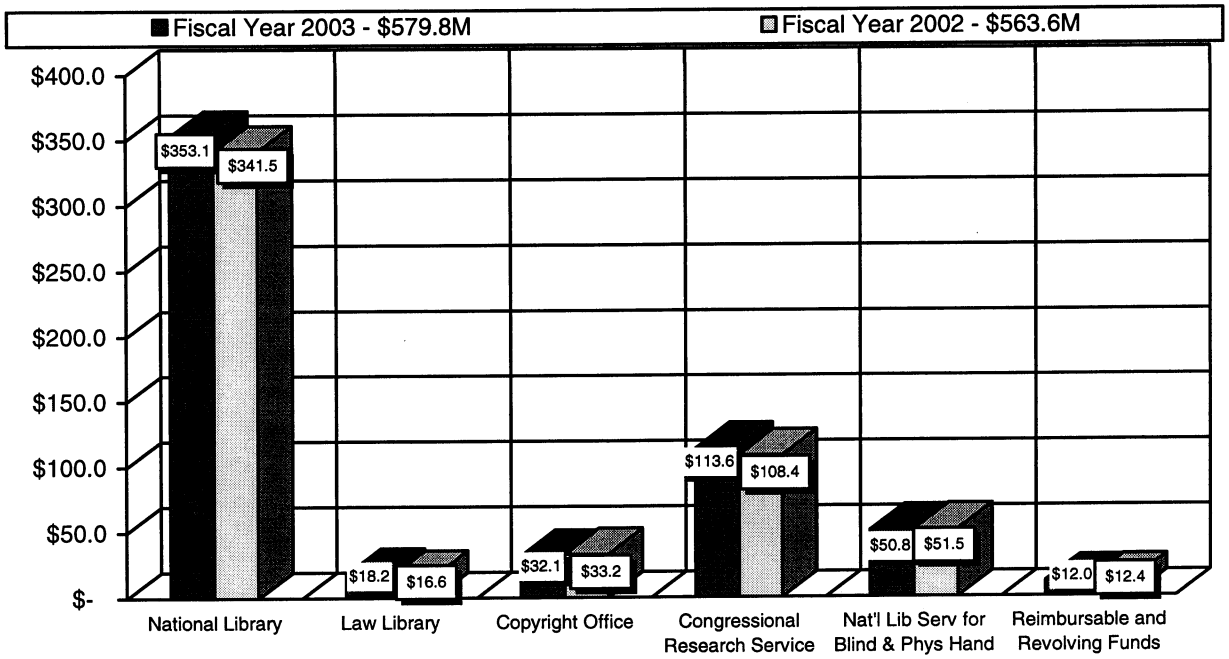
The accompanying Balance Sheets do not include the acquisition and improvement costs of the Library's buildings and grounds. By law, these buildings and grounds are under the structural and mechanical care of the Architect of the Capitol.

Consolidated Statements of Net Costs

The purpose of the Consolidated Statements 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, 2003 and 2002. In other words, the statements present the net costs of our programs – $579.8 million and $563.6 million for the fiscal years 2003 and 2002, 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 $353.1 million and $341.5 million for fiscal years 2003 and 2002, 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 increase in net program costs is due to normal increases in operating activities.

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, standard, and related products for the Library as well as for libraries and bibliographic utilities in all fifty states and territories and many other countries.

- **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 more than 700,000 information requests a year from across the nation, including more than 400,000 in person in the 19 reading rooms open to the public in Washington. In addition, the Library responds to some 65,000 free interlibrary loan requests from across the nation and over 30,000 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 200 million transactions a month.

- **American Creativity** – The Library manages the nation's 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 manages a continuing program to preserve and extend the life of all 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 NDIIPP, thereby ensuring 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 $18.2 and $16.6 million for fiscal years 2003 and 2002, 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 $32.1 and $33.2 million for fiscal years 2003 and 2002, 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 2003, the CO registered more than 530,000 claims to copyright, transferred nearly one million works to the Library, recorded more than 16,000 documents containing more than 300,000 titles, logged 16 million electronic transactions to its Web site, and responded to almost 371,000 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 almost half 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 $113.6 and $108.4 million for fiscal years 2003 and 2002, 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 2003, CRS delivered more than 875,000 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 2003 and 2002 net program costs for this segment were $50.8 and $51.5 million, respectively.

2. A cooperating network of 137 regional and sub regional (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 more than 693,151 comprised of more than 500,000 audio and braille readers registered individually, in addition to an estimated 190,000 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. 2 U.S.C. 182 was amended in fiscal year 2003 to authorize the Library's special events and programs activities under the revolving fund statue. 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. 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 Open World Leadership Center).

After reflecting earned revenues of $64.3 and $65.1 million in fiscal years 2003 and 2002, respectively, reimbursable and revolving fund net program costs totaled $12.0 and $12.5 million, respectively. The net program costs were the result of the elimination of $5.4 and $6.3 million of intra-Library net revenues, $5.5 and $5.4 million in allocated administrative overhead, and $2.1 million in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds for fiscal years 2003 and 2002, respectively. General descriptions 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 $2.3 million for 2003 and $2.2 million for 2002.

- **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 2003 and 2002 were $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, Special Events and Programs 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; 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; and the hosting of special events and programs by corporate and non-profit entities that support the Library's mission. Earned revenues were $5.7 and $5.2 million in fiscal years 2003 and 2002, respectively, and intra-Library transactions of $1.0 and $1.1 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 $8.7 million annually in contract cost avoidance benefits and more than $10 million in vendor volume 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 2003 and 2002, earned revenues were $55.3 and $58.4 million, respectively.

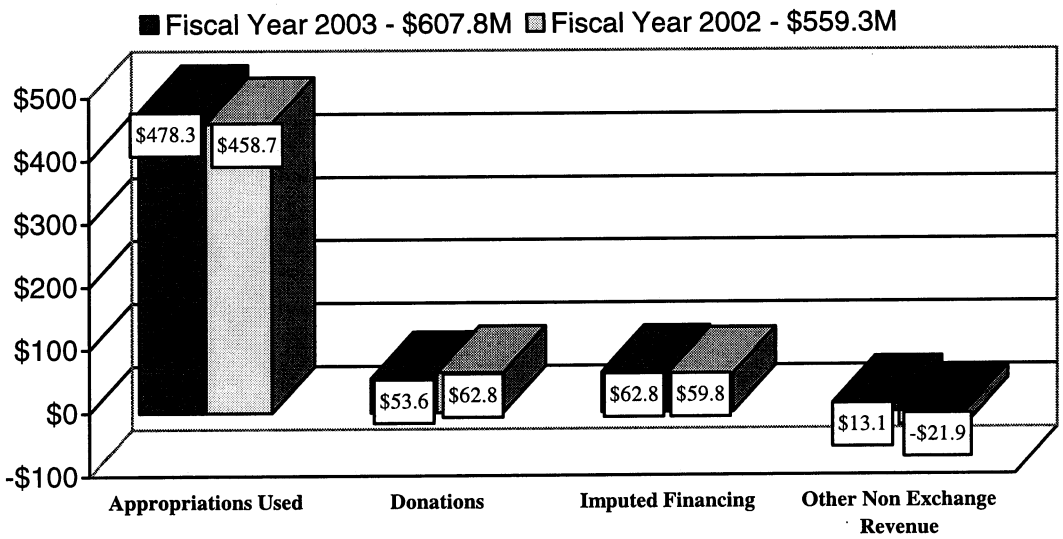
Consolidated Statements of Changes in Net Position

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 $607.8 and $559.3 million for the fiscal years ended September 30, 2003 and 2002, respectively.

The Library of Congress

Consolidated Statements 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, 2003 and 2002 totaled $478.3 and $458.7 million or 79 and 82 percent, respectively, of all financing. The Library's donations decreased by $9.1 million during fiscal year 2003 primarily due to $13 million decrease in donated AD Council advertising services offset by $4.7 million increase in funds donations for the purchase of the Waldseemuleer Map. 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 $62.8 and $59.8 million (imputed financing) for fiscal years 2003 and 2002, respectively. The support provided included structural care and maintenance of the Library's buildings and grounds ($36.2 million and $35.2 million), employee benefits ($25.7 million and $23.9 million), acquisitions exchange services ($0.7 million for both years) and settled legal claims ($0.2 million for fiscal 2003). Other non-exchange revenues are positive for fiscal year 2003 primarily due to the aforementioned unrealized gains on non-treasury investments ($10.8 million), and negative for fiscal year 2002 primarily due to that fiscal years unrealized loss on non-treasury investments ($22.8 million).

The Library's net position increased by $9.1 million during fiscal year 2003, primarily due to the aforementioned unexpended appropriations for the public address and financial management systems, the decrease in donations and book value of talking book machines, and the increase in market value of non-Treasury investments.

Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources and the related disclosures provide information about how budgetary resources were made available, as well as their status at the end of the period. The Budgetary Resources section of the 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 relates obligations incurred to total outlays.

The Library's budgetary resources were $1.7 billion and $1.6 billion for fiscal years 2003 and 2002, of which $0.6 billion were from appropriated funds both years and $1.1 and $1.0 billion were non-appropriated funds. Total outlays of $560.7 and $597.4 million were incurred with the outlays of appropriated funds ($477.8 and $467.1 million) combined with outlays of the non-appropriated funds ($82.8 and $130.3 million) in fiscal years 2003 and 2002. The decrease in outlays is primarily a result of the aforementioned decrease of distributions of royalty fees during fiscal year 2003.

Consolidated Statements of Financing

The Consolidated Statements of Financing are presented to explain how budgetary resources obligated during the fiscal year (presented on the Combined Statements of Budgetary Resources) relate to the net costs of operations of the Library (presented on the Consolidated Statements of Net Costs). The Library had a difference between its net obligations ($602.7 and $611.5 million) and its net costs ($579.8 and $563.6 million) of $22.9 million and $47.9 million for fiscal years 2003 and 2002, respectively. This difference is primarily explained by the refunds of non-exchange revenue and copyright licensing royalties ($70.1 and $132.7 million) and capitalized costs ($24.2 and $26.8 million) being offset by increases of resources of non-budgetary donations ($38.7 and $52.1 million) and non-budgetary imputed costs ($62.8 and $59.8 million).

KEY PERFORMANCE MEASURES

Since 1999, the Library's collections have increased from 119.0 million to 127.7 million items -- an increase of 8.7 million or 7.3 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has increased from 3,923 to 4,020 – an increase of 97 FTE's or 2.5 percent. The Library's Internet transactions have grown dramatically from 728 million in fiscal year 1999 to 2.6 billion in fiscal year 2003. 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 eight 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 1999, 2000, 2001, 2002, and 2003							
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Change 1999 – 2003	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	$391,660,000	$427,457,610	$550,347,401	$525,837,000	$539,469,502	$147,809,502	37.74%
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	3,923	3,919	3,938	3,947	4,020	97	2.47%
SIZE OF LIBRARY COLLECTIONS	118,993,629	120,976,339	124,247,602	126,060,980	127,720,880	8,727,251	7.33%
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	19,793,689	19,215,629	21,142,980	20,095,008	20,422,598	628,909	3.18%
CRS - Requests & Services Provided Congress	545,663	584,384	711,612	811,467	875,197	329,534	60.39%
Loans of Collections to Congress	26,193	29,276	25,713	25,099	29,454	3,261	12.45%
Copyright Claims Registered	594,501	515,612	601,659	521,041	534,122	(60,379)	(10.16%)
Copyright Direct inquires (in person, phone, correspondence)	436,627	385,513	339,658	358,604	371,446	(65,181)	(14.93%)
Services to the Blind & Physically Handicapped (BPH) - Readership	764,600	759,000	742,000	695,907	766,137	(1,537)	0.02%
BPH - Books & Magazines; Total Circulated	22,665,000	22,825,000	23,100,000	23,464,309	23,780,639	1,115,639	4.92%
BPH - New Braille & Audio Books & Magazines Titles	2,647	2,729	2,638	2,663	2,764	117	4.42%
Print Materials Cataloged	205,893	224,544	273,534	310,235	269,568	63,675	30.93%
National Coordinated Cataloging Operation (NACO) - LC Contribution	80,176	80,066	90,542	88,475	93,584	13,408	16.72%
National Coordinated Cataloging Operation - Outside Contribution	133,011	128,160	143,031	162,363	176,487	43,476	32.69%
Exhibits, Displays, & Publications (Funded by Appropriations)	25	32	35	37	23	(2)	(8.00%)
Regular Tours (Participants)	64,489	59,536	105,988	112,423	111,755	47,266	73.29%
Reference Service	967,387	912,120	828,533	775,115	715,479	(251,908)	(26.04%)
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65	0	0%
Items Circulated	1,767,565	1,694,582	1,580,162	1,362,724	1,375,807	(391,758)	(22.16%)
Preservation Treatment - Original Format	472,027	263,817	326,623	666,422	1,591,735	1,119,708	237.21%
Mainframe Computer Transactions	331,103,221	85,217,677	63,913,258	109,008,458	111,175,428	(219,927,793)	(66.43%)
Integrated Library System Input/Update Transactions	0	59,319,648	65,663,286	91,834,274	96,495,434	96,495,434	100%
Machine Readable Cataloging (MARC) Records	28,890,000	29,633,607	31,103,700	31,638,841	33,758,594	4,868,594	16,85%
Internet Transactions (i.e., LOCIS, MARVEL, World Wide Web, and THOMAS public transactions)	728,226,616	931,256,160	1,283,747,169	2,039,268,542	2,620,884,359	1,892,657,743	259.90%

Other noteworthy workloads include the following:

▸ The Library's arrearage increased by 1.6 percent during fiscal year 2003 due to acquisitions of some very large and unique special format collections that were not completely cataloged by the end of the year. For example, the Library acquired the papers of the late Representative Patsy Mink (D-Hawaii), a total of nearly 935,000 items. It is critical to the Library's mission for us acquire such collections when they become available, even though staffing resources may not be sufficient to catalog them immediately. The arrearage of print formats did not increase in fiscal year 2003.

▸ The number of Congressional requests and services annually provided by the Congressional Research Service (CRS) increased from 545,663 in 1999 to 875,197 in 2003. This change reflects an ongoing congressional need for significant research and analytical support across an increased number of major policy areas, particularly in their use of electronic products via the CRS Web site.

