THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS

FISCAL 2005

THE LIBRARIAN OF CONGRESS

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

Sir:

It is my pleasure to submit to you the Library's fiscal year 2005 financial statements and accompanying opinion of the independent auditors, Kearney and Company, P.C.

For the tenth consecutive year, the independent auditors have issued an unqualified "clean" opinion on the Library's consolidated financial statements. The net cost of the Library's six major programs totals $635.8 million, including $73.5 million in costs incurred by three other agencies (i.e., Architect of the Capitol, Government Printing Office, and the Office of Personnel Management) in support of the Library's programs. The net cost also includes $108.5 million in earned revenue from copyright registration fees, cataloging distribution sales, and other fee-based and reimbursable programs.

In fiscal year 2005, the Library provided comprehensive Congressional research support in almost 200 policy areas, including *The 9/11 Commission's Recommendations and Congressional Legislative Responses*, advice and consent and confirmation processes for Supreme Court nominations, and Congressional support and review of emergency management in response to the Hurricane Katrina disaster. In total, the Library delivered more than 900 thousand replies in fiscal year 2005 to members of Congress.

The Library also registered approximately 532 thousand copyright claims, circulated nearly 24 million books and magazines free of charge to the blind and physically handicapped, and cataloged nearly 313 thousand books and serials–the highest number in the Library's history.

In addition to the traditional medium of print material, the Library increased its digital holdings to include more than 10 million primary digitized documents of American history and culture, all of which are free and available to the public, and the Library's main Web site recorded more than 3.8 billion hits.

The Law Library recorded 2.3 million transactions in the Guide to Law Online database, and the Global Legal Information Network added 1,100 laws from sixteen countries to its database.

The Library also added notable new acquisitions, including *Early American Newspapers* for its electronic collections, and many special collections including a donation from

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

Jay I. Kislak consisting of four thousand items documenting the history of the early Americas, a collection of 454 charts of the coast of China from the Chinese Navy Headquarters, and original music manuscripts of Felix Mendelssohn, Jerome Kern, and Woody Guthrie.

The Library continues to improve its financial and management systems while placing great emphasis on ensuring the security of the staff and collections, the latter of which total approximately 132 million items. We recognize the need to continue to improve our computer and collections controls as documented in the accountability reports.

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

Sincerely,

James H. Billington

James H. Billington
The Librarian of Congress

THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL YEAR 2005

TABLE OF CONTENTS

	PAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS	***1***
Introduction	*1-1*
The Library of Congress and Its Mission	*1-1*
Strategic Plan and Priorities	*1-1*
Brief History	*1-1*
The Library of Congress Today	*1-3*
Overview of Financial Statements	*1-5*
Key Performance Measures	*1-11*
Major Goals and Accomplishments in Fiscal Year 2005	*1-12*
Management Control Program, Systems, Controls and Legal Compliance	*1-23*
Stewardship Reporting	*1-24*
Limitations of the Financial Statements	*1-24*
FINANCIAL STATEMENTS AND NOTES	**2**
Consolidated Balance Sheets	*2-1*
Consolidated Statements of Net Costs	*2-2*
Consolidated Statements of Changes in Net Position	*2-3*
Combined Statements of Budgetary Resources	*2-4*
Consolidated Statements of Financing	*2-5*
Notes to the Consolidated Financial Statements	*2-6*
STEWARDSHIP REPORT	**3**
Overview of the Library Collections	*3-1*
Collections Policy	*3-2*
Preservation of Library Collections	*3-7*
Service	*3-13*
Collections Security	*3-13*
Cataloging & Arrearage Reduction	*3-15*
Offsite Storage Facilities	*3-16*
Financial Reporting	*3-17*

THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL YEAR 2005

TABLE OF CONTENTS

	PAGE
MANAGEMENT REPORT	**4**
Preamble – the Mission of the Library of Congress	*4-1*
Management Assertion	*4-2*
REPORT OF INDEPENDENT AUDITORS	**5**
Results of the Library of Congress FY 2005 Financial Statements Audit	*5-1*
Independent Auditor's Report	*5-2*
Comments by Library of Congress Management	*5-8*

THE LIBRARY OF CONGRESS

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 2005

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 2005.

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 approximately 132 million items – many of them unique and irreplaceable – in more than 470 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 plan's 18 goals are: serving the Congress, sustaining and preserving our collections, getting the National Audio Visual Conservation Center completed and operational, 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 four 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 approximately 132 million items include almost all languages and media through which knowledge and creativity are preserved and communicated.

The Library has more than 30 million books and other print items, including more than five thousand printed before the year 1500; 14 million photographs and other visual materials; 5.2 million maps; three million audio materials; 981 thousand films, television, and video items, including the earliest movies ever made; 5.3 million pieces of music; 59 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 2005 include: The unique Jay I. Kislak Collection of nearly 4 thousand items documenting the early history of the Americas; 38,555 individual oral histories collected from interviews with U.S. war veterans; Original music manuscripts of Felix Mendelssohn, Jerome Kern, George Gershwin, and Woody Guthrie; The Bernard Krisher Collection, containing 450 taped interviews with Asian dignitaries documenting major developments in Asia from 1962 - 1983; The personal and professional papers of the late Chief Executive Officer and Publisher of the *Washington Post*, Katharine Graham; The Cuban Exile Collection, 234 microfilm reels of materials documenting the Cuban-American experience; *Factiva,* a full-text online database of publications and up-to-the minute reports and news focusing on global developments and business from 118 countries in 22 languages; A collection of 454 charts of the coast of China from the Chinese Navy Headquarters, the Navigation Guarantee Department. A complete set of modern hydrographic charts of the Chinese coastline and areas of the South China Sea; The American Colony of Jerusalem Collection, a Christian society formed in Jerusalem in 1881 by an American, Horatio Gates Spafford, and his wife Anna Lawson Spafford.

The collections continue to grow. More than 13 thousand items are added to the Library's collections every day. These materials are organized, cataloged, and served to readers in on-site reading rooms and through cultural programs and exhibitions. A steadily increasing number of materials are made available free of charge on the Internet.

Major annual services include delivering more than 900 thousand replies to members of Congress, covering nearly 200 current policy areas and providing access to 1,400 regularly updated research products, registering about 532 thousand copyright claims, and circulating nearly 24 million books and magazines free of charge to the blind and physically handicapped. The Library provided assistance to local libraries all over the nation by cataloging nearly 313 thousand books and serials — the highest number in the Library's history.

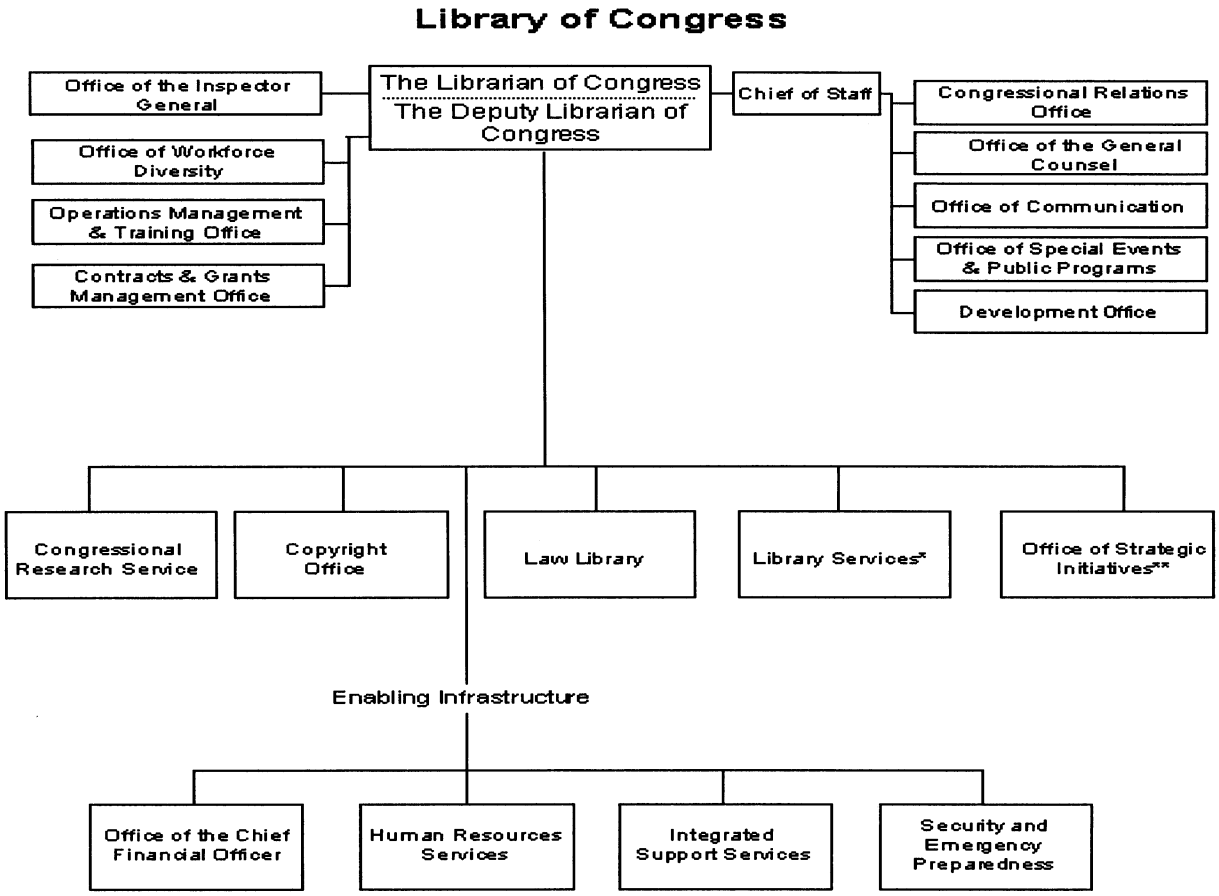
The Library's digital leadership occurs by providing free internet access to its entire catalog, to more than 10 million primary documents of American history and culture, to a growing body of similarly unique and multi-medial materials from six other major national libraries, and to extensive information about the Congress. In fiscal year 2005, the Library's web site, www.loc.gov, recorded more than 3.8 billion hits — a 14 percent increase in usage over fiscal year 2004. The Library also is coordinating the development and implementation of a comprehensive national plan mandated by the Congress for preserving important but often ephemeral materials on the Internet. The Library has enlisted eight national consortia involving 36 institutions across the country to share in this massive project. The Library has already collected 128 terabytes; and our partners are expected to collect an estimated 100 terabytes. The materials include digital maps, photographs, TV programming, news, and datasets.

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's programs and activities are funded by four salaries and expenses (S&E) appropriations, which support management of the Library, the National and Law Library Services, Copyright administration, Congressional Research Service, and Library Services to the Blind and Physically Handicapped.



*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 2005 and 2004, the Library has prepared Consolidated Balance Sheets, Consolidated Statements of Net Costs, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources and Consolidated Statements of Financing (see Section 2).

Consolidated Balance Sheets

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, 2005 and 2004. 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)		
	2005	2004		2005	2004
Entity Assets	$ 556.2	$ 531.4	Liabilities Covered by Budgetary Resources	$ 1,136.6	$ 934.2
Non-Entity Assets	1,048.5	855.7	Liabilities Not Covered by Budgetary Resources	32.0	31.6
			Total Liabilities	1,168.6	965.8
			Net Position	436.1	421.3
Total Assets	$ 1,604.7	$ 1,387.1	**Total Liabilities and Net Position**	$ 1,604.7	$ 1,387.1

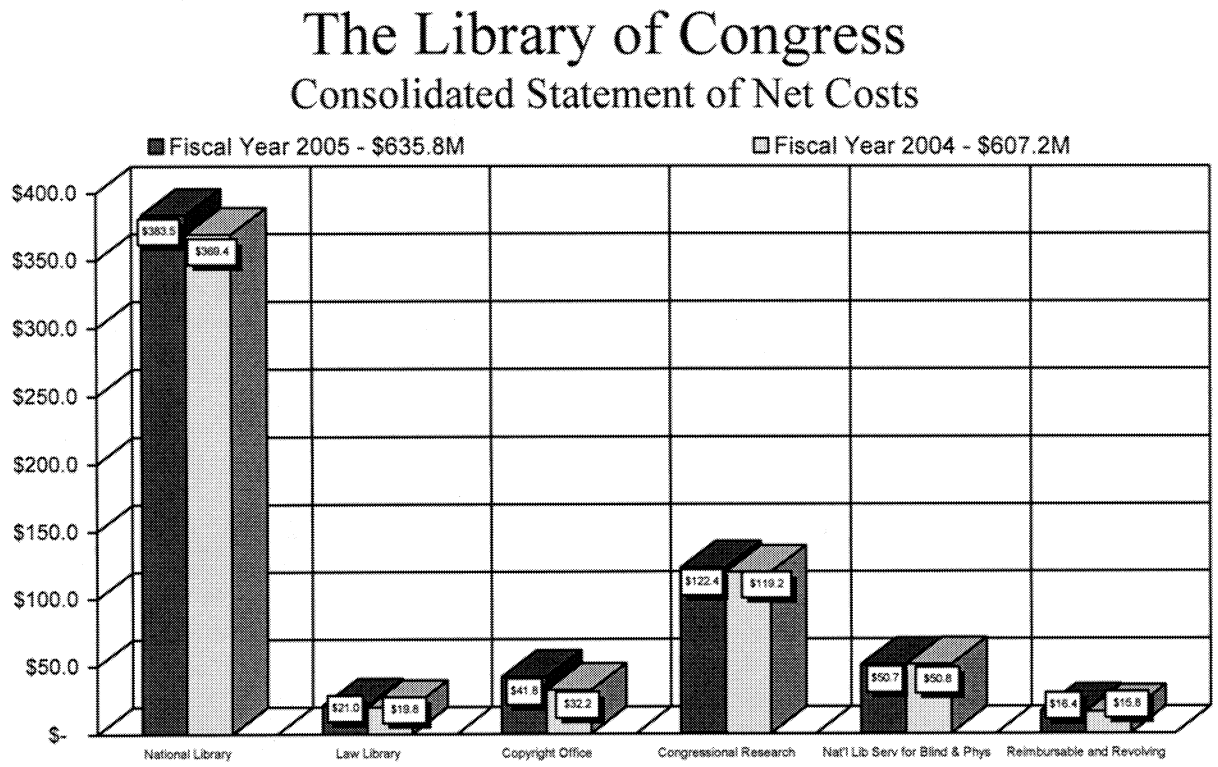
The Library's assets total $1.6 billion for fiscal year 2005 and $1.4 billion in fiscal year 2004. Entity assets increased by $24.8 million during fiscal year 2005. Significant increases include $6.7 million in pledges receivables and $7.3 million of unrealized gains in the Library's non-Treasury investment. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 65 percent and 62 percent of all assets and total $1,048.5 million and $855.7 million for fiscal years 2005 and 2004, respectively. Non-entity (custodial) assets increased by $192.8 million during fiscal year 2005 because current year royalty receipts were more than multiple prior-year royalty distributions to Copyright owners. The Library is authorized to invest the royalty funds in U.S. Treasury securities until the funds are distributed.

The Library's liabilities total $1,168.6 million and $965.8 million for fiscal years 2005 and 2004, 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 increase in non-entity assets during fiscal year 2005. 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, 2005 and 2004. In other words, the statements present the net costs of our programs – $635.8 million and $607.2 million for the fiscal years 2005 and 2004, respectively. Net costs include allocated management support costs (e.g., human resources, financial services, facility services). In general, the Library's net costs increase each fiscal year because of annual employee cost-of-living payroll adjustments. The net costs for each of the Library's six programs are:



National Library - With net program costs of $383.5 million and $369.4 million for fiscal years 2005 and 2004, 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 nearly 700,000 information requests a year from across the nation, including more than 330,000 in person in the 21 reading rooms open to the public in Washington. In

addition, the Library responds to more than 60,000 free interlibrary loan requests from across the nation and nearly 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 320 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 more than 80 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 80,000 surplus books annually to qualified libraries and nonprofit educational institutions through its nationwide donation program. Finally the fourth and fifth National Book Festivals were held on October 9, 2004 and September 24, 2005, respectively, on the National Mall and had more than 80 thousand and approximately 100 thousand attendees, respectively.

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 $21.0 and $19.8 million for fiscal years 2005 and 2004, 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 Homeland Security, 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, including members of the bench and bar, educational institutions, nongovernmental libraries, legal service organizations, the foreign diplomatic corps, international organizations, and the general public.

Copyright Office - The Copyright Office (CO), with net program costs of $41.8 and $32.2 million for fiscal years 2005 and 2004, 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 2005, the CO registered more than 531,000 claims to copyright, transferred more than one million works to the Library, recorded 11,874 documents containing more than 350,000 titles, logged almost 30 million external electronic transactions to its Web site, and responded to over 362,000 in-person, telephone and e-mail requests for information. The CO convenes and supports Copyright Arbitration Royalty Panels (CARPs) 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. In fiscal year 2005, as a result of the Copyright Royalty Distribution and Reform Act of 2004, the Library began transitioning from CARPs to the new Copyright Royalty Board composed of three Copyright Royalty Judges and their staff, who will assume full jurisdictions as CARPs are completely phased out in 2006. 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 primary record of American creativity.

Congressional Research Service - The Congressional Research Service (CRS), with net program costs of $122.4 and $119.2 million for fiscal years 2005 and 2004, 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 2005, CRS delivered more than 900,000 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 nearly 800,000 blind and physically handicapped people -- circulating at no cost to users more than 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 2005 and 2004 net program costs for this segment were $50.7 and $50.8 million, respectively.

2. A cooperating network of 134 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 nearly 800,000 comprised of more than 567,000 audio and braille readers registered individually, in addition to over 226,000 eligible individuals located in more than 32,000 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 statute. 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 $77.3 and $73.1 million in fiscal years 2005 and 2004, respectively, reimbursable and revolving fund net program costs totaled $16.4 and $15.8 million, respectively. The net program costs were the result of the elimination of $8.7 and $7.3 million of intra-Library net revenues, $6.6 and $6.3 million in allocated administrative overhead, and $1.9 million and $2.0 million in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds for fiscal years 2005 and 2004, 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 $2.6 million for 2005 and $2.0 million for 2004.

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 fiscal years 2005 and 2004 were $0.5 million and $0.6 million, respectively, of which $0.3 million and $0.4 million were 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 reproduction 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 $7.2 million and $6.7 million in fiscal years 2005 and 2004, respectively, and intra-Library transactions of $1.4 million and $1.7 million were eliminated during consolidation.

The FEDLINK program and Federal Research program – FEDLINK serves federal libraries and information centers as their purchasing, training and resource-sharing consortium. As the FLICC business subsidiary, the program provides cost effective access to an array of automated information and retrieval, print serials, books, electronic publications and preservation services. FEDLINK contracts with more than 100 major vendors to provide services to approximately 1,200 Federal offices participating in the program saving the offices an estimated $8.9 million in cost avoidance benefits and more than $11 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 2005 and 2004, earned revenues were $69.3 and $66.2 million, respectively, and intra-Library transactions of $1.4 million and $1.0 million were eliminated during consolidation.