▸ Copyright office registrations were 60,379 fewer in 2003 than in 1999. Registration processed in fiscal year 2002 and fiscal year 2003 were impacted by the mail disruption caused by the anthrax incidents on Capitol Hill. The number of copyright direct inquiries (in-person, phone, and correspondence) was 65,181 fewer in 2003 than in 1999, principally due to the growing public use of the Web site for information on copyright law, the Copyright Office's services, and Copyright Office forms and publications. Use of the Copyright Office Web site tripled in this period, to 16 million transactions.

▸ The number of information requests handled by reference staff and items circulated decreased by 26 and 27 percent respectively from 967 thousand in 1998 to 715 thousand in 2003, while the number of Internet transactions increased from 615 million to 2.6 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 decreased slightly to 23.1 million in 2003.

▸ The number of items for preservation treatment increased by 1.1 million from 2002 to 2003 primarily due to processing one million sheets of non-book material on-site using the manuscript deacidification trader installed in August, 2002.

▸ The number of mainframe transactions increased during 2003 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 2003

National Library:

NOTE: The National Library Services for the Blind and Physically Handicapped, while listed as a program on the Statement of Net Cost, tracks its goals and accomplishments as a part of the National Library program.

Goal: Enable the National Library to carry out its mission in the digital age.

Accomplishments: Modeled and tested acquisition agreements with e-publishers, while continuing to refine best edition statements and acquire important digital materials for the collections. Continued conversion of recorded books and magazines from analog format to digital format. Continued process to design and produce prototypes of a NISO complaint digital talking book (DTB) machine.

Goal: Expand, Manage, and Communicate LC Digital Strategies and Roles.

Accomplishments: Established an institution-wide framework to participate in external organizations, develop corresponding collaborations, keep abreast of key trends and industry developments to influence digital standards, and stimulate progress toward building a national network of digital content partnerships.

Goal: Arrearage Reduction: Meet the total revised Arrearage Goals Approved by Congress.

Accomplishments: While non-print arrearage is created, contributed to the goal of reducing that to 20% of September 1989 level by September 30, 2010 through processing an average of 294,000 items per quarter. Also prevented increases in the non-rare print arrearage by processing 100 percent of current receipts during the fiscal year.

Goal: Collections Security: Secure the Library's heritage assets during all phases of collections' Life Cycle using Bibliographic, Inventory, physical, and preservation controls.

Accomplishments: Continued to implement the Library's Collections Security Plan by improving control of the collections at the earliest practical point in the acquisitions process and by providing enhanced security for the Library's platinum collection.

Goal: Obtain, develop, and sustain specialized expertise and resources needed to achieve Library of Congress Digital Goals and Priorities.

Accomplishments: The plan titled "Preserving Our Digital Heritage: Plan for the National Digital Information Infrastructure and Preservation Program" was submitted to Congress in October and received approval in December. Concurrent with the plan's approval was the release of $35 million to begin the program's next phase—a call for project applications that will develop and test models for the collection of at risk and historically significant materials for which no analog equivalent exists.

Goal: Off-Site Storage: Continue work on building storage facilities at Culpeper & Fort Meade and moving collections to Fort Meade.

Accomplishments: Procured collections storage shelving for the National Audio-Visual conservation Center (NAVCC) in Culpeper, Virginia. Implemented all actions unfinished during previous fiscal years to ensure the successful opening and operation of Fort Meade, Module

1, concentrating heavily on the automation support necessary to fully support the Fort Meade program. Finalized design requirements for Fort Meade, Module 2 and ddeveloped the Library requirements for Fort Meade, Modules 3 and 4.

Goal: American Folk life Center (AFC): Implement operation vision, including Veterans History Project (VHP).

Accomplishments: Digitized and provided web access to AFC collections. Conserved and digitized AFC's most endangered sound recordings as part of an ongoing national audio preservation project "Save Our Sounds". For VHP, developed, organized and processed interviews and materials from veterans and interviewers; created a Web site for public participation; and developed a database for future cataloging.

Goal: Preservation: Enable the National Library to cost-effectively preserve materials in all formats.

Accomplishments: Mass deacidified 200,000 books off-site and one million sheets of non-book material on-site using the manuscript deacidification treater installed in August, 2002.

Law Library:

Goal: Provide Legal Research, Analysis, and Reference Services to the congress.

Accomplishments: Increased the access capabilities to approved foreign legal databases, and increased and upgraded the number of databases available to the legal specialists in the vernacular. Division Directors and Chiefs identified events of congressional interest (both national and international) within one week of the event; convened research and or reference teams to identify, evaluate, retrieve, and embargo law and non-law collections relevant to the subjects and provide reports to the Law Librarian as they occurred.

Goal: Develop, Maintenance, Secure and Preserve Law Library Collections.

Accomplishments: Acquired materials to insure effective jurisdictional coverage in response to congressional interest. Implemented the inventory control component of the Library's Collection Security Plan: (a) provided timely check-in (within 5 working days of receipt) for each serial piece at the point of entry and captured this data in the LC ILS; and (b) ensured timely updating of records in LC ILS as changes (approximately 75,000 annually) occurred.

Goal: Enhanced the Global Legal Information Network (GLIN).

Accomplishments: Worked to add 2 new member nations to GLIN in FY 2003. (Adding to GLIN provides wider coverage of jurisdictions, enabling better service to Congress and the Law Library's other clients.) Used contract support to digitize and link 10,000 retrospective GLIN full-text records.

Copyright Office:

Goal: Registration: Promote efficiency and timeliness in registration processing by meeting stated targets.

Accomplishments: Reduced in process workload in the Cataloging Division well below the target level, reaching 48,327 by September 30, 2003. Improved registration processing time (receipt to certificate) to 10 weeks for a majority of claims, and 5 weeks for cataloging by September 30, 2003.

Goal: Recordation: Promote efficiency and timeliness in recordation processing by meeting stated targets.

Accomplishments: Document processing time exceeded 22-week target, reaching 13 weeks by September 30, 2003.

Goal: Statutory Licenses and Obligations, and the CARP System: Administer provisions of the statutory licenses, for the mutual benefit of licensees and copyright owners.

Accomplishments: Administered six Copyright Arbitration Royalty Panel (CARP) proceedings

Goal: Expert Advice (Congress): Provide thorough and timely technical advice on copyright issues, meeting congressional requests and timetables.

Accomplishments: Testified at five congressional hearing on copyright related issues. Completed draft report to congress, Vessel Hull Design Protection Act: Overview and Analysis, an evaluation of the effects of the Vessel Hull Design Protection Act (due November 1, 2003).

Goal: Expert Advice (Executive Branch): Provide thorough and timely expert advice on international and domestic issues to Executive Branch agencies.

Accomplishments: Participated in multi-year treaty negotiations on the Free Trade Area of the Americas. Participated in activities of World Intellectual Property Organization Standing Committee on Copyright and Related Rights. Advised the US Trade Representative on pending World Trade Organization accessions, bilateral free trade agreements, and trade policy reviews. Collaborated with the National Intellectual Property Law Enforcement Coordination Council regarding enforcement of intellectual property laws and treaties.

Goal: Litigation: Provide timely and thorough advice and assistance to Executive Branch agencies and the courts involving copyright and related issues.

Accomplishments: Provided legal assistance in a timely and effective manner in three Supreme Court cases and other lower court cases involving copyright; responded to inquire from Solicitor General of the United States.

Goal: Provision of information: Make copyright information maximally accessible, particularly on the Office's web site, and respond within optimum time frames to requests for copyright information, records, documents, and search reports.

Accomplishments: In more than 90% of the cases, met or exceeded target response times for congressional inquiries, expedited certified copies, and hotline requests.

Goal: Business Process Reengineering (BPR) Project: Increase Copyright Office performance in registration, recordation, and mandatory deposit processes by implementing Reenineered

Accomplishments: Developed Facilities Strategic Plan that provided construction schedule options, estimated costs for construction, furniture, equipment and moving to temporary space. Produced space program report that identifies space standards, staff and area requirements for copyright office reengineered process. Completed workflow analysis of the one remaining principal process – process licenses. Evaluated the proposed organization package.

Goal: IT Planning and Development: Provide it infrastructure necessary to implement reengineering; strengthen and maintain existing systems to support workflow requirements.

Accomplishments: Selected a contractor to design and develop the new Copyright Office information technology system infrastructure to replace existing systems and to implement reengineering. Implemented updated versions of two major Copyright Office systems.

Congressional Research Service:

Goal: Provide non-partisan legislative analysis and information support that the Congress needs as it addresses public policy issues

Accomplishments: CRS employed specially tailored, service wide research frameworks in supporting several extremely demanding policy areas such as establishing the Department of Homeland Security; the U.S. involvement with Iraq; a broad range of domestic health care issues; and reformulating energy policy and related environmental concerns. CRS experts responded with immediate support on matters that were suddenly on the agenda such administration and strategic directions of the U.S. space program, addressing serious integrity lapses in providing financial services for the public, and examining heightened uncertainties about the pricing and reliability of energy resources. Throughout the year CRS provided the Congress with a broad range of support on a number of other challenging policy areas, including a number of tension points in U.S. foreign relations; a variety of private sector problems arising from a weak economy; interests in protecting personal security by technological development in areas such as genetics and electronic communications; resource use – environmental protection trade-offs; and securing health in the context of globally-epidemic diseases. CRS provided research support relating to more than 150 major policy problems from the start of the 108TH Congress and continuing through fiscal year 2003. CRS maintained over 900 key products containing analysis that supports critical policy areas as evidenced in the CRS Current Legislative Issues (CLI) System. This level of effort represents nearly 30 percent more than 700 key products maintained the year before. CRS experts remained a key component of CRS services to the Congress – work which included efforts, tailored to specific situations or work that required confidential assistance. Individualized attention to congressional needs was provided primarily through telephone consultations, in-person briefings, and confidential memoranda.

Goal: Ensure the intellectual capacity of CRS to continuously meet the changing needs of Congress and fulfill the CRS mission.

Accomplishments: Hired 86 new 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. Total CRS staff capacity increased to 690 In fiscal year 2003 – an increase of 10 FTEs or 1.5 percent over fiscal year 2002.

Goal: Develop and sustain an effective internal infrastructure to support CRS in effectively fulfilling its mission.

Accomplishments: CRS maintained a strong internal infrastructure that provided a robust and comprehensive range of strategic planning, financial management, human resource administration, legal, and information technology activities to support the on-going business needs of the Service. Some of the more externally visible results are increased capacity for electronic transfer of analysis and information and improvements to the Legislative Information System (LIS), including redesign of search features and more timely updates.

Revolving and Reimbursable Funds:

Goal: National Library Operations: Maintain a basic level of ongoing operations, while undertaking phased business process improvements.

Accomplishments: Continued to work with the General Accounting Office (GAO) on its study (as directed by the Senate) to evaluate the viability of using profits from the Library's retail sales activities to support Library activities. During fiscal year 2003, the Library submitted to the Congress the report, *Business Enterprises at the Library of Congress*.

Goal: Coordinate and manage Library of Congress events.

Accomplishments: Secured commitments from organizations using Library facilities at least four weeks prior to event, for 90% of events. Implemented a revolving fund for Special Events Office by July 1, 2003. On target for complete conversion during fiscal 2004.

Management Support Services:

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

Goal: Enhance the Office of the Chief Financial Officer's administrative ability to provide quality services to customers.

Accomplishments: Selected new central financial management system software and awarded vendor contract for October 1, 2004 production date.

Goal: Reach agency fund-raising goals.
Accomplishments: Continued to maintain current Madison Council membership by selectively recruiting new members to replace those lost through natural attrition. Communicated quarterly with all Madison Council members, keeping them fully informed of activities supported by private-sector gifts, and, where appropriate, seeking their support for a particular initiative.

Goal: Perform perimeter security enhancements.

Accomplishments: Monitored and tracked the installation of entry/perimeter security enhancements.

Goal: Implement cconsolidation of police command centers and integration of a new intrusion detection system (IDS)

Accomplishments: Monitored and tracked the construction and installation of the command center and new IDS.

Goal: Continue implementation of collections security controls as outlined in the Library's Security Plan.

Accomplishments: Monitored and achieved milestones established in the fiscal 2003 working documents.

MANAGEMENT CONTROL PROGRAM, SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

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 2003, Library staff performed vulnerability assessments on all of the 182 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 68 detailed control reviews in fiscal year 2003 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.

The implementation and regular testing of controls allows for Library management to assert that these controls provide reasonable assurance that the forgoing objectives are met. This testing is performed on the central financial and reporting systems, along with the subsidiary and program systems and the external financial interfaces used by the Library. In addition, a contract was awarded for a new central financial management system for the Library during fiscal year 2003, which will further enhance system controls in future years by decreasing the amount of subsidiary and program systems and manual processes. With only items associated with the January, 2001 Office of Compliance report on Fire Safety Inspections being the exception, the Library also asserts its compliance with all applicable laws and regulations.