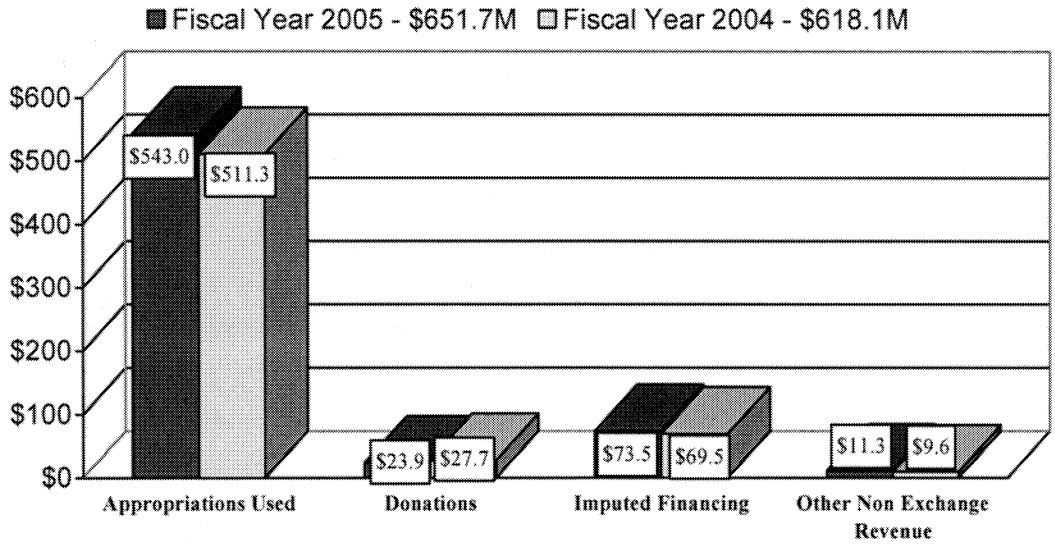
Consolidated Statements of Changes in Net Position

The purpose of the Consolidated Statements 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 $651.7 million and $618.1 million for the fiscal years ended September 30, 2005 and 2004, 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, 2005 and 2004 totaled $543.0 and $511.3 million or 83 percent both fiscal years of all financing. The Library's donations decreased by $3.8 million during fiscal year 2005, primarily due to the $11.8 million decrease in donated services of the Ad Council offset by increases in cash donations, including $6.0 million donated for the "Creative America", which benefits the Library's Bicentennial Fund. 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 $73.5 and $69.5 million (imputed financing) for fiscal years 2005 and 2004, respectively. The support provided included structural care and maintenance of the Library's buildings and grounds ($40.2 million and $37.2 million), employee benefits ($32.5 million and $31.0 million), acquisitions exchange services ($0.9 million and $0.8 million) and legal claims ($0.4 million for fiscal year 2004 only). Other non-exchange revenues are positive for fiscal year 2005 primarily due to the unrealized gains on non-treasury investments ($7.3 million and $7.2 million). The Library's net position increased by $14.7 million during fiscal year 2005, primarily due to 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 $1.9 billion for both fiscal years 2005 and 2004, of which $0.6 billion and $0.7 billion were from appropriated funds and $1.3 billion and $1.2 billion were non-appropriated funds. Total outlays of $587.1 and $686.8 million were incurred with the outlays of appropriated funds ($534.2 and $515.0 million) combined with outlays of the non-appropriated funds ($52.8 and $171.8 million) in fiscal years 2005 and 2004. The decrease in outlays is primarily a result of a

decrease of distributions of royalty fees during fiscal year 2005.

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 ($595.2 and $703.4 million) and its net costs ($635.8 and $607.2 million) of -$40.7 million and $96.2 million for fiscal years 2005 and 2004, respectively. This difference is primarily explained by the refunds of non-exchange revenue and copyright licensing royalties ($43.3 and $157.0 million) and capitalized costs ($4.1 and $13.6 million) being offset by increases of resources of non-budgetary donations ($7.5 and $19.3 million) and non-budgetary imputed costs ($73.5 and $69.5 million).

KEY PERFORMANCE MEASURES

Since 2001, the Library's collections have increased from 124.2 million to 131.9 million items -- an increase of 7.7 million or 6.2 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has decreased by one FTE – from 3,938 to 3,937. The Library's Internet transactions have grown dramatically from 1.3 billion in fiscal year 2001 to 3.8 billion in fiscal year 2005. 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 ten 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 2001, 2002, 2003, 2004 and 2005

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Change 2001 – 2005	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	$550,347,401	$525,837,000	$539,469,502	$559,299,548	$584,870,304	$34,522,903	6.3%
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	3,891	3,947	4,020	4,056	3,937	46	1.2%
SIZE OF LIBRARY COLLECTIONS	124,247,602	126,060,980	127,720,880	130,198,428	131,879,073	7,631,471	6.1%
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	21,142,980	20,095,008	20,422,598	19,313,015	15,505,746	- 5,637,234	-26.7%
CRS - Requests & Services Provided Congress	711,612	811,467	875,197	899,284	906,445	194,833	27.4%
Loans of Collections to Congress	25,713	25,099	29,454	29,067	29,646	3,933	15.3%
Copyright Claims Registered	601,659	521,041	534,122	661,469	531,720	- 69,939	-11.6%
Copyright Direct inquires (in person, phone, correspondence)	339,658	358,604	371,446	381,845	362,263	22,605	6.7%
Services to the Blind & Physically Handicapped (BPH) - Readership	742,000	695,907	766,137	766,137	799,718	57,718	7.8%
BPH - Books & Magazines; Total Circulated	23,100,000	23,464,309	23,780,639	23,780,639	23,833,430	733,430	3.2%
BPH - New Braille & Audio Books & Magazines Titles	2,638	2,663	2,764	5,486	4,361	1,723	65.3%
Print Materials Cataloged	273,534	310,235	269,568	294,510	312,818	39,284	14.4%
National Coordinated Cataloging Operation (NACO) - LC Contribution	90,542	88,475	93,584	101,081	101,829	11,287	12.5%
National Coordinated Cataloging Operation - Outside Contribution	143,031	162,363	176,487	156,098	161,230	18,199	12.7%
Exhibits, Displays, & Publications (Funded by Appropriations)	35	37	23	23	27	- 8	-22.9%
Regular Tours (Participants)	105,988	112,423	111,755	109,252	140,847	34,859	32.9%
Reference Service	828,533	775,115	715,479	682,264	685,408	- 143,125	-17.3%
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65	0	0.0%
Items Circulated	1,580,162	1,362,724	1,375,807	1,389,161	1,226,067	-354,095	-22.4%
Preservation Treatment - Original Format	326,623	666,422	1,591,735	2,648,334	2,754,425	2,427,802	743.3%
Mainframe Computer Transactions	63,913,258	109,008,458	111,175,428	103,463,022	50,730,911	- 13,182,347	-20.6%
Integrated Library System Input/Update Transactions	65,663,286	91,834,274	96,495,434	98,312,132	103,644,698	37,981,412	57.9%
Machine Readable Cataloging (MARC) Records	31,103,700	31,638,841	33,758,594	35,758,828	36,873,893	5,770,193	18.6%
Internet Transactions (i.e., LOCIS, MARVEL, World Wide Web, and THOMAS public transactions)	1,283,747,169	2,039,268,542	2,620,884,359	3,360,481,609	3,845,481,430	2,561,734,261	199.6%

Other noteworthy workloads include the following:

□ The Library's arrearage decreased by 19.7 percent during fiscal year 2005. The decrease resulted from the reduction in certain formats (print materials, rare books, prints and photographs and maps) to the point of having immaterial arrearage balances that were ultimately reclassified from arrearages to current work on hand.

□ The number of Congressional requests and services annually provided by the Congressional Research Service (CRS) increased from 711,612 in fiscal year 2000 to 906,445 in fiscal year 2005. 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 129,749 fewer in fiscal year 2005 than in fiscal year 2004. During fiscal year 2004, the backlog caused by the mail disruptions related to the anthrax incidents on Capitol Hill was eliminated, resulting in a normal annual workload processed during fiscal year 2005. The number of copyright direct inquiries (in-person, phone, and correspondence) was 22,605 more in 2005 than in 2001. Decreases in intervening years were 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.

□ The number of information requests handled by reference staff and items circulated decreased by 17.3 percent respectively from 829 thousand in 2001 to 685 thousand in 2005, while the number of Internet transactions increased from 1.3 billion to 3.8 billion. This trend reflects greater use of the Library's on-line resources.

□The number of items for preservation treatment increased by 2.4 million from 2001 to 2005 primarily due to processing over a million sheets annually of non-book material on-site using the manuscript deacidification trader installed in August, 2002.

□ The number of mainframe transactions decreased by 52.8 million during fiscal year 2005 primarily due the conversion of the Library's central financial management system from a mainframe to web-based platform.

MAJOR GOALS AND ACCOMPLISHMENTS IN FISCAL YEAR 2005

The following section presents the significant annual goals and accomplishments for fiscal year 2005 as they relate to the strategic goals cited in the Library's 2004–2008 strategic plan. Library organizations establish annual goals that meet one or more of the goals in the strategic plan. The organizational annual goals and accomplishments that follow are cited under the strategic goal that is most applicable.

Strategic Goal 1: Build and preserve a comprehensive collection of knowledge and creativity in all formats and languages for use by the Congress and other customers.

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

Annual Accomplishments: Redesigned the reconciliation process for Integrated Library System (ILS) and Momentum-accounting transactions. This improved the efficiency, accuracy, audit-ability, transparency, and storage of data ensuring adherence to best business practices in administering appropriated funds for acquisitions.

Expanded online reference services for countries of the world through enhanced use of its web pages and Portals. Expanded the country "Portals to the World" by completing the portals for Australia, Canada, Ireland, New Zealand, and the United Kingdom.

Completed production of the *Islamic Manuscripts of Mali* providing access to the full contents of the manuscripts from the Haidara Library in Mali.

Digitized thousands of images and created Web-based reference aids such as a collection profile for the Milton Rogovin Archive covering miners in Chile, Germany, Mexico and other parts of the world.

Continued to add maps from throughout the world to the website and increased the number of finding aids enhancing access to our global cartographic collections. Opened an online exhibition on Macau, in Chinese, Portuguese and English, and opened online access to content of the Inoh Tadataka (historical Japanese manuscript maps).

The Library explored ways to enhance research ties and improve capacity for acquiring material in-depth from China as follows:

- The Luce Foundation funded China acquisitions project was completed.

- Signed an agreement with Academia Sinica, Taipei, Taiwan, to allow them access to the collection of maps of China for scanning. In a related effort, scanned the valuable cartographic record of Chinese early fifteenth-century explorations in the Indian Ocean under Zhang He and placed those valuable maps on the Library's website.

- Acquired hydrographic charts produced by China's government. This acquisition was the first time in 50 years that cartographic production was acquired directly from China's government.

Supported the Program for Cooperative Cataloging (PCC) through training, documentation, review, and administrative support. During the fiscal year, this 500-member institutional collaborative produced 171,988 new name authorities, 5,916 new or updated subject and classification authorities, and 94,000 bibliographic records to internationally accepted standards and therefore available for use by the Library of Congress and other institutions throughout the information community. Fifty-six institutions joined the PCC. Several new training opportunities were offered, including twenty workshops on subject cataloging.

Thirty senior catalogers in all bibliographic access divisions are now trained to catalog digital and Web resources, and all bibliographic access production divisions contributed cataloging for 654 large-scale websites.
The Center for the Book (CFB) developed, promoted, and executed more than 30 programs including author lectures, workshops, literacy and literary award ceremonies and was a major participant in planning and executing the National Book Festival. In addition, CFB successfully maintained two reading promotion networks (state center affiliates and Reading Promotion Partners) and participated in several important international reading promotion projects.