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 2003 and 2002. 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 ninth stewardship report on its collections that provides the suggested relevant information concerning the asset description, acquisition, preservation, security, use, estimated number of items, and expenditures. The Stewardship Report is included as Section 3 of this report.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

THE LIBRARY OF CONGRESS
Consolidated Balance Sheets
As of September 30, 2003 and 2002
(Dollars in Thousands)

	2003	2002
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 344,283	$ 314,638
Investments (Note 4)	840,921	706,522
Accounts Receivable, Net (Note 5.A)	7,999	7,576
Other Assets	1,654	5,493
Total intragovernmental	1,194,857	1,034,229
Cash and Other Monetary Assets (Note 1.G)	771	978
Pledges Receivable - Donations (Note 5.B)	10,192	11,064
Investments (Note 4)	61,298	49,365
Inventory and Operating Supplies and Materials (Note 1.K)	1,955	2,010
Property and Equipment, Net (Note 6)	32,388	58,073
Other Assets	7,302	1,027
Library Collections (Note 1.M)		
Total Assets	$ 1,308,763	$ 1,156,746
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Funded Payroll, Benefits	$ 6,976	$ 2,993
Advances from Others	26,119	25,360
Accrued Unfunded Workers' Compensation (Note 9)	1,671	1,633
Total Intragovernmental	34,766	29,986
Accounts Payable and Accrued Funded Payroll, Benefits	38,636	36,626
Custodial Liability (Note 3)	793,546	657,665
Deposit Account Liability	5,333	5,090
Accrued Unfunded Annual and Compensatory Leave	22,071	19,218
Actuarial Unfunded Workers' Compensation (Note 9)	8,793	9,087
Other Liabilities (Note 11)	2,972	5,575
Total Liabilities	906,117	763,247
Commitments and contingencies (Note 10)		
NET POSITION		
Balances:		
Unexpended Appropriations	251,784	230,690
Cumulative Results of Operations	150,862	162,809
Total Net Position	402,646	393,499
Total Liabilities and Net Position	$ 1,308,763	$ 1,156,746

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, 2003 and 2002

(Dollars in Thousands)

	2003	2002
Net Costs by Program Area:		
National Library:		
Program Costs	$ 357,715	$ 346,131
Less Earned Revenue	4,631	4,611
Net Program Costs	353,084	341,520
Law Library:		
Program Costs	18,196	16,596
Less Earned Revenue	8	20
Net Program Costs	18,188	16,576
Copyright Office:		
Program Costs	60,668	57,008
Less Earned Revenue	28,527	23,822
Net Program Costs	32,141	33,186
Congressional Research Service:		
Program Costs	113,579	108,365
Less Earned Revenue	0	0
Net Program Costs	113,579	108,365
National Library Service for the Blind and Physically Handicapped:		
Program Costs	50,788	51,538
Less Earned Revenue	0	0
Net Program Costs	50,788	51,538
Revolving and Reimbursable Funds:		
Program Costs	76,349	77,536
Less Earned Revenue	64,337	65,080
Net Program Costs	12,012	12,456
Net Costs of Operations	$ 579,792	$ 563,641

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, 2003 and 2002
(Dollars in Thousands)

	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning	$ 162,809	230,690	$ 167,141	202,329
Change in Accounting Principle (Note 1.S)	(39,910)			
Budgetary Financing Sources				
Appropriations Received		506,616		459,548
Appropriations transferred – in/out		(497)		31,075
Other adjustments (Recession, Cancelled Auth., etc.)		(6,765)		(3,611)
Appropriations Used	478,260	(478,260)	458,651	(458,651)
Non-Exchange Revenue	1,416		1,784	
Donations-Cash or securities	14,967		10,738	
Transfer in/out without reimbursement	149		(11,657)	
Other financing sources with budgetary impact	872		862	
Other Financing Sources				
Donations-Property and Services	38,667		52,060	
Transfer in/out without reimbursement	(16)		(118)	
Imputed Financing from costs absorbed by others	62,764		59,803	
Other	10,676		(12,814)	
Total Financing Sources	607,755	21,094	559,309	28,361
Net Cost of Operations	(579,792)		(563,641)	
Net Position, Ending	$ 150,862	251,784	$ 162,809	230,690

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, 2003 and 2002
(Dollars in Thousands)

	2003	2002
Budgetary Resources		
Budget authority		
Appropriations received	$ 734,211	$ 694,722
Net transfers (+/-)	(497)	31,075
Other	20	19
Unobligated balance:		
Beginning of period	853,476	743,606
Spending authority from offsetting collection		
Earned		
Collected	109,274	105,183
Receivable from Federal sources	1,482	1,027
Change in unfilled customer orders		
Advance received	2,168	(1,463)
Without advance from Federal sources	(521)	1,556
Transfers from trust funds	382	2,501
Subtotal	112,785	108,804
Recoveries of prior year obligations	7,759	17,485
Temporarily not available pursuant to Public Law	35	(336)
Permanently not available-Cancellation of authority	(3,591)	(4,157)
Permanently not available-Enacted Recissions	(3,441)	
Total Budgetary Resources	$ 1,700,757	$ 1,591,218
Status of Budgetary Resources:		
Obligations incurred, direct & reimbursable	$ 723,253	$ 737,742
Unobligated balance-Exempt from Apportionment	972,314	847,029
Unobligated balance not available-other	5,190	6,447
Total Status of Budgetary Resources	$ 1,700,757	$ 1,591,218
Relationship of Obligations to Outlays:		
Obligated balance, net, beginning of period	$ 149,653	$ 135,615
Obligated balance transferred, net (+/-)		
Obligated balance, net, end of period:		
Accounts receivable from reimbursement, earned income and other Federal sources	(2,894)	(1,413)
Unfilled customer orders from Federal sources	(6,284)	(6,804)
Undelivered orders, unpaid	154,374	117,866
Delivered Orders, unpaid	46,481	40,003
Total obligated balance, net, end of period	191,677	149,652
Outlays:		
Disbursements	672,508	703,636
Collections	(111,824)	(106,220)
Total Outlays	$ 560,684	$ 597,416

The accompanying notes are an integral part of these financial statements.
The Library has no nonbudgetary credit program financing accounts, all amounts above are budgetary.

THE LIBRARY OF CONGRESS

Consolidated Statements of Financing

For the Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Thousands)

	2003	2002
Resources Used to Finance Activities		
Obligations incurred	$ 723,253	$ 738,054
Spending authority from offsetting collections and recoveries	(120,544)	(126,600)
Net Obligations	602,709	611,454
Other Resources		
Donations of property and services	38,667	52,060
Transfers-in (out) without reimbursement	(16)	(118)
Imputed financing from costs absorbed by others	62,764	59,803
Exchange revenue not in the budget	(561)	(300)
Nonexchange revenue not in the budget	7	108
Trust/Special fund exchange revenue receipts	(5,685)	(4,301)
Other resources, In (Out)	10,676	(12,814)
Total Resources Used to Finance Activities	708,561	705,892
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	(34,867)	(18,516)
Resources that finance the acquisition of assets	(24,248)	(26,828)
Other resources or adjustments to net obligations that do not affect net cost of operations	(70,099)	(132,655)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(129,214)	(177,999)
Total Resources Used to Finance the Net Cost of Operations	579,347	527,893
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components requiring or generating resources in future periods:		
Increase in annual leave liability and actuarial liabilities	2,535	425
Total components of net cost of operations that will generate resources in future periods	2,535	425
Total Resources Used to Finance Activities		
Components not Requiring or Generating Resources		
Depreciation and amortization	8,478	22,581
Revaluation of assets and liabilities	(10,659)	12,824
Bad debt from public vendor overpayment receivables	(6)	2
Disposition of assets	0	(3)
Other costs not requiring or generating budgetary resources	97	(81)
Total components of net cost of operations that will not require or generate resources	(2,090)	35,323
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	445	35,748
Net Cost of Operations	$ 579,792	$ 563,641

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, 2003 and 2002

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-for-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 2003 and 2002. 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 (GAAP).

Material intra-Library transactions and balances have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position. The Statement of Budgetary Resources is presented on a combined basis, therefore, intra-Library transactions and balances have not been eliminated from this statement. Intra-Library transactions and balances have been eliminated from all amounts on the Consolidated Statements of Financing, except for obligations incurred and spending authority from offsetting collections and recoveries, which are presented on a combined basis.

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.

The statements include 4 (5) appropriated fund accounts; 26 (24) revolving (and gift revolving) funds; 18 (20) reimbursable funds; 101 (100) trust funds; and 124 (127) gift funds for fiscal year 2003 (and 2002, respectively).

C. Basis of Accounting

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 (OMB) 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.

The accounting structure of the Library is designed to reflect both accrual and budgetary accounting. 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 budgetary accounting, on the other hand, is designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The budgetary accounting facilitates compliance with legal constraints on and controls over the use of federal funds.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

D. Revenues and Other Financing Sources

• Appropriations

The Library receives the majority of its funding to support its programs through four 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. Appropriations are recognized as revenues at the time they are expended. The four appropriations for fiscal year 2003 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)

In addition, in fiscal year 2002, the Library had a separate appropriation for Furniture and Furnishings (annual and no-year). Those funds are now included within the remaining four appropriations.

• Earned Revenues

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. 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. Revolving and reimbursable fund revenue is recognized when goods have been delivered or services rendered.

The Cooperative Acquisitions Revolving Fund was established on October 1, 1997, by Public Law 105-55 and is the program under which the Library acquires foreign publications and research materials on behalf of participating institutions on a cost-recovery basis. Public Law 106-481 established revolving funds for Audio and Video Duplication, Gift Shop Operations, Decimal Classification, Photo Duplication, FEDLINK and Federal Research Program. The Audio and Video Duplication fund provides audio and video duplication and delivery services which are associated with the national audiovisual conservation center. The Decimal Classification fund performs decimal classification development. The Gift Shop fund operates a gift shop and other sales of items associated with collections, exhibits, performances, and special events at the Library. The Photo Duplication fund provides document reproduction and microfilming services. The FEDLINK program is the program of the Library under which procurement of publications and library support services, along with related accounting, education and support services are provided to Federal Government or District of Columbia entities. The Federal Research Program provides research reports, translations and analytical studies for Federal Government or District of Columbia entities. The Special Events revolving fund was established by Public Law 107-68 and performs services related to the hosting of special events and programs by the Librarian in Library facilities.

- **Imputed Financing Sources**

In accordance with FASAB's Statement of Federal Financial Accounting Standards (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 2003 and 2002 reporting OMB, (i.e. the Office of Personnel Management (OPM) and the Department of the Treasury). Since these costs are not actually paid to the other agencies, an imputed financing source is recorded to offset these costs that are financed by the other Federal agencies.

- **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 "super station" and network signals, and from importers and manufacturers for distributing digital audio recording technologies (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 controversies arise regarding the distribution 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.

- **Donation and Interest Revenue**

The Library receives monetary gifts from donors and receives interest on invested funds. The Library also received gifts of donated property or services during fiscal years 2003 and 2002. The Library records these in-kind donations as an expense and offsetting donated revenue. The Ad Council provided nearly all of the in-kind donations in the form of free advertising for America's website. US Airways provided airfare in exchange for being the official airline of the Library's annual book festivals and several other meetings.

EMTEC Promedia provided recording tapes to the Library. Finally, the Ira and Leonore Gershwin Trust Fund and Related Charitable Trust provided in-kind materials and services to the Library

- **Deferred Credits**

The Library received gifts subject to certain conditions being met. These are not considered earned until the conditions are met, and are recorded as deferred credits until earned.

E. Gift and Trust Funds

The Library administered gift and trust funds with combined asset value of approximately $139 million and $120 million during fiscal years 2003 and 2002, 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 2003 and 2002:
  - 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 primarily 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 accounts receivable due from non-federal customers, based on past collection experience. The Library does not record allowance for doubtful accounts for intragovernmental accounts receivable in accordance with 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 and Related Property

The Library's inventories and supplies and materials 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.

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 funds. 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 funds.

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.

Until 2002, the largest category of equipment was for the National Library Service for the Blind and Physically Handicapped lending program, which is classified as equipment on loan to the public. The Library purchased this unique, specially designed equipment from the manufacturer in large lots with a high bulk value. For financial reporting purposes, the machines were grouped by the aggregate amount purchased and shipped to machine lending agencies during a fiscal year. Each fiscal year group was then accounted for over the estimated useful life of the assets in the aggregate. The value of the equipment did not include any freight or postage costs. These shipping costs were included under the U.S. Postal Service's "free matter for the blind and physically handicapped." See note 1.S for change in accounting principle.

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," 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.

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. The Architect receives an appropriation from Congress to fund maintenance, care and operations of the Library's buildings and grounds. Costs associated with the acquisition and maintenance of these buildings is accounted for by the Architect. However, the Library has recorded the cost and related financing source in its books. The Library does capitalize and depreciate leasehold improvements to all of its facilities as long as the improvements were made using the Library's funding sources.

M. Library Collections

The Library's collections are classified as "heritage assets". Heritage assets are assets with historical, cultural educational, artistic or natural significance. The collections are priceless and in many cases irreplaceable. No financial value can be placed on them. So, in accordance with federal accounting standards, their value is not presented on the balance sheet. The cost of acquiring additions to the collections is expensed when incurred in the statement of net cost. 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. The Library's 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.

O. Federal Employee Retirement Benefits

Approximately 38 percent and 41 percent of the Library's employees participated in the Civil Service Retirement System (CSRS) during fiscal years 2003 and 2002, respectively, to which the Library makes contributions equal to 7.0 and 8.5 percent of pay during fiscal years 2003 and 2002, respectively. Approximately 2% of employees under CSRS are also covered by Social Security (FICA) for which the Library's contribution is slightly less. An additional 53 percent and 49 percent of the Library's employees were covered by the Federal Employees Retirement System (FERS) during fiscal years 2003 and 2002, respectively, to which the Library's normal cost is 11.5 percent of pay, in addition to matching employee Thrift Savings Plan (TSP) contributions up to an additional five percent of pay (matched dollar-for-dollar on the first 3 percent of pay and 50 cents on the dollar for the next 2 percent of pay). Under FERS, the employee is also covered by FICA to which the Library contributes the employer's matching share. The remaining Library employees, nine percent and ten percent during fiscal year 2003 and 2002, respectively, were only covered by FICA to which the Library contributes the employer's matching share.

The accrued contributions due at the end of the fiscal year are reported as liabilities covered by budgetary resources.

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 2003 and 2002, respectively, and was offset by an imputed financing source, which represents the amount being financed directly by OPM.

P. Federal Government Transactions

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. The financial statements do not contain the cost of activities performed for the benefit of the entire government, nor do they include the agency's share of the federal deficit or of public borrowings, including interest thereon. However, expenses have been recognized for expenses incurred by certain other agencies on behalf of the Library, including settlement of claims and litigation paid by the Treasury's Judgment Fund and the partial funding of employee benefits by OPM.

The Library's program for the blind and physically handicapped participates in the U.S. Postal Service's (USPS) "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 that 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. No cost for this has been determined, nor included in the Library's financial statements as the USPS is not one of the executive branch agencies that OMB has designated for reporting.

Services Provided to other Federal Agencies:

- 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).

Services Provided by other Federal Agencies:

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

Q. Related Party Organizations

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) donate their time to repair the cassette book machines and talking book machines.

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 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 $4.7M and $4.3M at September 30, 2003 and 2002, 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 that relate to Spain, Portugal and Latin America

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.

R. Presentation Reclassifications

Certain amounts for fiscal year 2002 have been reclassified to conform to the fiscal year 2003 presentation of those amounts.