Federal Library and Information Center Committee (FLICC) made progress toward identifying consortium initiatives that would save the government time and money. FLICC tested creating an Access database to track On-line Computer Library Center information, similar to the other consortia information, which reconfirmed the tracking capabilities must be tied to the financial system.

Between 1.2 and 1.5 million people (including researchers) visited the Library. Provided 3,725 public tours to almost 106,000 individuals. This included 500 tours to K-12 students. Arranged 169 professional visits to the Library for 1,946 participants from 55 different countries worldwide and 1,378 tours for 35,032 congressional constituents.

Continued to work with Facilities Services and Architect of the Capitol on environmental monitoring and improvements, assessment of risk to collections from fire and suppression efforts, and specification of environments for the Capitol Visitors Center, Kislak exhibit space, and proposed secured storage facilities. Other accomplishments included improvement of library storage environments, creation of new electronic tracking system for increased efficiency in ordering and distribution of preservation supplies, and successful shipments of fragile objects materials of the Kislak collection.

Deacidified 296,119 books and 1,012,500 document sheets to extend the life and utility of collections through appropriate treatment and technology.

Annual Goal: Maintain a basic level of ongoing operations, while undertaking phased business process improvements. Support the Library's leadership role

in the global library and information community through the distribution of its internationally recognized cataloging records, standards, and related technical publications.

Annual Accomplishments: See the accomplishments listed for Strategic Goal 14.

Annual Goal: Purchase of Library materials.

Annual Accomplishments: Purchased a total of 507,993 items using the GENPAC fund, in addition, a one-year special appropriation was used to purchase 16,839 items, and gift and trust funds were used to purchase 7,159 items.

Strategic Goal 2: Provide maximum access and facilitate effective use of the collections by the Congress and other customers.

Annual Goal: Arrearage Reduction. Meet the revised total arrearage goals approved by Congress.

Annual Accomplishments: Successfully completed the arrearage reduction project for non-rare print this year.

Annual Goal: National Audio-Visual Conservation Center (NAVCC). Complete the NAVCC, including moving the collections and designated staff.

Annual Accomplishments: Continued to develop and implement the Digital Audio-Visual Preservation System (DPS). A contract for systems design was awarded and concept drawings were produced.

Annual Goal: Capitol Visitor Center. Implement changes in programs and offices to plan for the anticipated impact of the new Capitol Visitor Center.

Annual Accomplishments: Installed six scheduled exhibits within budget. Extended the Library's outreach program through national and international traveling exhibitions.

Annual Goal: Veterans History Project (VHP). Expand collection of veterans' interviews and documentary materials; enhance public access to the materials through web site and with reference services; increase official partnerships to reach veterans, civilians, and interviewers; increase public involvement through events, partner meetings, exhibitions, and instructional materials.

Annual Accomplishments:

- Increased Congressional participation: more than half of Congress (94 Senators and 202 Representatives) is participating in VHP.
- Trained over 780 volunteers in 25 oral history workshops, including Americorps, thus continuing relationship with American Folklore Society to build VHP's interviewer corps.
- Built working relationship with Corporation for National and Community Service.
- Produced simplified how-to kit.
- Published educational books *Voices of War* and *Forever a Soldier* with National Geographic Society.
- Held two public symposia at the Library: "War's End" WWII symposium and "In Country" Vietnam War roundtable discussion and presented four public book talks.
- Presented three panel talks at the 2005 National Book Festival and gathered 34 interviews.
- Researched and released two, 1-hour VHP radio programs for public radio.
- Prepared Web presentations "VE/VJ Day" and "Military Medicine," each featuring 20 veterans.
- Met with partner organizations, schools, reunion groups, museums, and archives.

Strategic Goal 3: Lead, promote, and support the growth and influence of the national and international library and information communities.

Annual Goal: Digital Strategy Implementation. Enable the National Library to carry out its mission in the digital age.

Annual Accomplishments: Work continued to identify and acquire access to almost 8000 freely available electronic journals and to exchange metadata regarding those journals. A cooperative project with the *Deutsche Bibliothek*, the State Library of Berlin, and the Bavarian State Library, along with the U.S. Government Printing Office, was initiated to exchange access rights to government electronic journals, metadata for those electronic journals, and the sharing of archival responsibilities for those same government e-journals.

Strategic Goal 4: Expand, manage, and communicate Library of Congress digital strategies and roles.

Annual Goal: Digital Strategy Implementation. Enable the National Library to carry out its mission in the digital age.

Annual Accomplishments: The Marguerite Roll Trust Fund purchased Ancestry Library Edition a notable electronic database subscription; the Miller American History Trust Fund purchased the electronic database *JSTOR Arts & Sciences II.* Other subscription databases acquired included *ProQuest Historical Newspapers*; *Oral History Online*; *Lancaster Index to Defense and International Security Literature*, *Black Studies Database: Kaiser Index to Black Resources*, and *Black Studies Center.*

Continued to acquire geospatial data in electronic form from other federal government agencies, and through its arrangements with the State Department's Foreign Map Procurement Program, from governmental and commercial producers worldwide.

Annual Goal: Expand, Manage, and Communicate the Library of Congress Digital Strategies and Roles. This goal is intended to increase digital policy, practice leadership and coordination by the Library of Congress, and increase Congressional and stakeholder understanding and recognition of the Library of Congress' digital priorities, and activities as defined in the Digital Strategic Plan.

Annual Accomplishments: Launched National Digital Information and Infrastructure Preservation Program (NDIIPP) Partnership Network program. The Office of Strategic Initiatives (OSI) planned and conducted semi-annual meetings in January and July. Established Project Management Office to coordinate partnership network and catalyze affinity group activities (Technical Architecture, Selection and Collection, Rights and Restrictions, Economic Sustainability) among the partners.

The Library continued to support the congressionally mandated Adventures of the American Mind Program. The program currently has 23 funded partners in seven states. Other national collaborations included in-house teacher institutes with curatorial divisions of the Library.

Strategic Goal 5: Manage and sustain digital content.

Annual Goal: Manage and Sustain Digital Content. 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.

Annual Accomplishments: Completed the first practical test of the NDIIPP technical architecture with Harvard, Stanford, Johns Hopkins and Old Dominion University.

OSI continued to convert content for access through American Memory, and capture at-risk content from the Web. Statistics related to fiscal year 2005 digital collections and files produced and placed online are: 911,317 new digital files added and 16 new digital collections online.

OSI worked with recommending officers and curators in Library Services, Law Library and Congressional Research Service to expand the collection of web content by 15 terabytes of data comprised of over 3500 web sites.

Learning Page enhancements include: fifteen new collection connections with teaching resources and four new lessons. The latest independent third party survey (July 20 - August 30) indicated K-12 educators are most satisfied with the Library's site.

OSI made a $3 million award to Portico to support development of technical infrastructure and an economically sustainable business model for a continuing archiving service of scholarly resources published in electronic form. The award advances two fundamental NDIIPP goals: to develop a technical infrastructure to support long-term preservation of digital content and to foster the development of new business models for digital preservation services.

Strategic Goal 6: Provide high-quality and timely legal research, analysis, and legal reference services to the Congress, the executive branch agencies, courts, the legal community, and other customers.

Annual Goal: Law Library Legal Research, Analysis, and Reference Services. To improve and expand legal

research, analysis, and reference service to Congress and other clients.

Annual Accomplishments: Responded to 1,674 Congressional requests. Met Congressional deadlines 100% of the time. Worked with Congressional staff and provided interim responses to meet all deadlines.

Strategic Goal 7: Acquire, secure, maintain, preserve, and make accessible a comprehensive legal collection, in both analog and digital formats, for use by the Congress, executive branch agencies, courts, the legal community, and other customers.

Annual Goal: Law Library Collection Development, Maintenance, Preservation, and Security. Ensure Law Library collections are developed, maintained, and preserved to maximize its customers' ability to use materials for research and analysis. Ensure that collection security provides an acceptable level of protection against theft, mutilation or physical destruction.

Annual Accomplishments: The Law Library acquired a Database of Kenyan legal materials and held meetings with Acquisitions and the Office of the General Counsel to resolve issues regarding provisions in the Licensing Agreement which are unacceptable to some foreign database providers.

Contractors processed all incoming receipts within five days of receipt, shelved all incoming material within ten days of receipt, shelved all pocket parts within fifteen days of receipt, and shelved all incoming loose-leaf releases within five days of receipt. In June and July, a complete review of all problem loose-leaf titles occurred. New contents were purchased for these titles, allowing future releases to be filed as well.

Strategic Goal 8: Expand and enhance the Global Legal Information Network (GLIN).

Annual Goal: Global Legal Information Network (GLIN). As the basis for the Law Library's digital future, expand and enhance the Global Legal Information Network by increasing membership and expanding the system and its capabilities.

Annual Accomplishments: Currency of U.S. public laws has been maintained in the GLIN database. Retrospective U.S. laws from 1789 – 1927 were scanned as complete volumes, and 13,000 additional statutes have been processed and are ready for summarization and metadata entry to the GLIN database.

Conducted GLIN presentations at a conference on Law and the Internet held in Paris, a meeting of the European Union's Working Party on Legal Data Processing, and the annual meeting of the American Association of Law Libraries. Promoted GLIN as an international model for electronic legal information systems and cooperative networking.

Conducted GLIN assessment/recruitment missions to four jurisdictions: Canada, Pakistan, France, and European Union.

Strategic Goal 9: Carry out the statutory mission of the Copyright Office to administer copyright and related laws embodied in Title 17 to provide benefit to the nation.

Annual Goal: Registration. Promote efficiency and timeliness in registration processing.

Annual Accomplishments: Average claims processing time at year-end was 82 days, under the target level, resulting in timely delivery of certificates.

Average cataloging processing time at year-end had been reduced significantly to 51 days (just short of the target) from a high of approximately 100 days, resulting in timelier access to records of registration.

Conducted pilots of the re-engineered "Register Claim," "Receive Mail," and "Maintain Account" processes in the motion picture area resulting in several improvements in IT systems and processes in preparation for the next pilot which will test, among other things, e-filing.

Annual Goal: Recordation. Promote efficiency and timeliness in recordation processing.

Annual Accomplishments: Unexpected staff losses resulted in a document processing time increase to 59 days by year-end that, while significantly improved from three years ago, is above the target.

Annual Goal: Acquisitions. Promote effective processing of mandatory deposits and compliance with mandatory deposit provisions of Title 17, U.S.C.

Annual Accomplishments: Piloted a project to test the receipt of electronic deposits via the *eCO* system. Selected publishers submitted deposits in electronic formats via the Internet, attaching the deposit files to a simple online form that captured some basic bibliographic data.

Annual Goal: Reengineering Program. Improve the Copyright Office public services in its registration, recordation, mandatory deposit, and licensing processes by implementing Business Process Reengineering incrementally into 2006.

Annual Accomplishments: Signed a memorandum and lease for Crystal Plaza 5 from March 2006 - March 2007. Hired a move contractor to oversee move logistics from Madison Building to Crystal City and back.

Completed 100% of phase 1 and 2 construction documents.

Revamped existing furniture contract to include the purchase and just-in-time delivery of new Steelcase furniture lines and furniture selected from various other manufacturers.

Strategic Goal 10: Formulate and provide expert advice to the Congress, executive branch agencies, courts, and international entities in the furtherance of maintaining a strong and effective national and international copyright system.

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

Annual Accomplishments: Testified at four congressional hearings on music licensing reform, piracy, and protecting copyright and innovation after the Supreme Court's Grokster decision. Began studies on licensing and on orphan works. Advised on such major copyright legislation as the implementation of the Copyright Royalty Distribution and Reform Act of 2004, and the Family Entertainment and Copyright Act of 2004.

Strategic Goal 11: Be an effective voice for the principles of copyright, which benefit the public, by providing information and informing the public debate on copyright issues.

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

Annual Accomplishments: Increased website use by 49 percent. Sixty-one congressional requests completed, responded to all within 5 days, completed 85% within 10 business days, 3% over 10 business days, 12% just received and in process at end of year.

Annual Goal: Outreach. Conduct public outreach regarding Copyright Office services and the provisions of the copyright law as well as informing the public debate on copyright issues in various formats and media.

Annual Accomplishments: The Copyright Office made more than 70 appearances at outreach activities (symposia, seminars, copyright meetings); hosted an 8-member Egyptian delegation; and provided tours to representatives of 9 countries.

Strategic Goal 12: Carry out the statutory mission of the Congressional Research Service (CRS) to assist the Congress as it undertakes its legislative responsibilities by providing multi disciplinary, nonpartisan, confidential, timely, and objective analysis of public policy problems and their possible solutions.

Annual Goal: Provide non-partisan legislative analysis and information support that the Congress needs as it addresses public policy issues. As a result of the accomplishments noted below, Congress has the information needed to carry out its legislative responsibilities.

Annual Accomplishments: Widespread support was provided to the Congress on a full range of 175 major policy issues, with approximately 1,000 products maintained on a current basis in response to evolving congressional needs. Natural disasters (Katrina/ Rita), Supreme Court nominations, the State of the Economy, terrorism, and the war in Iraq provided the backdrop for many of the domestic and international issues which received particular attention.

Identification, development, and modification of CRS products, services and legislative support managed effectively through weekly consultations and quarterly

reviews. Integration of Knowledge Service Group (KSG) librarians with policy experts enhanced offerings of authoritative resources on major policy deliberations.

CRS incorporated more sophisticated presentation methods in briefings for Members and staff. CRS experts visited nearly 70 House and Senate offices to brief members and staff about CRS services and how to quickly access them. Offered 169 congressional programs and institutes to 6,500 attendees. Additionally, over 3,600 interns were briefed by CRS. Held New Member Seminar in Williamsburg, Virginia; the three-day seminar, sponsored by the U.S. House of Representatives and CRS, was attended by 25 new Members of the 109th Congress.

Collaboration with public policy schools at four of the nation's leading universities resulted in six completed and five new projects. These collaborative studies provided CRS with original research results that help CRS analysts support the Congress

Developed a new Legislative Information System (LIS) home page for the 109th Congress. Worked towards bringing the Alternate Computer Facility (ACF) into full operation as a backup for LIS. Contracted to transition LIS metadata and full-text documents to XML, optimized for searching. Participated in House and Senate XML committees. Quality of access to CRS products was enhanced substantially via use of the Current Legislative Issues application and Consolidated Database to identify and cluster CRS products on the CRS web site. Maintained secure email communication with the Congress, with 22% increase in email usage over prior year.

Created three primary authoritative research web pages on two Supreme Court nominations, and Katrina disaster relief efforts

Annual Goal: Ensure the intellectual capacity of CRS to continuously meet the changing needs of Congress and fulfill the CRS mission. Acquire and promote systematic and effective use of expertise and skills to meet ongoing policy-making needs of the Congress. As a result of the accomplishments noted below, CRS can ensure a level of intellectual capacity and expertise to provide the Congress with the information needed to carry out its legislative responsibilities.

Annual Accomplishments: Hired and, as appropriate, contracted for critical expertise needed to support the Congress: 51 competitive selections, 12 selections made through other means (e.g., the Library's Affirmative Action Employment Program, the Presidential Management Fellows Program, and the Law Recruit Program), and completed 30 temporary appointments.

Fifty-three job analysis panels completed their work; all members were appropriately trained (183 total CRS staff now trained in structured interview process).

Thirty-three additional position descriptions developed and classified via Human Resources Services (HRS).

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

Annual Accomplishments: For emergency planning purposes, CRS has positioned (with the help of ITS) a server at the Alternate Computing Facility to house the congressional request tracking system, Inquiry Status and Information System (ISIS). This includes the ISIS database and the application code used to access the database. CRS is engaged in assessing CITRIX as a means to facilitate secure remote access to the ISIS application. Several enhancements to ISIS were completed that improve the quality of management reports as well as operational efficiency.

Purchased, installed, tested and connected fire walls and a network Intrusion Detection System at the ACF. Completed primary server (segment 132) firewall cluster at the Madison building. Deployed a new version of anti-virus software to all CRS workstations. Determined tasks required for Certification and Accreditation (C&A) and purchased a software tool to complete C&As for CRS systems. Developed a strategy to adhere to ITS Directive Number 1 and began the implementation

CRS Continuity of Operations Plan (COOP) updated and revised; all key emergency planning documents were organized into a notebook for distribution to all pertinent staff. Shelter-in-place plan finalized and successfully tested in drills. Offsite tests of research functions conducted. CRS information shared with Library units to assist in preparation of the Library's COOP. As a result of the accomplishments noted above, CRS staff have a clear and practical understanding of the Service's emergency plan under several scenario. In addition, CRS has assured a secure

a technology environment for continuity of operations during an emergency situation.

Completed multi-year hiring plan by selecting two acquisition librarians and an acquisition section head to replace staff retirements in this functional area. Achieved optimum staffing level to begin re-engineering of acquisitions processes. As a result, CRS staff has the materiel assets required in the conduct of their work to provide the Congress with the information needed to carry out its legislative responsibilities.

Strategic Goal 13: Ensure that a high-quality, responsive, and free national reading program is available to the nation's blind and physically handicapped people.

Annual Goal: Program Operations, Materials and Services. Provide high quality services and distribute reading materials and equipment to patrons while maintaining the program's mission and integrity.

Annual Accomplishments: Provided effective and efficient library services to patrons through a network of libraries, coordinated distribution of reading services and materials to over 700,000 patrons nationwide.

Successfully completed procurement for goods and services totaling over $35 million.

Developed and evaluated various planning and budget reports to manage the program.

Completed the selection of new titles for the collection, and the procurement for production and delivery of audio and Braille reading materials and machines.

Completed visits to network libraries to insure compliance with program guidelines and standards.

Annual Goal: Digital Strategy Planning and Implementation. Design and provide an array of services, reading materials, and equipment through existing and new digital technology.

Annual Accomplishments: Expanded web Braille services to patrons by providing 7,341 Web Braille titles to 4,141users.

Contracted to produce approximately 2,159 Digital Talking Book (DTB) titles and converted approximately 1,612 titles from analog to digital.

Efforts continued to design and produce prototypes of a NISO-compliant DTB machine as well as design a DTB player and medium. Contract awarded February 2005. Completed Phase 1, July 2005 - Identify User Needs. Completed multiple stages in Phases 2 - 7 that include Industrial, User Interface, Electrical Engineering (Player & Cartridge), Audio, and Software Design.

Awarded contract March 2005 to evaluate and design a DTB distribution System. Completed Phase 1 September 2005 - Analysis and Model Selection for DTB Distribution.

Strategic Goal 14: Enhance the management and utilization of the Library's Revolving and Reimbursable funds.

Annual Goal: Maintain a basic level of ongoing operations, while undertaking phased business process improvements. Support the Library's leadership role in the global library and information community through the distribution of its internationally recognized cataloging records, standards, and related technical publications.

Annual Accomplishments: During the year, CDS conducted cost-recovery operations totaling $4.8 million ($4.1 million in earned receipts and $0.7 in products and services provided to internal Library customers).

The survey of purchasers of hard copy print publications was completed with over 400 responses, and results confirmed decisions to continue major products in print and digital formats while discontinuing the CD-ROM version of some.

Cataloger's Desktop files were re-segmented, greatly improving retrieval and navigation online, and the length of search sessions before timeout was doubled, from 30 to 60 minutes. The Classification Web was enhanced with added links to Web Dewey.

Eight major cataloging training manuals and other course materials are now offered in PDF format for much faster delivery to library customers.

Strategic Goal 15: Manage Human Capital so the Library is able to attract and maintain an outstanding workforce with the skills, resources, and dedication to deliver a range of high-quality, cutting-edge services, in all the Library's program and support areas.

Annual Goal: Achieve the Library's mission in a changing environment. Provide strategic innovative solutions to current and emerging human capital challenges. Align Human Resources Services (HRS) plans/programs/systems to accomplish Library mission needs. Identify and implement electronic solutions to HRS needs to improve operations and return time to managers and staff. Conduct workforce transition plans to identify current/future required skill sets. Assist Library offices in succession and workforce planning initiatives.

Annual Accomplishments: HRS met with service and support unit representatives to establish a better link between staffing requirements and operating plans and to improve the way that HRS meets staffing requirements throughout the fiscal year for better workforce planning. A new form and process is in place for providing annual staffing plans to HRS each fiscal year with quarterly updates.

HRS continued implementation of an upgraded LEADS system in conjunction with the National Finance Center (NFC). Utilizing this technology, HRS improved customer service by streamlining and simplifying the award process.

Annual Goal: Workforce Development. Maintain a Copyright Office workforce that meets the Office's mission requirements by providing training and development opportunities to staff.