S. Change in Accounting Principle

Under the National Library Service for the Blind and Physically Handicapped (NLS) program, The Library acquires cassette machines and distributes them through the use of regional libraries (which are not part of the Library of Congress) to further its program to provide reading material for the blind and physically handicapped residents of the United States, its outlying areas and for U.S. citizens residing abroad.

Prior to fiscal year 2003, the LOC capitalized annual bulk purchases of these machines and depreciated over 6 years based upon purchase date. Once the machines are shipped, the custodial and maintenance and distribution responsibilities for the machines reside with the regional libraries. During fiscal year 2003 the Library determined that it is preferable to recognize the initial purchase of machines as inventory items and expense them at the time they are distributed to the regional libraries for ultimate distribution to the individuals requiring assistance. The Library determined that the accounting treatment described above better reflects the economic nature of the transaction.

The change in accounting principle resulted in a cumulative adjustment of $39,909,832 in fiscal year 2003. As a result of the change, net cost of operations and appropriations used decreased by $126,833 in fiscal year 2003. Had the new method of accounting been in effect during fiscal year 2002, net cost of operations and appropriations used would have decreased by $349,000.

2 *Fund Balance With Treasury*

A. Fund balance with Treasury at September 30, 2003 and 2002, is summarized as follows:

(Dollars in Thousands)

	2003	2002
Appropriated Funds (2)	$270,325	$248,804
Revolving and Reimbursable Funds	57,476	49,451
Gift and Trust Funds (1)	13,956	13,405
Custodial, Deposit and Other Funds	2,526	2,978
Total	**$344,283**	**$314,638**

(1) At September 30, 2003 and 2002, 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 4.75 and 4.4 percent, respectively.

(2) Pursuant to Public Law 106-554, $75 million is unavailable for expenditure unless matched with non-Federal contributions for the NDIIPP that are received by March 31, 2005.

B. Status of Fund Balance with Treasury

	2003	2002
Unobligated Balances Available	$134,432	$146,196
Unobligated Balances Unavailable	16,039	18,012
Obligated Balances not yet Disbursed	193,812	150,430
Total	**344,283**	**$314,638**

3 *Custodial Funds*

Custodial activity consists of the following:

(Dollars in Thousands)

	2003	2002
Source of Cash Collection:		
Licensing Fees	$200,288	$206,811
Investment Interest	8,980	12,265
Total Cash Collections	209,268	219,076
Investment Amortizations/Accruals	(189)	(606)
Total Custodial Revenue	**$209,079**	**$218,470**
Disposition of Collections:		
Payments to Copyright Owners	(65,590)	(110,002)
Refunds	(1,456)	(1,921)
Change in Investment Premium	(796)	(538)
Retained by Copyright Licensing for Administrative Costs	(5,356)	(4,491)
Net Custodial Activity	135,881	101,518
Beginning Custodial Liability	657,665	556,147
Ending Custodial Liability	**$793,546**	**$657,665**

4 *Investments, Net*

Investments at September 30, 2003 and 2002 are as follows:

(Dollars in Thousands)

	2003			2002		
	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	$840,095		$840,095	$704,666		$704,666
Cost		83,000	83,000		81,701	81,701
Unamortized Premium	899		899	1,685		1,685
Unrealized Discount	(456)		(456)	(358)		(358)
Interest Receivable	383		383	529		529
Investments, Net	**840,921**	**83,000**	**923,921**	**706,522**	**81,701**	**788,223**
Market Value	**$841,240**	**$61,298**	**$902,538**	**$706,999**	**$49,365**	**$756,364**

A. Intragovernmental Investments

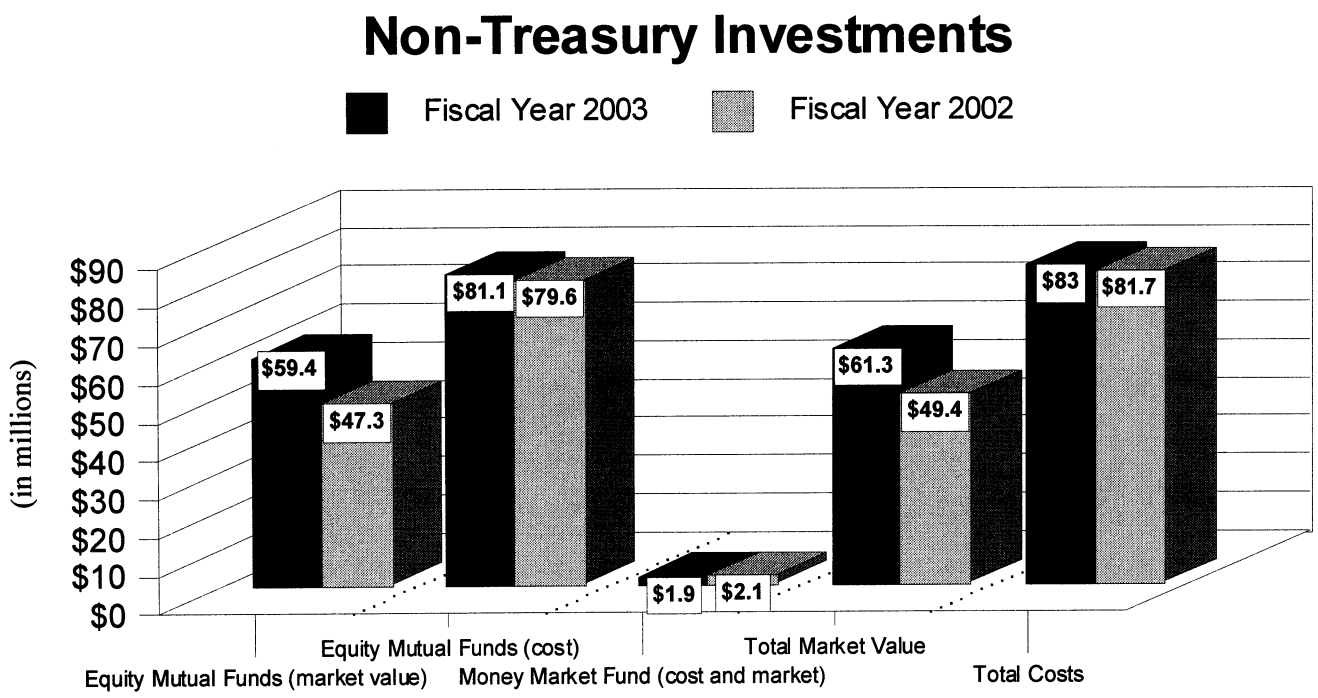
Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Trust fund investment maturity dates for fiscal years 2003 and 2002 range from October 2, 2003 to May 15, 2006 and October 3, 2002 to May 15, 2006, respectively, and interest rates for the same fiscal year ranges from .8 percent to 10.8 percent and 1.4 percent to 10.8 percent, respectively.

Custodial funds investment maturity dates for fiscal years 2003 and 2002 range from October 9, 2003 to August 31, 2004 and October 3, 2002 to August 31, 2003, respectively, and interest rates for the same fiscal years range from .8 percent to 3.6 percent and 1.6 percent to 5.5 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, 2003 and 2002, are as follows:



5 *Receivables*

The breakdown of consolidated gross and net accounts receivable at September 30, 2003 and 2002, are as follows:

A. Accounts Receivable

(Dollars in Thousands)

	2003	2002
Intragovernmental		
Accounts Receivable, Gross and Net	$7,999	$7,576
With the Public		
Accounts Receivable, Gross	872	485
Allowance for Doubtful Accounts	35	41
Accounts Receivable, Net	837	444

B. Pledges Receivable

At September 30, 2003 and 2002, the Library had unconditional pledges of contributions totaling $10.8 million and $11.5 million, which were discounted through fiscal years 2012 and 2007 at a market discount rate and included in the statement of financial position at their discounted value of $10.2 million and $11.1 million, respectively.

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

(Dollars in Thousands)

Fiscal Year	2003	2002
2003	-	$6,356
2004	$6,609	2,233
2005	1,720	690
2006	692	552
2007	187	1,233
2008	253	
2010-2012	731	
Total	**$10,192**	**$11,064**

6 *Property and Equipment*

Property and equipment that were capitalized at September 30, 2003 and 2002 are as follows:

(Dollars in Thousands)

	2003			2002		
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	$11,224	$0	$11,224	$3,811	$0	$3,811
Operating equipment	67,645	53,582	14,063	59,218	$52,735	6,483
Software	10,628	5,847	4,781	9,520	4,841	4,679
Furniture & Furnishings	985	410	575	985	369	616
Capital Leases	1,020	802	218	1,020	576	444
Leasehold Improvements	10,745	9,218	1,527	10,679	8,549	2,130
NLS/BPH Equipment - loan to public	0	0	0	93,920	54,010	39,910
Total	**$102,247**	**$69,859**	**$32,388**	**$179,153**	**$121,080**	**$58,073**

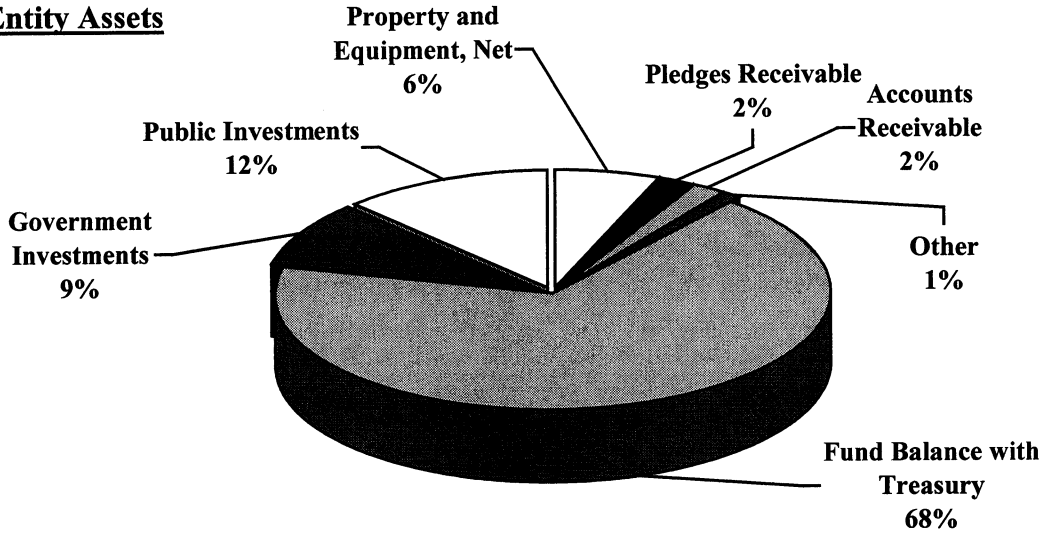
See note 1.S for change in accounting principle.

7 *Entity and Non-Entity Assets*

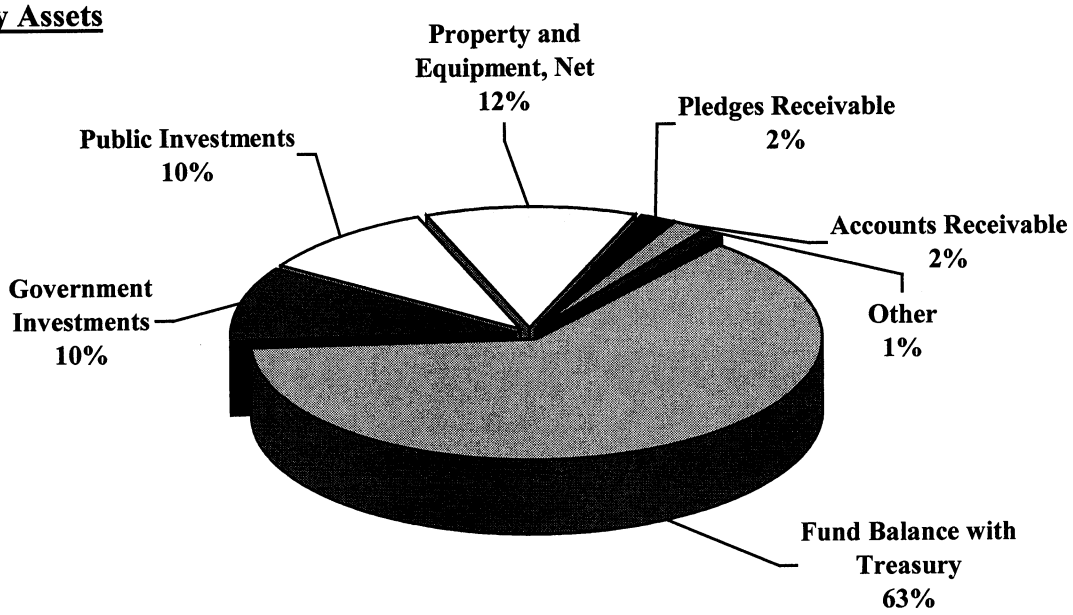
(Dollars in Thousands)

	2003			2002		
	Entity	**Non-Entity**	**Total**	**Entity**	**Non-Entity**	**Total**
Intragovernmental Assets						
Fund Balance with Treasury	$343,500	$783	$344,283	$313,542	$1,096	$314,638
Investments	47,001	793,920	840,921	49,953	656,569	706,522
Accounts Receivable, Net	7,995	4	7,999	7,572	4	7,576
Other Assets	1,654		1,654	5,493		5,493
Investments	61,298		61,298	49,365		49,365
Pledge Receivable - Donations	10,192		10,192	11,064		11,064
Cash and other Monetary Assets	762	9	771	978		978
Inventory	1,955		1,955	2,010		2,010
Property and Equipment, Net	32,388		32,388	58,074		58,074
Other Assets	7,300	2	7,302	1,025	1	1,026
Total	**$514,045**	**$794,718**	**$1,308,763**	**$499,076**	**$657,670**	**$1,156,746**

2003 Entity Assets



2002 Entity Assets



8 *Leases*

A. Capital Leases

The Library has assets under capitalized leases for machinery and equipment at a net book value of $217,924 and $443,852 as of September 30, 2003 and 2002, respectively.