Annual Accomplishments: Provided training to participants in the pilot for "register claim;" revised change management training after response to initial session, moving toward a broader communication program.

Strategic Plan Goal 16: Create an environment that supports delivery of superior service to the Congress and the American people through effective communication and management of business and supporting processes and financial resources, and that provides a safe and healthy workplace.

Annual Goal: Obtain "Clean Audit Opinion" on fiscal year 2004 Library Financial Statements.

Annual Accomplishments: The Library received its ninth consecutive unqualified "clean" audit opinion in fiscal year 2005 for the fiscal year 2004 consolidated financial statements.

Annual Goal: Enhance the Office of the Chief Financial Officer (OCFO) administrative ability to provide quality and services to customers. Provide administrative and management support to enhance the quality and effectiveness of the services provided through OCFO.

Annual Accomplishments: Momentum and Financial Reporting System (FRS) training classes were provided to OCFO staff and approximately 500 users across the Library.

Annual Goal: Deliver Integrated Support Services (ISS) in a timely, safe, and cost-effective manner, and to the satisfaction of the customer.

Annual Accomplishments: Provided extensive planning support throughout the year for provision of ISS infrastructure services to the new off-site facilities, including NAVCC and the Copyright Office temporary relocation. Donated 747 refurbished surplus computers valued at more than $950,000 to 21 schools and non-profit organizations nationwide.

Annual Goal: Provide customer support in Facility Services.

Annual Accomplishments: Completed 37 of 100 major projects on the fiscal year 2005 Facility Projects Plan, with 36 more in progress at year-end; and the remainder were placed on hold or to be scheduled because of resource availability or Library priority adjustments. Installed 122 full and partial ergonomic workstations, and designed and procured approximately 200 ergo workstations for the Copyright Office. Processed 643 requests for routine service, and generated 287 purchase requisitions for all Library offices; provided ongoing support for safety and security upgrades for Library collections and facilities. Supported 2,305 public and staff events.

Annual Goal: Provide customer support in Logistics Services.

Annual Accomplishments: Managed a warehouse operation for the receipt, storage, delivery, pick-up, recycling, and disposal of over 25,500 surplus property items. Managed a reimbursable supply operation and filled 1,025 requisitions.. Accounted for more than 100,000 line items of Library property.

Annual Goal: Provide customer support in Health and Safety Services.

Annual Accomplishments: Provided both emergency and routine medical, consultation and clinical services to Library staff and visitors; supported implementation of Federal accommodation and leave programs; and provided information programs to support and enhance Library staff wellness. Coordinated management approval and collective bargaining, eliminating smoking from all Library buildings and vehicles. Expanded hazardous materials control program. Implemented automated hazardous materials tracking system. Contracted for program development of agency-wide mandatory safety training. Responded to 106 requests for ergonomic consultations

Annual Goal: Provide customer support in Office Systems Services.

Annual Accomplishments: Received, security-screened, and safely delivered 1.7 million letters and flats and 300,000 packages to Library offices. Awarded contract for state-of-the-art, Library-wide (except CRS) copier equipment services. Completed 2,059 printing orders. Placed 145 printing orders with GPO using Simplified Purchase Agreement.

Strategic Goal 17: Manage and sustain mission-critical Information Technology (IT) programs.

Annual Goal: Obtain, develop, and sustain specialized expertise and resources needed to achieve Library of Congress Digital Goals and Priorities. Sustained service units mission-critical digital programs and sustained life cycle management of digital content.

Annual Accomplishments: The Office of Strategic Initiatives (OSI) has completed development of a tool to facilitate submission of digital newspaper content to the Library by collectors in 6 states in the National Digital Newspaper Program for long-term preservation and access.

Annual Goal: Assist Library programs to plan and design mission-critical IT systems, and services. Information Technology Services (ITS) will assist program managers as necessary to support life cycle management of digital content; and define functional, technical, and design requirements for mission-critical IT systems and services.

Annual Accomplishments: ITS worked closely with OSI and the other Service/Support Units to acquire and manage new digital content, matching technologies and business models and the continuous refinement of life-cycle processing models expanding the Library's digital collections by over 80 terabytes of data.

Legislative Information System (LIS) – Implemented a wide array of display enhancements across the nine (9) LIS databases for the start of the 109th Congress. Added several new search features including Multiple Congress searching, Member searching, State Delegation searching, and improved Topic searching. The LIS online update system (xLIS) saw many enhancements during the year, including a statistical package to dynamically track Alert Service usage, an interface extracting LIS ORACLE database, and inputting to the Congressional Bills Project in XML format. Also, per CRS request, ITS assisted in the evaluation of contract proposals to transition the LIS Metadata and full-text documents to XML.

THOMAS – ITS upgraded the THOMAS site for the start of the 109th Congress. In conjunction with OSI, the 1st Phase of the THOMAS Redesign Project was completed. This resulted in easier access to legislative data and a more user-centered web design.

Annual Goal: Assist Library programs to operate and maintain mission-critical IT operations as appropriate. Assure system quality, operate computer center, systems programming and engineering.

Annual Accomplishments: IT security initiatives achieved:

- The ACF was established with the capacity to support the ITS COOP. COOP spot testing of mission critical systems was completed successfully. Full COOP test of Financial Hosting Environment was completed successfully.
- The ITS reorganization effective in the second quarter of fiscal year 2005 included the creation of

a Security Group. The group was responsible for developing a Library Security Plan, which is updated quarterly. A Security Operations Center was also created to perform audit log monitoring, incident response and to manage a security documentation repository.

- Longstanding vulnerability findings tracked and closed as solutions were implemented.
- ITS developed and deployed a Security Risk Assessment Tool to guide and assist the entire Library in performing risk assessments. This tool has greatly contributed to the efficiency of completing risk assessments.
- Nearly 95% of Library staff completed IT Security Awareness Training.

Annual Goal: Ensure the digital infrastructure has the proper architecture and is sized to fully support Service Unit mission-critical operations over time. This includes computing power, storage networks, telecommunication networks, and continuity of operations.

Annual Accomplishments: Instituted cable management system in the data center and test lab. The ITS Enterprise Systems Engineering Group has implemented hardening instructions for all enterprise class servers. New servers are Certified and Accredited before being put into production.

ITS operates a robust telecommunications architecture that uses a gigabit Ethernet backbone with standard 100 megabit capacity to the desktop. ITS uses mainstream Unix and Windows servers to support processing needs as well as mainstream storage area networks for storing, archiving and backup functions. All of these areas were upgraded and expanded during the past year to position the Library's infrastructure for future programmatic requirements. In addition, ITS planned and constructed a comprehensive testing laboratory to support upgrades to current systems, development and testing of new systems, and exploration of emerging technologies.

Strategic Goal 18: Provide effective security and emergency planning for the Library's staff and visitors, collections, facilities, and other assets.

Annual Goal: Continue to improve the physical security of the Library through the sustained implementation of the Library's Security Enhancement Implementation Plan. Improve the physical security of the Library's buildings, assets, and staff through compliance with the Library's Security Enhancement Implementation Plan.

Annual Accomplishments: Closed Circuit TV and exterior lighting have been completed on the Adams Building perimeter security project. At the end of fiscal year 2005 the project was 90% complete.

Annual Goal: Emergency Preparedness. To assure that the Library and its staff are prepared to respond, and do respond, efficiently and effectively to internal and external emergency events and situations.

Annual Accomplishments: Significant accomplishments included training Office Emergency Coordinators, Floor Wardens, and Zone Monitors; and training staff in the use of escape hoods, building evacuation, use of the stair chair, and assisting disabled persons. The program also includes incident command training, identifying and equipping locations for sheltering-in-place, and conducting tabletop command post exercises.

In March 2005, a revised Employee Emergency Action Guide was prepared and distributed to all Library staff, contractors, and temporary employees.

The Office of Security and Emergency Preparedness (OSEP) emergency planners were leading the further development of COOP and Business Recovery Planning as part of the Emergency Preparedness Program.

An initiative referred to as Computer Emergency Notification System, is currently being tested to ensure compatibility with the Library's computer systems and is anticipated to become operational by early 2006.

Completed construction of the Library's new Emergency Management Center in the former Madison Building police communications center.

Health Services hired a new staff member in August 2005 who assisted the OSEP Emergency Preparedness staff in the area of medical emergencies, by working closely with other staff members to coordinate preparedness planning for the Library.

Once again, OSEP played a major role in the security and emergency preparedness planning for the Library of Congress National Book Festival. The support by the OSEP team in planning and executing public safety for

the event was appreciated and acknowledged by the book festival's program manager, and other top officials.

Annual Goal: Collections Security/ Inventory Management. Secure the Library's heritage assets during all phases of the collections' lifecycle using bibliographic, inventory, physical, and preservation controls.

Annual Accomplishments: A revised collections security plan, now called the Strategic Plan for Safeguarding the Collections was finalized and was approved by The Librarian of Congress in July.

The Site Assistance Visits Program, (each unit is visited by a team consisting of a staff member from OSEP and a Library manager) continued throughout the year. By the end of the year, every Library organization had been visited at least once.

Additional security measures implemented: Prints and Photographs (P&P) Division purchased fireproof gasketed steel cabinets to store all its platinum level collection items. P&P also ensured that additional card key readers and door security cameras were installed to improve security for gold level collections stored in the Madison Building. Construction was completed of a secure area in the Music Division for processing rare materials. The Serials and Government Publications Division completed a secure storage facility to house their gold collections, 18th century newspapers, and comic books.

Annual Goal: Emergency Preparedness. Ensure the preservation of the Library's collections through a comprehensive emergency preparedness response and recovery plan including the appropriate preparation of the materials to be moved off-site.

Annual Accomplishments: Preservation supported the preservation of items intended for relocation to Fort Meade Modules 3, 4, and cold storage rooms through the assessment, housing, and stabilization treatment of these selected collections.

Assessments were completed for 2,609,933 items of all formats. Housing was completed for 31,753 items. Treatment was completed for 3,000 items.

Organized and boxed three-dimensional (raised relief) models and selected nautical charts for transfer to Fort Meade Module.

Annual Goal: Law Library Security. Enhance the Law Library's Security Procedures and Business Continuity Contingency Plan.

Annual Accomplishments: The Law Library submitted an 80-page draft Manual on Emergency Procedures and Continuity of Operations to the Deputy Librarian of Congress during the first quarter of fiscal year 2005.

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 2005, Library staff performed vulnerability assessments on all of the 211 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 44 detailed control reviews in fiscal year 2005 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, the Library implemented a new central financial management system during fiscal year 2004 (that went

"live" at the beginning of fiscal 2005), which will further enhance system controls in future years by decreasing the amount of subsidiary and program systems and manual process. 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 2005 and 2004. 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 tenth stewardship report on its collections that provides the suggested relevant information concerning the asset description, acquisition, preservation, security and 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

FINANCIAL STATEMENTS AND NOTES

THE LIBRARY OF CONGRESS
Consolidated Balance Sheets
As of September 30, 2005 and 2004
(Dollars in Thousands)

	2005	2004
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 363,534	$ 350,490
Investments (Note 4)	1,094,874	905,078
Accounts Receivable, Net (Note 5.A)	13,917	5,046
Other Assets	7,465	5,535
Total Intragovernmental	1,479,790	1,266,149
Cash and Other Monetary Assets (Note 1.G)	581	442
Pledges Receivable - Donations (Note 5.B)	13,635	6,948
Investments (Note 4)	75,121	68,814
Inventory and Operating Supplies and Materials (Note 1.K)	1,345	1,541
Property and Equipment, Net (Note 6)	33,301	36,118
Other Assets	919	7,097
Library Collections (Note 1.M)		
Total Assets	$ 1,604,692	$ 1,387,109
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Funded Payroll, Benefits	$ 6,847	$ 6,683
Advances from Others	22,961	24,493
Accrued Unfunded Workers' Compensation (Note 9)	1,597	1,616
Other Intragovernmental Liabilities (Note 11)	92	0
Total Intragovernmental	31,497	32,792
Accounts Payable and Accrued Funded Payroll, Benefits	49,080	35,851
Custodial Liability (Note 3)	1,048,431	855,700
Deposit Account Liability	5,655	6,093
Accrued Unfunded Annual and Compensatory Leave	22,282	21,449
Actuarial Unfunded Workers' Compensation (Note 9)	8,130	8,470
Other Liabilities (Note 11)	3,550	5,425
Total Liabilities	1,168,625	965,780
Commitments and Contingencies (Note 10)		
NET POSITION		
Balances:		
Unexpended Appropriations	258,356	259,574
Cumulative Results of Operations	177,711	161,755
Total Net Position	436,067	421,329
Total Liabilities and Net Position	$ 1,604,692	$ 1,387,109

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, 2005 and 2004

(Dollars in Thousands)

	2005	2004
Net Costs by Program Area:		
National Library:		
Program Costs	$ 387,709	$ 373,776
Less Earned Revenue	4,220	4,366
Net Program Costs	383,489	369,410
Law Library:		
Program Costs	20,964	19,786
Less Earned Revenue	8	6
Net Program Costs	20,956	19,780
Copyright Office:		
Program Costs	68,854	59,103
Less Earned Revenue	27,043	26,917
Net Program Costs	41,811	32,186
Congressional Research Service:		
Program Costs	122,380	119,253
Less Earned Revenue	1	4
Net Program Costs	122,379	119,249
National Library Service for the Blind and Physically Handicapped:		
Program Costs	50,701	50,802
Less Earned Revenue	0	0
Net Program Costs	50,701	50,802
Revolving and Reimbursable Funds:		
Program Costs	93,698	88,890
Less Earned Revenue	77,254	73,117
Net Program Costs	16,444	15,773
Net Costs of Operations	$ 635,780	$ 607,200

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, 2005 and 2004
(Dollars in Thousands)

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning	$ 161,755	259,574	$ 150,862	251,784
Budgetary Financing Sources				
Appropriations Received		549,760		526,105
Appropriations transferred – in/out		(496)		(249)
Other adjustments (Recession, Cancelled Auth., etc.)		(7,527)		(6,781)
Appropriations Used	542,955	(542,955)	511,285	(511,285)
Non-Exchange Revenue	1,650		1,285	
Donations-Cash or securities	16,356		8,400	
Transfer in/out without reimbursement	1,046		702	
Other financing sources with budgetary impact	1,339		1,008	
Other Financing Sources				
Donations-Property and Services	7,507		19,257	
Transfer in/out without reimbursement	0		0	
Imputed Financing from costs absorbed by others	73,521		69,500	
Other	7,362		6,656	
Total Financing Sources	651,736	(1,218)	618,093	7,790
Net Cost of Operations	(635,780)		(607,200)	
Net Position, Ending	$ 177,711	258,356	$ 161,755	259,574

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, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Budgetary Resources		
Budget authority		
Appropriations received	$ 795,685	$ 762,017
Net transfers (+/-)	(494)	(249)
Other	(1)	0
Unobligated balance:		
Brought Forward, October 1	1,029,310	977,504
Spending authority from offsetting collection		
Earned		
Collected	127,618	121,519
Receivable from Federal sources	3,198	(1,695)
Change in unfilled customer orders		
Advance received	(7,261)	1,500
Without advance from Federal sources	6,353	(2,416)
Transfers from trust funds	0	293
Subtotal	129,908	119,201
Recoveries of prior year obligations	4,355	25,478
Temporarily not available pursuant to Public Law	11	371
Permanently not available-Cancellation of authority	(3,198)	(3,837)
Permanently not available-Enacted Reductions	(4,398)	(3,104)
Total Budgetary Resources	$ 1,951,178	$ 1,877,381
Status of Budgetary Resources:		
Obligations incurred, direct & reimbursable	$ 729,622	$ 848,071
Unobligated balance-Exempt from Apportionment	1,209,233	1,022,409
Unobligated balance not available-other	12,323	6,901
Total Status of Budgetary Resources	$ 1,951,178	$ 1,877,381
Relationship of Obligations to Outlays:		
Obligated balance, net as of October 1	$ 208,253	$ 191,677
Obligated balance transferred, net (+/-)	102	
Obligated balance, net, end of period:		
Accounts receivable from reimbursement, earned income and other Federal sources	(4,748)	(1,193)
Unfilled customer orders from Federal sources	(9,746)	(3,873)
Undelivered orders, unpaid	175,243	171,033
Delivered Orders, unpaid	55,945	42,286
Total obligated balance, net, end of period	216,694	208,253
Outlays:		
Disbursements	707,532	810,130
Collections	(120,296)	(123,312)
Total Outlays	$ 587,236	$ 686,818

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, 2005 and 2004

(Dollars in Thousands)

	2005	2004
Resources Used to Finance Activities		
Obligations incurred	$ 729,622	$ 848,071
Spending authority from offsetting collections and recoveries	(134,263)	(144,679)
Net Obligations	595,359	703,392
Other Resources		
Donations of property and services	7,507	19,257
Transfers-in (out) without reimbursement	0	0
Imputed financing from costs absorbed by others	73,521	69,500
Exchange revenue not in the budget	(222)	517
Nonexchange revenue not in the budget	(12)	(21)
Trust/Special fund exchange revenue receipts	(3,402)	(3,431)
Other resources, In (Out)	7,362	6,656
Total Resources Used to Finance Activities	680,113	795,870
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 (+/-)	1,912	(19,670)
Resources that finance the acquisition of assets	(4,042)	(13,576)
Resources that fund expenses recognized in a prior period	0	(1,001)
Other resources or adjustments to net obligations that do not affect net cost of operations	(43,292)	(156,957)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(45,422)	(191,204)
Total Resources Used to Finance the Net Cost of Operations	634,691	604,666
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	474	0
Total components of net cost of operations that will generate resources in future periods	474	0
Total Resources Used to Finance Activities		
Components not Requiring or Generating Resources		
Depreciation and amortization	8,210	9,550
Revaluation of assets and liabilities	(7,543)	(7,206)
Bad debt from public vendor overpayment receivables	384	(7)
Disposition of assets	0	204
Other costs not requiring or generating budgetary resources	(436)	(7)
Total components of net cost of operations that will not require or generate resources	615	2,534
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	1,089	2,534
Net Cost of Operations	$ 635,780	$ 607,200

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, 2005 and 2004

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 2005 and 2004. 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 (4) appropriated fund accounts; 26 (26) revolving (and gift revolving) funds; 26 (23) reimbursable funds; 103 (101) trust funds; and 128 (126) gift funds for fiscal year 2005 (and 2004, 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 2005 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)

• 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.

Under the authority of 2 U.S.C. 182, the Cooperative Acquisitions Revolving Fund was established on October 1, 1997, and is the program under which the

Library acquires foreign publications and research materials on behalf of participating institutions on a cost-recovery basis. 2 U.S.C. 182 was amended for the establishment of revolving funds for Audio and Video Duplication, Gift Shop Operations, Decimal Classification, Photo Duplication, Special Events, 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 Special Events fund performs services related to the hosting of special events and programs by the Librarian in Library facilities. 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.

- **Imputed Financing Sources**

In accordance with FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and for the Federal Government 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 2005 and 2004 reporting by 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 (CARP). 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.

As a result of the Copyright Royalty Distribution and Reform Act of 2004, the Library began transitioning in 2005 from Copyright Arbitration Royalty Panels to the new Copyright Royalty Board (CRB) composed of three Copyright Royalty Judges and their staff. Although the CRB assumed some duties in 2005, in 2006 all CARP's will be phased out and the CRB will have full jurisdiction over setting royalty rates and terms and determining distributions.

- **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 2005 and 2004. The Library records these in-kind donations as donated revenue in the period earned and an offsetting expense in the same period. The Ad Council provided nearly all of the in-kind donations in the form of free advertising for America's Library 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 $420 and $148 million during fiscal years 2005 and 2004, 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 2005 and 2004:
    - Vanguard Money Market Prime Fund
    - Vanguard Institutional Index Fund
    - Vanguard Capital Opportunity Fund
    - Fidelity Blue Chip Growth Fund
    - Fidelity Capitol Appreciation Fund
    - Fidelity Growth Company Fund
    - Fidelity Dividend 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.

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 Financial 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 inter-entity cost and related imputed financing source in its books. The Library does capitalize and depreciate leasehold improvements to 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 Photoduplication 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 35 percent and 38 percent of the Library's employees participated in the Civil Service Retirement System (CSRS) during fiscal years 2005 and 2004, respectively, to which the Library makes contributions equal to 7.0 percent of pay. Approximately 3 percent of employees under CSRS during fiscal years 2005 and 2004 are also covered by Social Security (FICA), for which the Library's contribution is slightly less.