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	2003	2002
2003	$0	$292
2004	195	270
2005	159	179
2006	23	23
2007	0	0
2008 and thereafter	0	0
Total Future Lease Payments	377	764
Less: Imputed Interest	84	144
Net Capital Lease Liability	**$293**	**$620**

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 years 2003 and 2002 amounted to $2,723,359 and $2,626,504, respectively. Under existing commitments as of September 30, estimated future minimum lease payments through fiscal year 2008 are as follows:

(Dollars in Thousands)

Fiscal Year Ended September 30	2003	2002
2003		$2,578
2004	$2,617	2,545
2005	2,478	2,412
2006	857	805
2007	55	55
2008 and thereafter	0	0
Total Estimated Future Lease Payments	**$6,007**	**$8,395**

9 *Workers' Compensation*

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

The Library is using estimates provided by DOL to report the FECA liability. The Library accrued $1,671,034 and $1,632,452 of unbilled or unpaid workers' compensation costs as of September 30, 2003 and 2002, respectively. The amount owed to DOL is reported on the Library's Balance Sheet as an intragovernmental liability. The Library also established an estimated unfunded liability payable to employees, for future costs based on historical claims rates. The estimated future unfunded liability is $8,793,261 and $9,086,707 as of September 30, 2003 and 2002, respectively, and is based on a ten-year projection. This liability is recorded on the Balance Sheet as a liability with the public.

10 *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.

11 *Other Liabilities*

Other Liabilities as of September 30, 2003 and 2002 are comprised of the following:

(Dollars in Thousands)

	2003	2002
Deferred Credits and pledges	$508	$2,102
Advances from the Public	2,171	2,791
Capital Lease Liability	293	620
Contingent Liability-Heritage Assets		60
Unfunded Payable-Cancelled Appropriation Total		2
Totals Other Liabilities	**$2,972**	**$5,575**

12 *Liabilities Covered and Not Covered by Budgetary Resources*

(Dollars in Thousands)

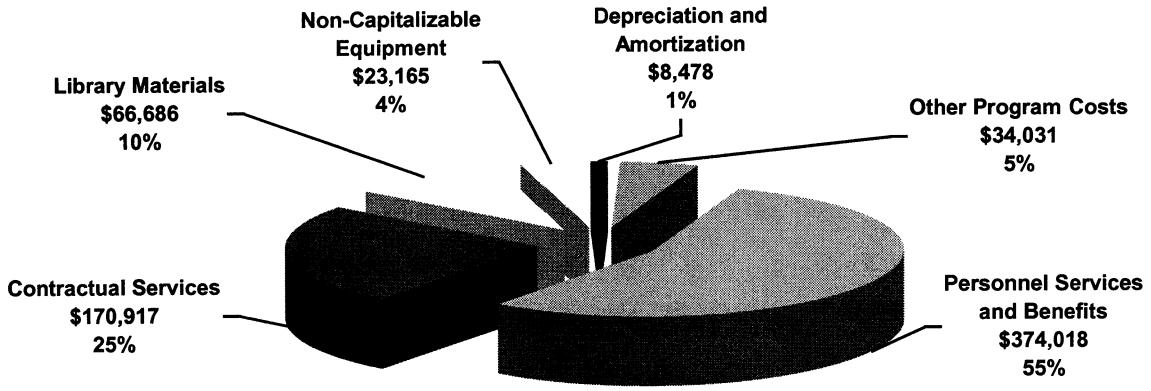
	2003	2002
Liabilities Covered by Budgetary Resources	$873,288	$732,627
Liabilities Not Covered by Budgetary Resources – Intra Governmental	1,671	1,633
Liabilities Not Covered by Budgetary Resources - Other	31,158	28,987
Total Liabilities	**$906,117**	**$763,247**

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

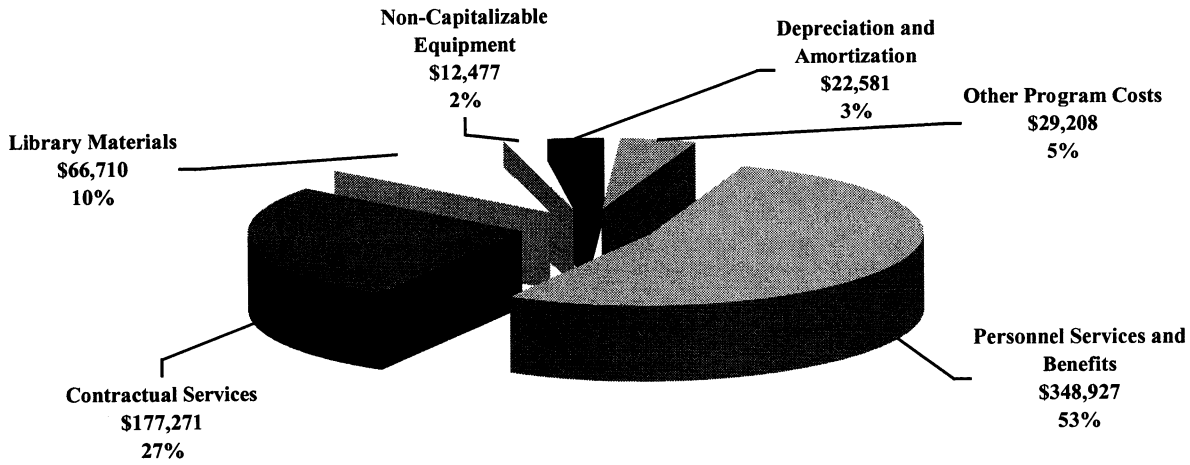
13 *Program Costs by Budget Object Classification*

(Dollars in Thousands)

FY 2003 Program Costs by Budget Object Classification



FY 2002 Program Costs by Budget Object Classification



The Library's collections are classified as "heritage assets". $21,238 and $20,442 of the amount designated as "Library Materials" above represents the fiscal years 2003 and 2002 cost incurred by the Library for "heritage assets".

14 *Program Costs and Earned Revenue by Functional Classification*

Program Costs by Functional Classification - Consolidated

(Dollars in Thousands)

Function Classification	2003	2002
Commerce and Housing Credit	$60,675	$56,668
Education, Training, Employment and Social Services	503,811	493,151
General Government	112,786	107,327
Income Security	23	28
Total	**$677,295**	**$657,174**

Earned Revenue by Functional Classification – Consolidated

(Dollars in Thousands)

Function Classification	2003	2002
Commerce and Housing Credit	$28,557	$23,850
Education, Training, Employment and Social Services	68,929	69,644
General Government	17	38
Total	**$97,503**	**$93,532**

15 *Program Costs and Earned Revenue for Revolving Funds*

(Dollars in Thousands)

	2003	2002
Audio Visual Services:		
Program Cost	$843	$1,859
Less Earned Revenue	171	$188
Net Program Cost	$672	$1,671
Cooperative Acquisitions Program:		
Program Cost	2,222	1,927
Less Earned Revenue	2,335	2,218
Net Program Cost	(113)	(291)
Decimal Classification:		
Program Cost	431	374
Less Earned Revenue	497	302
Net Program Cost	(66)	72
Document Reproduction and Microfilm Services:		
Program Cost	3,846	3,732
Less Earned Revenue	2,734	2,275
Net Program Cost	1,112	1,457
Gift Shop Operations:		
Program Cost	1,326	1,653
Less Earned Revenue	1,265	1,472
Net Program Cost	61	181
Federal Research Division:		
Program Cost	2,074	1,935
Less Earned Revenue	1,824	2,804
Net Program Cost	250	(869)
FEDLINK:		
Program Cost	53,023	55,057
Less Earned Revenue	53,416	54,182
Net Program Cost	(393)	875
Special Events:		
Program Cost	305	0
Less Earned Revenue	154	0
Net Program Cost	151	0
Total Program Cost	$64,070	$66,537
Less Total Earned Revenue	$62,396	$63,441
Total Net Program Cost	$1,674	$3,096

16 *Exchange Revenues*

In accordance with Library of Congress Regulation (LCR) 1510, Financial Services, the Library must comply with any OMB circular or bulletin if it is specifically prescribed in (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.

17 *Classification of Program Costs*

(Dollars in Thousands)

Fiscal year 2003	**Intragovernmental**		**Public**		**Total**
	Production	**Non-Production**	**Production**	**Non-Production**	
National Library	$99,144		$258,571		$357,715
Law Library	5,593		12,603		18,196
Copyright Office	22,391	35	38,242		60,668
Congressional Research Service	30,314		83,265		113,579
National Library Service for the Blind and Physically Handicapped	4,731		46,057		50,788
Revolving and Reimbursable Funds	6,477	86	69,786		76,349

(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

18 *Imputed Financing Sources*

(Dollars in Thousands)

Agency	2003	2002
Architect of the Capitol – Library buildings and grounds costs	$36,203	$35,243
Government Printing Office – exchange program costs	746	693
Office of Personnel Management – staff benefit costs	25,637	23,867
US Treasury Judgment Fund – Imputed Costs	178	
Total	**$62,764**	**$59,803**

19 *Budgetary Resources*

Budgetary resources are classified as follows:

(Dollars in Thousands)	2003			2002		
	Appropriated Capital	Non-Appropriated Capital	COMBINED	Appropriated Capital	Non-Appropriated Capital	COMBINED
Budgetary Resources						
Budget authority						
Appropriations received	$506,616	$227,595	$734,211	$459,548	$235,174	$694,722
Net transfers (+/-)	(497)	0	(497)	31,075	0	31,075
Other	(1)	21	20	0	19	19
Unobligated balance:						
Beginning of period	139,903	713,573	853,476	135,985	607,621	743,606
Spending authority from offsetting collections						
Earned						
Collected	2,507	106,767	109,274	875	104,308	105,183
Receivable from Federal sources	0	1,482	1,482	0	1,027	1,027
Change in unfilled customer orders						
Advance received	0	2,168	2,168	0	(1,463)	(1,463)
Without advance from Federal sources	0	(521)	(521)	0	1,556	1,556
Transfers from trust funds	0	382	382	0	2,501	2,501
Subtotal	2,507	110,278	112,785	875	107,929	108,804
Recoveries of prior year obligations	4,914	2,845	7,759	15,218	2,267	17,485
Temporarily not available pursuant to Public Law	(1)	36	35	40	(376)	(336)
Permanently not available-Cancellation of Authority	(3,323)	(268)	(3,591)	(3,611)	(546)	(4,157)
Permanently not available-Enacted Recissions	(3,441)		(3,441)			
Total Budgetary Resources	$646,677	$1,054,080	$1,700,757	$639,130	$952,088	$1,591,218

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2003 and 2002

(Dollars in Thousand)	2003			2002		
Status of Budgetary Resources:						
Obligations incurred, direct & reimbursable	$519,498	$203,755	$723,253	$499,228	$238,514	$737,742
Unobligated balance-Exempt from Apportionment	121,453	850,861	972,314	133,538	713,491	847,029
Unobligated balance not available-other	5,726	(536)	5,190	6,364	83	6,447
Total Status of Budgetary Resources	$646,677	$1,054,080	$1,700,757	$639,130	$952,088	$1,591,218
Relationship of Obligations to Outlays						
Obligated balance, net, beginning of period	$108,950	$40,703	$149,653	$92,905	$42,710	$135,615
Obligated balance transferred, net (+/-)						
Obligated balance, net, end of period:						
Accounts receivable	0	(2,894)	(2,894)	0	(1,413)	(1,413)
Unfilled customer orders from Federal sources	0	(6,284)	(6,284)	0	(6,804)	(6,804)
Undelivered orders	115,883	38,491	154,374	84,691	33,175	117,866
Accounts payable	27,298	19,183	46,481	24,259	15,744	40,003
Total obligated balance, net, end of period	143,181	48,496	191,677	108,950	40,702	149,652
Outlays:						
Disbursements	480,353	192,155	672,508	467,965	235,671	703,636
Collections	(2,507)	(109,317)	(111,824)	(875)	(105,345)	(106,220)
Total Outlays	$477,846	$82,838	$560,684	$467,090	$130,326	$597,416

For trust funds, approximately $9.1 million and $9.7 million of unobligated authority for fiscal years 2003 and 2002, 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 $73.5 and $72.1 million of restricted authority has been obligated and expended to invest in non-Treasury securities for the fiscal years 2003 and 2002, respectively.

THE LIBRARY OF CONGRESS

STEWARDSHIP REPORT

HERITAGE ASSETS

September 30, 2003

Overview of the Library Collections

The Library of Congress has the world's largest library collection of nearly 128 million items, including research materials in over 460 languages and various media. The collections include more than 29 million books and other printed materials 57 million sheets of manuscripts, 12 million photographs, 4.8 million maps, five million pieces of music, 2.7 million audio recordings, and 925 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.

An ongoing goal of the Library's acquisitions effort is to acquire recent books, serials, maps and other material documenting the American experience. Another goal is to acquire research quality materials published in languages other than English and in other countries that complement and extend materials published in the United States. During fiscal year 2003, the Library

placed its collecting emphasis on:

- New electronic resources
- Any material documenting terrorism, United States foreign policy, and the United Nations.

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, which include 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' 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 web site, 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, Area Studies, Preservation and representatives from the Law Library and the Congressional Research Service.

Digital Preservation - An important focus of the Library's efforts concerning digital preservation remains the National Digital Information Infrastructure and Preservation Program (NDIIPP), funded by a fiscal year 2001 appropriation of 99.8 million from the U.S. Congress. The program encourages shared responsibility for digital content among diverse communities in the public, private, commercial, educational, and not-for-profit sectors and seeks national solutions for the ongoing collection, selection, and organization of historical significant cultural materials regardless of formats; and persistent, rights-protected for the public to the digital heritage of the American people. The NDIIPP plan, the result of an 18-month planning, research and consultation process, was approved by Congress in December 2002.

During fiscal year 2003, the Library undertook a series of internal and external activities consistent with the NDIIPP goals. The Library has also initiated organization of an international Internet consortium with 12 institutions and released the first NDIIPP Call for Applications for External Partners. A Memorandum of Understanding was developed with the National Endowment for the Humanities to assist with the Peer Review process associated with the applications under this Program Announcement. In addition, the Library has articulated a Digital Strategic Plan and identified 12 internal projects related to NDIIPP. The Library has continued to consult with technical experts and has made progress on technical aspects of digital preservation.

Building the Digital Collection - During fiscal year 2003, 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 3,500 web sites through its MINERVA web preservation project. The project, in collaboration with WebArchivist.org of the State University of New York Institute of Technology and the Internet Archive, created the Election 2002 Web Archive with additional funding from The Pew Charitable Trusts through the University of Washington Center for Communication and Civic Engagement.

The Election 2002 Web Archive is a selective collection of nearly 3,000 sites archived between July 1, 2002 and November 30, 2002. During the course of the project, the MINERVA team worked closely with WebArchivist.org to manage the collection and permissions process, catalog the Web sites and develop a browse interface to provide access to researchers of the collection. On Election day, the team's reference specialist traveled to the State University of New York Institute of Technology to monitor the elections and to select additional content. A snapshot of the home pages of these Election Day sites was generated throughout the day to create an exciting look at the day's activities.

The initial March 4th, 2003, release of the Election 2002 Web Archive included web sites produced by congressional and gubernatorial candidates. It features browse searching capabilities, developed with WebArchivist.org, to allow access to Web Archive Records and archived sites by office, party, state and candidate name. In July 2003, the Library of Congress began hosting the archive directly from LC servers, a major accomplishment done with the support of staff in the Information Technology Services office. Previous collections had been hosted temporarily by the Internet Archive.

In fiscal year 2003 the MINERVA project also collected web sites relating to the 107th Congress and the War in Iraq. The MINERVA team also focused this year on the cataloging of 2500 September 11 Web Archive sites (in collaboration again with WebArchivist.org), and worked on other issues related to access and searching of the LC's web archives with ITS and cataloging staff, in particular. In order to better manage the labor-intensive notification and permissions process necessary for creating LC web archives, the MINERVA team worked with staff from the Office of Strategic Initiatives to develop an online database system to enable more efficient mailing and tracking of web sites identified for collection. This system was first used for the War in Iraq collection and further development to improve and refine the tool will continue into the next year.

A researcher has access to these web sites through the Library's online catalog.

In April 2003, the Library of Congress completed a Collections Policy Statement for Web Site Capture & Archiving. This statement is available on the Collections Policy Committee Web site.

Electronic Serials Early in the year, the Library began discussions with the Elektronische Zeitschriftenbibliothek (EZB) of Regensburg, Germany, concerning the possibility of LC membership. The EZB is a consortium of more than 200 European research libraries that have joined efforts to create a shared database of more than 16,000 electronic journal titles. The EZB does not function as a purchasing consortium, preferring instead to let each member library handle its own acquisitions. Consortium members all contribute access records to the shared database, however, which contains links to the online content of those journals for which the individual university library has obtained access rights.

The Library's discussions with the EZB constituted the first concrete steps toward acquiring electronic resources systematically for the Library's collections, while at the same time beginning to establish an international partnership to lessen the workload and increase the effectiveness of our acquisitions activity. LC formally joined the EZB in April, giving immediate access to full-text articles in approximately 4,000 free e-journals, primarily English and German, as well as access to the bibliographic records for all the e-journals in the database.

Incorporating the e-journal titles the Library received as part of the database and providing access to patrons and staff through the Library's online public access catalog became major priorities. Staff from the Acquisitions, Area Studies, Cataloging, and Public Service Collections Directorates developed a procedure to

ensure that the EZB e-journal titles selected for remote access were consistent with LC collection policy guidelines and other selection criteria. An initial pilot project evaluated 400 of the approximately 4,000 titles. In thinking through the implications and ramifications of collecting electronic journals, Library staff have learned, among other things, that its collection policies, cataloging policies, and general workflows will need to be revised to accommodate this new format.

The acquisition of electronic resources from other sources also appears to have become self-sustaining in the past year. An agreement was negotiated with DIRSA, a subscription agent based in Mexico, through which DIRSA became LC's e-journal subscription agent covering all of Latin America and Iberia. Under the terms of an interesting licensing agreement, LC gains remote access to the online content of e-journals for which DIRSA placed subscription orders for LC. After twelve months of remote access, the publisher then sends LC every month the machine-readable file for the issue (s) that appeared twelve plus months ago. LC has agreed to preserve and maintain these files for use by researchers in the future.

The East View Publications database of Slavic e-journals and newspapers was another major electronic resources acquisition completed in fiscal year 2003. The Library purchased this full content database to complement its already strong holdings in Russian and Eastern European material.

The Law Library continued to expand its online resources. The major acquisitions were the purchase of the entire online file of the *United States Congressional Serial Set* (Readex); the *Constitutions of the Countries of the World Online* (Oceana); and *LLMC-Digital* (Law Library Microform Consortium).

The Law Library continued to maintain the Guide to Law Online, prepare the Multinational Collections Database for public access on the Law Library's web site, make additions to the web site titled *A Century of Lawmaking for a New Nation*, and expand the Global Legal Information Network (GLIN).

The Guide to Law Online and A Century of Lawmaking were among the most popular electronic resources available on the Library's web site. The Guide recorded 1,581,309 hits during the fiscal year, while A Century of Law-making recorded 1,158,714. The Multinational Collections Database recorded 86,018 hits since its debut on the Law Library Reading Room home page at www.loc.gov/mulp. At year's end, the database had 6,515 records.

Bibliographic Enrichment Activities. The best-known Bibliographic Enrichment Advisory Team (BEAT) project has been the enrichment of online catalog records by providing electronic table of contents data (TOC). This year BEAT-developed software supported the inclusion of TOC in 8,598 records for Electronic Cataloging in Publication titles and enabled links to and from another 11,000 catalog records to D-TOC, or digital tables of contents, which resided on a server. Links to TOC were also provided by the BEAT ONIX projects, which link LC catalog records to tables of contents, publisher descriptions, sample text, and reading group guides provided by publishers in ONIX, the standard for communicating book industry product information in electronic form. At year's end there were nearly 115,000 links, including links to more than 7,500 sample texts and more than 63,000 publisher descriptions of their publications. The Library counted nearly 2.5 million visits to the D-TOC and ONIX records residing on its server.

International Digital Projects. Early in the fiscal year, the Office of the Librarian assigned responsibility for the Global Gateway Projects to the Area Studies Collections Directorate. The chief of the European Division, who had pioneered these international collaborative digitization projects with the groundbreaking Meeting of Frontiers project, was appointed project director.

The *Meeting of Frontiers* project grew to over 330,000 digital images by the end of the fiscal year and included several outreach and educational activities. The *Spain, the U.S. and the American Frontier: Historias Paralelas* project grew with a major addition of manuscripts digitized by the Mapfre Foundation for the National Library of Spain.

The Hispanic Division and the Brazilian National Library completed the first phase of *The United States and Brazil, Expanding Frontiers, Contrasting Culture* project. The European Division worked with the National Library of the Netherlands on a project dealing with the Dutch presence in North America, *The Atlantic World: America and the Netherlands, 1609 to the*

Present. For both projects, web site launches were projected for early next fiscal year.

The African and Middle Eastern Division (AMED) began preliminary discussion for a project with the National Library of Egypt. The European Division undertook preliminary discussions with the Bibliothéque Nationale de France (BnF) on a digital project with the theme of the French in North America, with emphasis on early French explorers. The Library of Congress and the BnF reached an agreement in principle to proceed with the project, and planning began in the fall of 2003.

The European Division's acquisition of the Comintern archive, 1,000,000 images of digitized documents and a full database of descriptors, marked the culmination of a seven-year international project involving the national archival services of Russia, France, Germany, Italy, Spain, and Switzerland in which the Library of Congress was the U.S. partner. The material from the archive of the International Communist Party was a treasure trove for countless scholars of 20th century political movements.

The online Portals to the World project was almost seventy-five per cent completed, with portals for only thirty countries remaining to be mounted. The portal for each country links to authoritative, in-depth information about the nation and other areas of the world. The links were selected by Area Specialists and other Library staff using Library of Congress selection criteria. When completed, the project will include all the nations of the world. 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.

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 year 2003, research materials obtained for the collections through copyright deposits totaled 962,119 items.

The Cataloging in Publication Program is the other principal source of U.S. published books that the Library acquires. A mainstay of U.S. library service for thirty years, the program provides cataloging data, based on pre-publication galleys, to participating publishers who include the data in their published books. As participants, these publishers are required to submit a copy of the published book to the Library. This copy is in addition to the two copies mandated under the copyright law. The Library also acquires U.S. publications through the Preassigned Card Number Program. In fiscal year 2003, the Library obtained 95,967 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.

Official Exchanges Among 5,000 exchange agreements, the Library of Congress maintains about seventy "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.

Duplicate Materials Exchange Program In the spring of 2002, a Business Process Improvement (BPI) project, XBPI, was initiated to examine the Library's duplicate materials exchange program. The goals of the XBPI were to maintain and improve equitable exchange with actively partnering institutions; reduce staff time needed to process materials for exchange; reduce space

used to store duplicates, list materials, and pack items; reduce redundant physical handling; and implement a web-based customer interface to replace paper lists.

Customized questionnaires were sent to the Library's general exchange partners to solicit information about their exchange arrangements with the Library. In November, the first set of twelve different subject exchange lists, containing a total of 5,192 separate item listings, was produced and mailed to 1,461 of the Library's most productive exchange partners. A total of 484 exchange partners selected 4,526 books from the November lists. A second set of 12 different subject exchange lists was mailed to all general exchange partners in late spring 2003. A regular schedule of mailings was established. The Duplicate Materials Exchange Program, as the new operation is known, transformed the Library's numerous duplicate materials into a centralized, cost-saving, and partially automated program that would be the building block to develop a web-based exchange program that holds the promise of greater efficiencies for the Library and better service to the Library's exchange partners.

In fiscal year 2003, the Library received approximately 149,744 items through its exchange relationships.

Federal Transfer 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 year 2003, the Library received 108,319 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:

	1999	2000	2001	2002	2003
Annual Appropriations Authorized	$10,119,000	$10,321,000	$10,456,000	$15,824,474	$10,815,240
Estimated Value of Copyright Deposits Transferred to the Library	$36,435,429	$ 32,308,047	$ 31,857,394	$31,302,048	$33,749,004
Government Printing Office Appropriation (part of Superintendent of Documents	$527,000	$687,000	$630,000	$718,000	$752,000

Acquisitions by source:

Source	Pieces 1999	Pieces 2000	Pieces 2001	Pieces 2002	Pieces 2003
Purchases:					
Appropriated - GENPAC/LAW	776,712	811,566	711,133	897,193	892,324
Appropriated Other	45,601	54,024	55,564	34,397	24,855
Gift and Trust Funds	4,076	8,090	4,514	393	2,947
Total Purchases	826,389	873,680	771,211	931,983	920,126
Non-Purchases:					
Exchange	288,538	249,954	211,107	163,138	149,744
Government Transfers	116,088	124,142	126,590	140,105	108,319
Gifts	1,709,712	965,364	1,760,344	864,398	1,488,847
Cataloging in Publication/PCN	79,046	68,416	71,963	67,971	95,967
Copyright Deposits	954,081	751,944	728,034	896,504	869,083
Total Non-Purchases	3,147,465	2,159,820	2,898,038	2,132,116	2,711,960
Total All Acquisitions	3,973,854	3,033,500	3,669,249	3,064,099	3,632,086

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 year 2003, the Preservation Directorate provided a comprehensive range of services to preserve, protect and make available the Library's extensive collections. Through the coordinated efforts of staff in the Directorate's four divisions and two special programs, 1,873,453 items were preserved at a total cost of $12,164,716. The average per-item cost was $6.49.

Notable accomplishments included the provision of 35,000 hours of conservation treatment for custodial division collections, including the selection and stabilization of 600 items for the National Digital Library; the successful completion of year two of a five-year preventive preservation initiative; deacidification of 223,575 books and one million sheets of paper; completion of the second year of a multi-year project to determine the life expectancy of compact disc media; and the preservation microfilming of 2.2 million exposures (4.3 million pages) for service to the Congress and the public. Digital preservation activities included hosting visits for national and international digital preservation experts, consultations with digital preservation research experts and laboratories, and providing support for the efforts of the National Digital Information Infrastructure and Preservation Program.

During fiscal year 2003, guidelines for responding to water-related emergencies were revised and included in the Library's Comprehensive Emergency Preparedness Plan. The Conservation Division and key areas in other Preservation Directorate divisions received security upgrades. The Library's Top Treasures List was also revised. To enhance emergency preparedness, collection emergency response kits were dispensed to Library divisions and staff trained in their use. A mobile flash freezer unit, for emergency response, was also installed.

To support the Library's digital preservation efforts, the Directorate developed a technical plan that employs digital tools extending the range of preservation services and options available to collection stewards. The plan focused specifically on: 1) the development of digital reformatting

capabilities; 2) hybrid approaches to preserving content that used both analog and digital approaches; and 3) applied digital preservation research.

Building collaborations was a top priority of the plan, and during the year several important partnerships were forged. The first of these involved collaboration with the Department of Energy's Lawrence Berkeley Laboratory to develop a proposal for a two-dimensional imaging device for horizontally modulated recording media. The second involved entering into an interagency agreement with the National Institute of Standards and Technology to conduct a series of life-expectancy tests on compact disc (CD) and digital versatile disk (DVD) media. The third collaboration involved a series of planning meetings with scientists from the John Hopkins University Applied Physics Laboratory. These discussions focused on developing tools and strategies for preserving and providing sustained access to diverse databases, and the commissioning of research regarding preservation repository architecture design, including definition of aspects that constitute a 'trusted digital repository.' A series of pilot projects and position papers on these topics was planned for the next fiscal year.

Core Preservation Program Activities - The Preservation Directorate continued to convene the Preservation/MBRS Working Group to address issues regarding the preservation of sound and moving image materials. The group developed a stainless steel film storage can specification and procured the first shipment of these cans.

Conservation Division - The Conservation Division surveyed 7,074,700 special collection items for treatment, digitization, exhibition, and relocation to off-site storage. Staff treated 12,000 books, paper, photographic and mixed media materials, and housed 313,000 items. Major projects included examination, documentation and emergency preparedness and storage for the Library's top treasures. Additionally, the newly acquired 1507 Waldseemüeller Map of the World (Cosmographia Mundi), the first map on which 'America' appears, was analyzed, treated and placed into a preservation - quality protective housing for exhibition and storage. The exhibit case uses passive methods to achieve environmental stability. Fiber optic lights were used in the exhibition to assure long-term preservation of the map.

Conservators performed condition assessments on over 85 special collections covering over 58,300 items. Each collection was assigned a preservation priority rating that will guide future treatment. Conservators treated over 8,000 rare books, manuscripts and photographs, and created protective containers for over 23,000 items from 12 custodial divisions. Treasures from all divisions were documented and given protective housings.

To support the Library's active exhibition and loan program, conservators processed more than 310 items from eight Divisions for 34 external loans, and over 500 items from eight Divisions for 11 in-house exhibitions, which included Library collection material for three rotational exhibitions: *Bob Hope, Gershwin, and American Treasures.*

The second year of the Paper Strengthening pilot program saw the conclusion of a comprehensive testing program and the start of the treatment of Library collection material. A process called mechanical paper splitting was selected as the best candidate for increasing the strength and life span of brittle paper. Samples treated by the vendor were thoroughly tested, and additional research into pre-splitting treatment was conducted in collaboration with the Preservation Research and Testing Division. The research and analysis resulted in the definition of a treatment protocol to be used by the vendor in the treatment of the Library's collection material. Approximately 1,500 pages of the *New York Journal* were treated, resulting in dramatic improvement of the newspapers' durability and usability.

Work continued on the development of written preservation specifications for equipment and furnishings for collections. An environmental monitoring project continued with the Image Permanence Institute (IPI) to optimize collection environments using existing equipment. An additional 62 Preservation Environment Monitors were added to 22 earlier installations, bringing the total to 84 monitors throughout collection storage areas in all custodial divisions, including Fort Meade and at Culpeper.

The second Getty Grant Program Fellow completed collection and item-level surveys in the pre-Meiji collections of the Asian Division and the French Law Rare Book collections in the Law Division, where an

environmental survey of the Rare Book vault was also undertaken.

To share with others the important conservation work that takes place at the Library, conservators presented over two dozen lectures and workshops at LC, across the U.S., and in Latin America, the UK, Switzerland, Scandinavia, and Italy. Additionally, a new series of twelve programs, Topics in Preservation Science (TOPS), was implemented to continue the Directorate's long tradition of scientific training, innovation and collaboration.

The Directorate hosted a three-day workshop, funded by the Andrew W. Mellon Foundation, entitled Photographs and Preventive Conservation: Theory, Practice, and Implementation. Over seventy people from around the world attended. Like the TOPS programs, this workshop will be made accessible from the Preservation Directorate's web site.

Division staff contributed content to the LC Comprehensive Emergency Management Plan and the LC Security Plan and developed the Treasures Emergency Management Plan.

Binding and Collections Care Division - The Binding and Collections Care Division (BCCD) provided timely commercial bindery preparation, repair, labeling and box-making for Library collections. Staff labeled a total of 166,906 volumes, did quality reviews on 219,187 volumes returning from the bindery, and prepared 94,355 volumes for binding. Staff also bound 6,274 pamphlets and sent 221,053 volumes for commercial binding, of which 51,381 monographs and 32,303 serials were processed by contractors. The workflow of the Library's Mass Deacidification Program was merged with the Binding Preparation Section workflow so that books could be identified for deacidification upon return from the bindery.

The BCCD Collections Care Section repaired 2,867 volumes and constructed 10,357 boxes. Preservation boxes are used to stabilize and protect collections items from the environment. They are also used to keep brittle collection items intact as much as possible and to ensure that multi-piece and/or mixed format items are stored together. The section hosted four interns and volunteers who contributed to the preservation of the Library's collections.

Preservation Research and Testing Division - Research carried out in the Research and Testing laboratory produced a new technique that could discern and quantify the aging of paper over weeks and months instead of decades. These techniques were applied to the aging of several different papers at and above room temperature. These studies will make lifetime projections of various papers possible with a much higher degree of confidence than ever before. Results of this work will to be published in fiscal year 2004.

The Library participates in efforts to develop preservation standards, including standards that apply to the production of new materials, which result in less preservation work being required for those materials over the long-term. Such preservation standards development work during the year included participation in the Association for Image and Information Management's (AIIM) Standards Board, to develop a PDF standard for archival or permanent documents; chairing the American Society for Testing and Materials 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; development of specifications for permanent and durable materials to house Library collections; participation in DVD Association meetings held to form a Government-wide special interest group (SIG) dedicated to addressing longevity issues as DVD technology develops and matures.

Preservation Reformatting - The preservation reformatting program successfully preserved 4,348,720 pages of Library material through microfilming (2,190,702 exposures or 4.3 million pages), preservation facsimile (39,722 pages), and digitization (8,998 pages) for service to the public. The reformatted material was drawn from three Area Studies Collections divisions, seven Public Service Collections divisions and the Law Library.

The preservation facsimile program replaced 75 embrittled reference volumes (39,722 pages) from the Library's reading rooms with preservation-quality, acid-free paper facsimile volumes bound to the Library's standards. Efforts were taken to begin transforming this existing analog preservation process into a hybrid analog/digital solution.

Digital preservation was also extended to materials too brittle to lend to other libraries. Staff digitally processed over 100 public domain items (8,998 page images), too brittle for traditional interlibrary loan delivery mechanisms, making them available to the original requester and other future users via the web.

In an effort to better preserve important characteristics of large format color materials acquired by the African/Asian Acquisition and Overseas Operations Division's Rio de Janeiro office, preservation staff arranged for the digitization of posters and microfilming of text documents comprising the eleventh supplement of the Brazil's Popular Groups. This unique collection of newsletters, house reports, brochures and educational materials from all regions of Brazil documents the ideas and activities of organizations and popular movements not available from traditional publications.

Mass Deacidification Program - With a successful mass deacidification program in place since 1996, the Library has extended the useful life of more than 775,000 books through this new preservation technology that neutralizes the acid in paper. During fiscal year 2003, the Library ramped up treatment to 200,000 books, achieving the third-year goal of a five-year contract that will enable the Library to deacidify one million books. Achieving another important objective of its Thirty Year (One Generation) Mass Deacidification Plan, the Library used the new onsite single-sheet treatment cylinder, installed late in fiscal year 2002, to deacidify 1,000,000 pages of non-book, paper-based materials this year.

United States Newspaper Program – Fiscal year 2003 marked the twentieth anniversary of the United States Newspaper Program (USNP). During the past twenty years, access to newspapers was greatly enhanced through the program's effort to catalog over 167,700 titles and to preserve on microfilm an anticipated 65.8 million newspaper pages. The National Endowment for the Humanities (NEH) expected to conclude the existing USNP by 2007; the Library and NEH staff engaged in intensive discussions during 2003 on how best to make the fruits of the USNP microfilming effort digitally available. Negotiations with NEH were ongoing at the close of the fiscal year.

Grant awards from NEH of $1.67 million in fiscal 2003 funded continuing projects in three states: California, Illinois and Virginia. State projects were completed in Arizona. Active projects continued in Michigan, New York and Tennessee. To date, NEH provided $49.2 million in support of USNP projects. Non-federal contributions totaled approximately $19.6 million.

Preservation statistics for fiscal year 2003 are as follows:

Treatment:	
Volumes treated	5,534
Unbound items treated, paper-based	8,569
Photographs (examined, treated, housed)	19,764
Commercial library binding, volumes	221,053
Mass Deacidification, volumes	223,575
Mass Deacidification, paper sheets	1,000,000
Housing/Rehousing:	
Protective boxes constructed	10,357
Items rehoused, paper-based	98,826

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 of Congress 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 does make certain materials available for borrowing through interlibrary loan.

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 year 2003, the Library issued reader registration cards to 36,662 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 year 2003, a total of 107,588 items were circulated to other authorized borrowers.

Collections Security

Building on the fiscal year 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 barcoded and linked to a specific holdings record at the first stage of the acquisitions process. Both the barcoding and the creation of a holdings record is an enhancement provided by the LC ILS. The system allows item-level tracking of collection items and facilitates collection inventory.

Baseline Inventory Program The Baseline Inventory Program, in its second year of operation, showed a substantial increase in productivity during fiscal year 2003. 480,681 volumes were inventoried. Of these items, 56,624, or 11.78 per cent, required problem resolution over two years, a total of 588,371 volumes have been inventoried. An additional 105,000 volumes that had been inventoried by Law Library staff were reviewed by Program staff in fiscal year 2003, before those items were transferred to offsite storage at Fort Meade.

Serials Inventory Control At the beginning of fiscal year 2003, the contractor Library Systems and Services, Inc., completed the conversion contract for active serials. This included active entries from all three Serial Record Division files: Visible File, 3x5 File, and Microform File. By December 2002, the Serials Inventory Control Team completed review of the contract work.

Other Activities Throughout the year, the Library continued to implement the security plan adopted in 1997. Specific action taken includes:

Book theft detection targets were installed in 140,654 volumes in the collections and incoming materials in the Copyright Office. Since 1992, targets have been installed in 7,941,645 collections items. 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.

Monitoring the effectiveness of staff security practices and enhancing staff security awareness were significant ongoing initiatives led by Protective Services in collaboration with the Collections Security Oversight Committee (CSOC) throughout fiscal year 2003. Protective Services and the CSOC have now conducted fifty-nine Site Assistance Visits (SAVs) to divisions throughout the Library. Two-person teams conduct the SAVs with two weeks' notice; on each SAV, a librarian joins a physical security expert. SAV findings are reported to the Office of Security (OS) director and to the chief of the division inspected. The OS has found that the SAVs over time significantly enhance security practices of the Library's staff members. Areas that improved over the past twelve months included the proper display of Library identification badges; timely

charging of books; and enhanced control over keys and generic electronic access cards. Moreover, division chiefs frequently requested tailored briefings and follow-up assistance visits from Protective Services.

The security web sites designed by Protective Services and the CSOC for patrons and staff continued to enhance security awareness. In fiscal year 2003, the patron web site averaged about 10,500 hits monthly.

Protective Services' senior physical security specialist continued serving as the Library's Contracting Officer's Technical Representative (COTR) on the contract with Securiguard, Inc. Library Security Officers employed by Securiguard have played a central role in deterring the theft and mutilation of the Library's priceless collections. The contract with Securiguard entered its last option year, requiring recompetition of the contract. The COTR, working closely with the Contracting Office, prepared a new Statement of Work, organized a question-and-answer session with potential bidders, and led a proposal review team. The recompetition process was proceeding on schedule for award in November 2003.

Cataloging & Arrearage Reduction

In fiscal year 2003, the Cataloging Directorate of the Library of Congress pursued its mission to provide leadership to the library and information communities and innovative and effective bibliographic access to onsite and remote resources. It crafted its first multiyear strategic plan; produced high-quality, timely cataloging for nearly 270,000 bibliographic volumes; collaborated with other directorates and service units in reducing the arrearage; enriched the Library of Congress Online Catalog with links to tables of contents and other data; promoted cooperative cataloging programs; and developed and promulgated cataloging policy and standards. Perhaps most notably, this was a year of heavy investments for the future. Staff explored ways to improve the bibliographic control of digital content and began development of the New Books program to provide enhanced prepublication information to LC catalog users.

The Cataloging Directorate issued a strategic plan covering fiscal years 2003 through 2008, its first effort to craft an overall strategic plan that would guide its activities for a multiyear period. The plan featured six strategic goals:

1) Provide national and international leadership in the development and promotion of cataloging policy, practice, standards, and programs; 2) Provide appropriate and quality bibliographic and inventory control data for onsite and remote resources; 3) Attain cataloging currency and meet arrearage reduction targets; 4) Provide leadership in the application of bibliographic control/access to digital content; 5) Develop staff resources and provide effective personnel management; and 6) Ensure a secure environment for Directorate staff, collections, and data. The plan also outlined thirty strategic initiatives in which the directorate would invest during the next two years.

Production and Arrearage Reduction The Cataloging Directorate and Serial Record Division cataloged a total of 269,568 bibliographic volumes in fiscal year 2003. Production of full or core original cataloging, the category of most interest to other libraries, totaled 185,363 bibliographic records. The directorate cleared 731 print items on 160 new collection-level cataloging (CLC) records and created an additional 4,108 CLC records from surrogates for archival manuscript collections submitted to the NUCMC (National Union Catalog of Manuscript Collections) Team, Special Materials Cataloging Division (SMCD). Cataloging staff created inventory-level records for 42,465 items and CLC for 11,300 rare slides of Kabuki theater.

Production of authority work decreased in most categories this year. The directorate, with the Serial Record Division and the field offices administered in the African/Asian and Overseas Operations Division, created 84,822 new name authority records, a decrease of 4.13 percent from the previous year, and 8,762 new series authority records, a slight decrease of 1.65 percent from last year. Changes to name and series authority records totaled 68,336, which represented an increase compared to the 44,823 actual changes by catalogers in fiscal year 2002. Total new subject headings including those produced by catalogers and by the Subject Heading Editorial Team, Cataloging Policy and Support Office (CPSO),

numbered 7,242, nearly as many as the 7,365 created in fiscal year 2002. Total changes to subject headings nearly doubled, to 14,426 in fiscal year 2003 compared to 7,574 the previous year. Catalogers proposed 1,403 new numbers in the Library of Congress Classification, a decrease of 23.63 percent since the previous year, and changes to 166, a decrease of 13.54 percent.

The completion and implementation of the schedule for religious law in general (Class KB) and Islamic law (Class KBP) resulted in improved subject control and retrieval for works covered under these topics. The introduction of the Class KB and Class KBP effectively shut down the LAW card shelflist because there are now Class K schedules for call number applications covering all subjects and jurisdictions. What remained was more than 800,000 volumes labeled under the antiquated in-house LAW system requiring reclassification for enhanced retrievability and access.

The Cataloging Directorate received 364,886 items (compared to 367,509 received in fiscal year 2002) and completed 374,079 (compared to 372,932 in fiscal year 2002). It also cleared 109,853 arrearage items for other Library units. The entire arrearage of Latvian history and literature was processed by the directorate's sole Latvian cataloger. The Japanese I Team completed cataloging the arrearage of 11,300 Kabuki slides and related playbills and guides. An eight-month project cleared an arrearage of items in African and Oceanian languages. Staff processed 67,650 discs from the AFRTS (Armed Forces Radio and Television Service) broadcasts this year, bringing total processing in this project to 118,859 items cleared. Staff also cataloged all the music scores and sheet music in the Marion S. Carson Collection of Americana, and 10,024 items were cleared from the rare book arrearage. The Reformation Collection, Shaker Collection, and Pennell Collection of graphic arts and cookbooks were completely processed.

Arrearage Reduction in the Public Service Collections Directorate At the close of fiscal year 2003, the arrearage in special formats, which, except for rare books, are processed in the Public Service Collections Directorate, was 20,145,910 items, representing a total reduction of 43 percent since the Library's original arrearage census of September 1989. The Cataloging Directorate had reduced the rare book arrearage by 72 percent, to fewer than 100,000 items. The arrearage of pictorial materials had decreased by 69 percent and of maps by more than 45 percent. Approximately half the arrearage of music and sound recordings had been eliminated, as well as 63.5 percent of the moving-image arrearage. The arrearage of manuscripts stood at 11,504,993 items, technically a reduction of only fifteen percent since 1989 but actually reflecting the Library's success in acquiring huge and valuable new collections of manuscripts which had been processed in the intervening years.

This year the American Folklife Center completed processing of the Joel Halpern, Dunaway/Seeger, Leadbelly/Lomax, Julie McCullough/Folklore Society of Greater Washington, Todd-Sonkin Migrant Workers, Anne and Frank Warner, and Sam Eskin collections, pending review of draft collection guides. The Save Our Sounds Project entered its third year and considerable progress was made on all of the eight collections earmarked for digitization: *Eloise Hubbard Linscott Collection; American Dialect Society*; *Don Yoder Collection*; *International Storytelling Collection; James Madison Carpenter Collection*; *Eleanor Dickinson Collection*; *Zuni Storytelling Collection*; and *the Pearl Harbor Collection*: All items in this collection have been digitized, all data entered, and the collection is now completely accessible as an American Memory site.
The Geography and Map Division cataloged and placed 25,872 maps sheets under bibliographic control. Among electronic cartographic resources, 174 new records were created controlling 1339 items.

The Manuscript Division processed 724,468 items from the Library's arrearage. In the Motion Picture Broadcasting and Recorded Sound Division (MBRS), 1,837 reels of 16mm and 35mm archival film elements in the NBC Kinescope Collection were physically processed, labeled and MAVIS control records updated.

The Music Division cleared 146,971 items, including 80,640 from the million-item Theodore Presser Collection.

In fiscal year 2003, the pictorial materials arrearage was reduced by 156,528 items. In partnership with the Research Libraries Group Cultural Materials Initiative, the Prints and Photographs Division

cataloged and digitized 768 rare historical prints in the Tissandier Collection (development of balloon flight from 1700s to 1900s); minimal, inventory-level approach to captions allowed all 5,000 glass negatives in the Brady-Handy Collection to be scanned and added to the online catalog of photographs; processing of the LOOK Magazine Photograph Archive reached its final year.

To increase access to the Law Library's unparalleled collection of legal information, work toward the elimination of arrearages accelerated significantly in fiscal year 2003. As part of a five-year campaign authorized with a one-time Congressional appropriation of $850,000 in 2002 helped spur this year's efforts to completion—three months ahead of schedule. Added to the original $750,000 base appropriation to maintain its collections and process new receipts, this one-time grant brought to $1.6 million the support that Congress has generously provided to assist the Library in keeping its collections searchable and accessible for all its patrons.

The Law Library achieved a 100 percent reduction in four arrearage categories: agency transfers; monograph and serial receipts; loose-leaf filing backlogs; and retrospective binding preparation. Three new positions for inventory and physical control technicians were filled in order to provide sufficient staffing to maintain currency for processing incoming receipts forthwith.

The Law Library's Collection Services staff identified 93,501 volumes and prepared them for transfer to the high-density storage facility at Fort Meade, Maryland. Serials and monographs are now housed offsite with a 24-hour request turnaround time for such materials as Australian national and state official gazettes, some Indian state gazettes, Congressional hearings (copies 3-4), and some sets of the *National Reporter System.* This movement of volumes off-site was counter balanced by the addition of 60,400 volumes to the collection in fiscal 2003.

Fiscal Year 2002 and 2003 arrearage statistics:

Items in Arrearage	2002	2003	Change	Percent Change
Print Materials	**577,963**	**276,688**	**- 301,275**	**- 52.12**
Special Materials	**19,517,045**	**20,145,910**	**628,865**	**3.22**
Total	**20,095,008**	**20,422,598**	**327,590**	**1.63**

Offsite Storage Facilities

Fort Meade The Fort Meade High Density Storage Facility opened on November 18, 2002. With an estimated capacity of 1.2 million items, the facility represented the beginning of the Library's program to utilize custom-built offsite facilities both to relieve overcrowding on Capitol Hill, and to ensure an excellent preservation environment. The first module was designed to house items in book format (monographs and bound periodicals). Selected items from the general collections, and items in the custody of the Asian Division, African and Middle Eastern Division and the Law Library are being transferred to the facility. By the close of the fiscal year, a total of 653,783 volumes were transferred. Requests for items housed at Fort Meade continued to increase as the number of items stored there increased. During the fiscal year, an average of sixteen requests per day were retrieved, with a 100% retrieval rate--i.e. every requested item was found.

Accommodating the rapid growth in the general collections continued to be a great challenge. After the initial transfer of blocks of materials from the stack areas to the Fort Meade facility, plans were developed to select materials for the facility from areas throughout the stacks, thus allowing the Library to use a "thinning" approach in the most crowded areas. Under the initial phase of this program, additional copies of monographs will be inventoried and sent to Fort Meade.

National Audio Visual Conservation Center Throughout fiscal year 2003, intensive planning continued for the National Audio Visual Conservation Center (NAVCC) in Culpeper, Virginia. The new Center is being developed in collaboration with the Packard Humanities Institute (PHI). By the end of the year, 100% Construction Drawings had been issued for Phase 1 of the project, covering the existing Collections building that will be retrofitted entirely for collections storage, plus the Central Plant. Progress Design Development Drawings were completed for the rest of the campus, Phase 2, which includes the new Conservation building and Nitrate film vaults.

In August 2003, the Library, the Packard Humanities Institute, and the Architect of the Capitol completed a three-way Implementation Agreement governing the project. This agreement covers the construction of the NAVCC by PHI and its transfer to the government when construction is completed. Construction work on the NAVCC site began immediately following the signing of this agreement. The Collections building and Central Plant will be completed in June 2005, at which time the Motion Picture, Broadcasting, and Recorded Sound Division will be able to relocate its recorded sound, videotape and safety film collections to Culpeper. Phase 2 is scheduled for completion in March 2006, at which time MBRS staff and the nitrate film holdings will be relocated from Washington and Dayton to the new facility.
A Concept of Operations for the NAVCC was produced in September. This document describes the Center's new business and operations models, and presents a number of innovative operational scenarios for enhanced national-level services.

Wright-Patterson Air Force Base Service of the nitrate negatives stored at the film vaults on the Wright-Patterson Air Force Base was reestablished after a six-month hiatus caused by the move of the collection from the Suitland vaults with a service plan that included special procedures to safeguard the collections.

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.

Estimated Quantity of Each Category of Collection Materials at September 30, 2003:

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	18,993,274	376,371	1,990	19,367,655	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.	9,695,885	50,974	5,033	9,741,826	
Total Print Collections	28,689,159	427,345	7,023	29,109,481	
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	97,371,821	1,375,569	135,991	98,611,399	Acquisitions: Copyright deposits, purchase; exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA.
Total Collections	126,060,980	1,802,914	143,014	127,720,880	

THE LIBRARY OF CONGRESS MANAGEMENT ASSERTION ON CONTROLS FOR THE COLLECTIONS

Fiscal Year Ended September 30, 2003

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 127 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 (NAVCC). In August 2003, the Library, the Packard Humanities Institute (PHI) , and the Architect of the Capitol completed a three-way Implementation Agreement governing the project. This agreement covers the construction of the NAVCC by PHI and its transfer to the government when construction is completed. Construction work began immediately. The Collections building and Central Plant will be completed in June 2005 at which time the Motion Picture, Broadcasting, and Recorded Sound Division will be able to relocate its recorded sound, videotape and safety film collections to Culpeper. Phase 2 is scheduled for completion in March 2006, at which time MBRS staff and the nitrate film holdings will be relocated from Washington and Dayton to the new facility. The years of planning for off-site storage of other collections at Fort Meade, Maryland, came to fruition when the facility opened November 18, 2002. With an estimated capacity of 1.2 million items, the facility represented the start of the Library's program to utilize custom-built offsite facilities both to relieve overcrowding on Capitol Hill, and to ensure an excellent preservation environment. By the close of the fiscal year, a total of 653,783 volumes was transferred. During the year there has been an average of sixteen requests per day for materials at Fort Meade. Every requested item was found and delivered to a researcher on Capitol Hill. 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. During fiscal year 2003, prospective sites were narrowed to three based on threat analysis and environmental assessments.

MANAGEMENT ASSERTION

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

1) We are responsible for establishing and maintaining the internal control structure for the collections;

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

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

Inventory controls include but are not limited to: item-level holdings records and bar-coding for non-rare monographs accessioned October 1999 or later; the automated circulation control system as implemented in the Integrated Library System (LC ILS); manual and automated shelf list and serial records; finding aids and other detailed item and/or collections descriptions; and registry of items lent for exhibition.

Preservation controls include but are not limited to: use of surrogates (digital, microform, service copies of audiovisual materials); collections care programs; disaster preparedness; Top Treasures security; de-acidification; conservation of individual items; preservation treatment of processed items; preservation research and testing programs to define actions for deacidification, storage, audio preservation; studies of longevity of new digital media, work on national standards, 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. 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, 2003, 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 continued its 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, 2003, the Library had reduced the arrearage count of print materials to 276,688 items but newly acquired materials for the non-print collections increased the total arrearage to 20,422,598 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: Contractors supervised by Library staff continue work on the inventory of the general collections, books and serials. 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 2003, 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 used to develop a security plan 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 was conducted on samples of these formats and determined there would be no negative 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

UNITED STATES GOVERNMENT LIBRARY OF CONGRESS

Memorandum

Office of the Inspector General

TO: James H. Billington
Librarian of Congress

February 26, 2004

FROM: Karl W. Schornagel
Inspector General

SUBJECT: Results of the Library of Congress FY 2003 Financial Statements Audit

We contracted with the independent public accounting firm of Kearney & Company to audit the financial statements of the Library of Congress as of September 30, 2003. Attached is a copy of their report. The contract required that the audit be done in accordance with generally accepted government auditing standards (GAGAS), OMB's bulletin, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*. 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 eighth 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 (a "clean opinion").

In its audit, Kearney & Company found that:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- The Library of Congress had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, however, there are reportable conditions which are discussed below,[1]
- There was one occurrence of noncompliance with laws and regulations tested that is discussed below.

[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.

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 systems need to be improved to be consistent with Federal Government best practices. Specific needed improvements include documenting the Library-wide security program, updating risk assessments, implementing a fully functioning certification and accreditation program, enhancing application change and system development controls, updating logical access controls, continued enhancement of segregation of duties related to the assignment of IT security functions, and completing and implementing security awareness training.

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 and document a Library-wide disaster recovery plan, document emergency response procedures for the data center, provide training to all personnel and contractors, and fully enable the newly acquired alternate computer facility.

Compliance With Laws and Regulations

There is one reportable instance of noncompliance. During FY 2003 and 2002, 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 Controls 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 controls 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 controls 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 the inherent limitations in internal controls, unauthorized acquisitions, use, or disposition of collection assets may occur and not be detected, and that the Library fairly

[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 audit of the financial statements because collection assets are not reported on the balance sheet.

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, 2003.

We reviewed Kearney & Company's report and related documentation. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on the Library of Congress' financial statements or internal controls, or conclusions on compliance with laws and regulations. Kearney & Company is responsible for the attached auditor's report dated February 6, 2004 and the conclusions expressed in the report. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS.

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
Chief Financial Officer

KEARNEY& COMPANY

Certified Public Accountants and Consultants

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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, 2003, 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, 2003 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, described below, that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States:

- Noncompliance with Congressional Accountability Act of 1995.

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, 2003, 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, 2003.

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 sheets of the Library as of September 30, 2003, and 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.

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 2003 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 2003, 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.

As discussed in Note 1S to the financial statements, the Library changed its accounting principle related to the purchase of cassette machines in the National Library Service for the Blind and Physically Handicapped program.

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. 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. Our procedures noted that the Library has drafted and submitted for Executive Committee review, a General Directive on Information Security and changes to LCR 1620, IT Security Policy. This directive and policy, if implemented, will address many of the weaknesses noted regarding security practices. The details of the matters are as follows:

- **Entity-Wide Security Program is not implemented.** The Library of Congress does not have a documented entity-wide security program in accordance with the Library of Congress Regulation 1620, Section 5 and Federal Government Information Technology Best Practices. 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 overdue.** The Library of Congress last performed a risk assessment of the information technology environment in April 1997. In accordance with Federal Government IT Best Practices, 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. Best Practices also requires that a target date of completion be set as a risk assessment becomes outdated. In FY 2003, the National Security Administration (NSA) began a review of the Library's IT environment. Neither documentation as to the scope of the NSA review, nor the results of their procedures, are yet available.

- **A certification and accreditation program is not fully functioning.** Beginning in 2003, all new Library IT systems are required to go through the certification and accreditation process before implementation. Application controls implemented prior to FY 2003 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 implementation. 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.

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

- **Segregation of duties should be enhanced.** Although the Library made progress in FY 2003, work responsibilities still need to 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 required training. Also, Library

employees, who utilize computer resources, are not required to attend periodic refresher security awareness training.

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
- Fully implement a certification and accreditation program
- Document program, application, and emergency change control procedures
- 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.

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 (Capitol Hill site in FY 03) 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 whether 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.

As required by OMB Bulletin No. 01-02, we considered the Library's internal controls over required supplementary stewardship information by obtaining an understanding of the Library's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information, and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon. 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 assertions 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, described below, with the following laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

- 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.

Kearney & Company

February 6, 2004

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Certified Public Accountants and Consultants

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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, 2003. 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, 2003, is fairly stated based upon the criteria described above.

Kearney & Company

February 6, 2004

UNITED STATES GOVERNMENT

Memorandum

Library of Congress
Office of the Librarian
Deputy Librarian

TO : Karl Schornagel
Inspector General

FROM : Donald L. Scott
Deputy Librarian of Congress

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 2003 and 2002. The audit report makes many good recommendations, and the Library is taking steps to address these recommendations.

I am pleased that the audit report reflects the Library's continued progress in ensuring accountability of our resources and the progress that has been made during fiscal year 2003 in the area of collections security. For the eighth consecutive year, the Library as received an unqualified audit opinion on the consolidated financial statements.

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