An additional 61 percent and 58 percent of the Library's employees were covered by the Federal Employees Retirement System (FERS) during fiscal years 2005 and 2004, respectively, to which the Library's normal contribution was 11.2 percent and 10.7 percent of pay during fiscal years 2005 and 2004, respectively. Additionally, for employees under FERS, the Library contributes an automatic 1% of employee's pay, plus matches employee Thrift Savings Plan (TSP) contributions up to four 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, 4 percent

during fiscal years 2005 and 2004, 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 2005 and 2004, 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 Library views the relationship with the USPS and state and local libraries as a partnership and not inter-entity costs.

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 $5.1M and $4.9M at September 30, 2005 and 2004, 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.

2 *Fund Balance With Treasury*

A. Fund balance with Treasury at September 30, 2005 and 2004, is summarized as follows:

(Dollars in Thousands)

	2005	2004
Appropriated Funds (2)	$282,485	$274,460
Revolving and Reimbursable Funds	65,245	62,115
Gift and Trust Funds (1)	14,250	12,014
Custodial, Deposit and Other Funds	1,554	1,901
Total	**$363,534**	**$350,490**

(1) At September 30, 2005 and 2004, 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 4.5 and 4.5 percent, respectively.

(2) Pursuant to Public Laws 106-554 and 108-447, $75 million is unavailable for expenditure unless matched with non-Federal contributions for the NDIIPP that are received by March 31, 2010.

B. Status of Fund Balance with Treasury

	2005	2004
Unobligated Balances Available	$119,609	$121,657
Unobligated Balances Unavailable	27,053	20,020
Obligated Balances not yet Disbursed	216,872	208,813
Total	**$363,534**	**$350,490**

3 *Custodial Funds*

Custodial activity consists of the following:

(Dollars in Thousands)

	2005	2004
Source of Cash Collection:		
Licensing Fees	214,240	212,690
Investment Interest	21,737	8,818
Total Cash Collections	235,977	221,508
Investment Amortizations/Accruals	988	189
Total Custodial Revenue	**$236,965**	**$221,697**
Disposition of Collections:		
Payments to Copyright Owners	(39,843)	(154,130)
Refunds	(1,227)	(1,404)
Change in Investment Premium	(9)	(868)
Retained by Copyright Licensing for Administrative Costs	(3,155)	(3,141)
Net Custodial Activity	192,731	62,154
Beginning Custodial Liability	855,700	793,546
Ending Custodial Liability	**$1,048,431**	**$855,700**

4 *Investments, Net*

Investments at September 30, 2005 and 2004 are as follows:

(Dollars in Thousands)

	2005			2004		
	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	$1,097,444		$1,097,444	$ 905,947		$905,947
Cost		82,165	82,165		83,414	83,414
Unamortized Premium	4		4	54		54
Unrealized Discount	(2,962)		(2,962)	(1,212)		(1,212)
Interest Receivable	388		388	289		289
Investments, Net	**1,094,874**	**82,165**	**1,177,039**	**905,078**	**83,414**	**988,492**
Market Value	**$1,094,384**	**$75,121**	**$1,169,505**	**$904,885**	**$68,814**	**$973,699**

A. Intragovernmental Investments

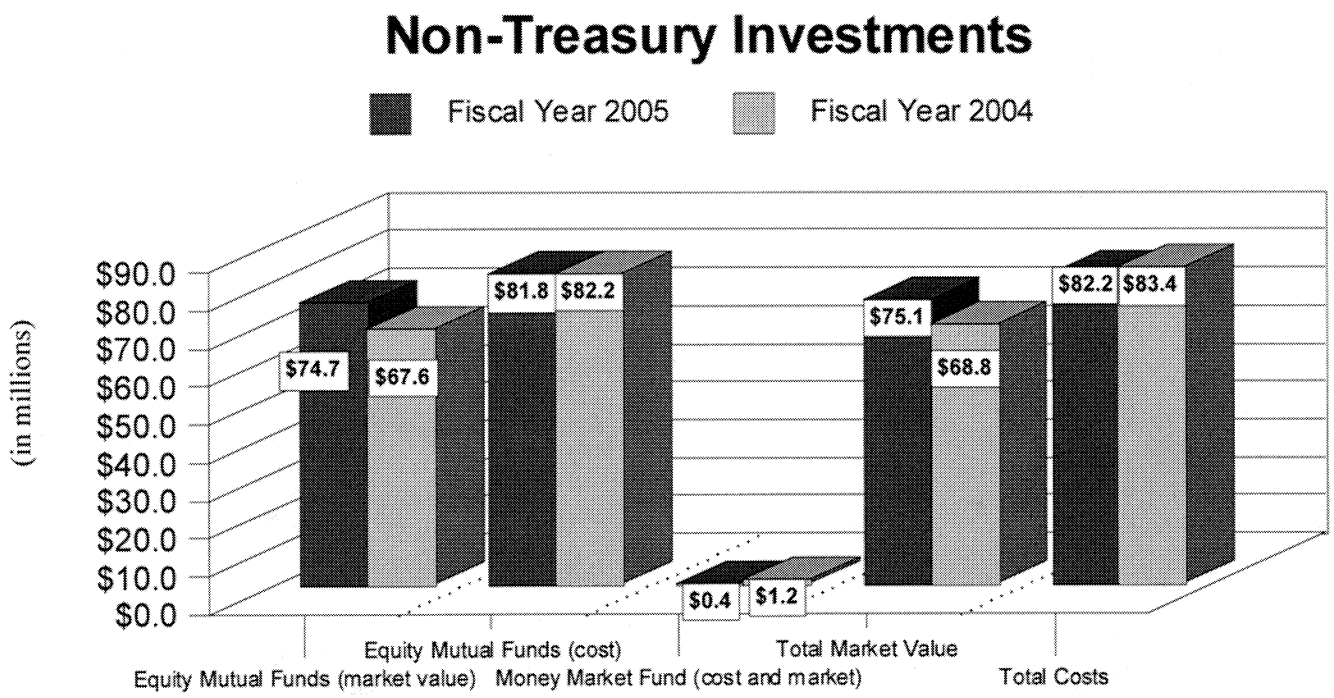
Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Trust fund investment maturity dates for fiscal years 2005 and 2004 range from October 6, 2005 to May 15, 2006 and October 7, 2004 to May 15, 2006, respectively, and interest rates for the same fiscal years range from 2.715 percent to 4.625 percent and 1.17 percent to 10.8 percent, respectively.

Custodial funds investment maturity dates for fiscal years 2005 and 2004 range from October 06, 2005 to August 31, 2006 and October 14, 2004 to August 31, 2004, respectively, and interest rates for the same fiscal years range from 1.5 percent to 3.42 percent and 1.415 percent to 2 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, 2005 and 2004, are as follows:



5 *Receivables*

The breakdown of consolidated gross and net accounts receivable at September 30, 2005 and 2004, are as follows:

A. Accounts Receivable

(Dollars in Thousands)

	2005	2004
Intragovernmental		
Accounts Receivable, Gross and Net	$13,917	$5,046
With the Public		
Accounts Receivable, Gross	630	475
Allowance for Doubtful Accounts	(28)	(28)
Accounts Receivable, Net	602	447

B. Pledges Receivable

At September 30, 2005 and 2004, the Library had unconditional pledges of contributions totaling $ 15.4 million and $8.1 million, which were discounted through fiscal years 2031 and 2030 at a market Discount rate and included in the statement of financial position at their discounted value of $13.6 million and $6.9 million, respectively.

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

(Dollars in Thousands)

Fiscal Year	2005	2004
2005	-	3,586
2006	9,092	1,154
2007	2,993	658
2008	115	88
2009	111	86
2010-2031	1,324	1,376
Total	**$13,635**	**$6,948**

6 *Property and Equipment*

Property and equipment that were capitalized at September 30, 2005 and 2004 are as follows:

(Dollars in Thousands)

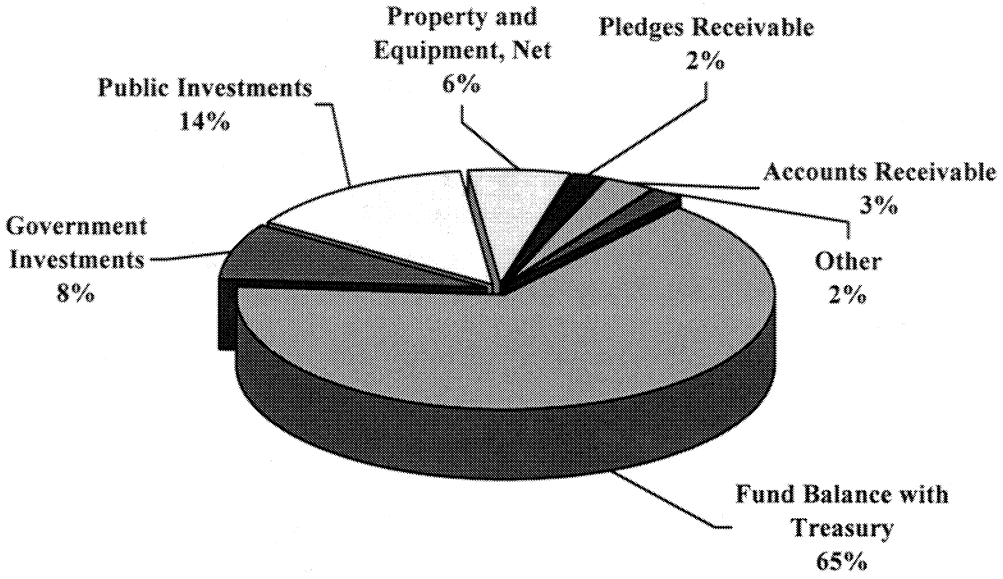
	2005			2004		
Classes of Property and Equipment	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**	**Acquisition Value**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Security Improvements – Leasehold Improvements in-progress	$4,144	$0	$4,144	$5,524	$0	$5,524
Operating equipment	72,359	65,757	6,602	72,475	61,037	11,438
Software	25,347	9,197	16,150	20,476	6,887	13,589
Furniture & Furnishings	985	515	470	985	466	519
Capital Leases	82	70	12	407	339	68
Leasehold Improvements	16,509	10,586	5,923	14,770	9,790	4,980
Total	**$119,426**	**$86,125**	**$33,301**	**$114,637**	**$78,519**	**$36,118**

7 *Entity and Non-Entity Assets*

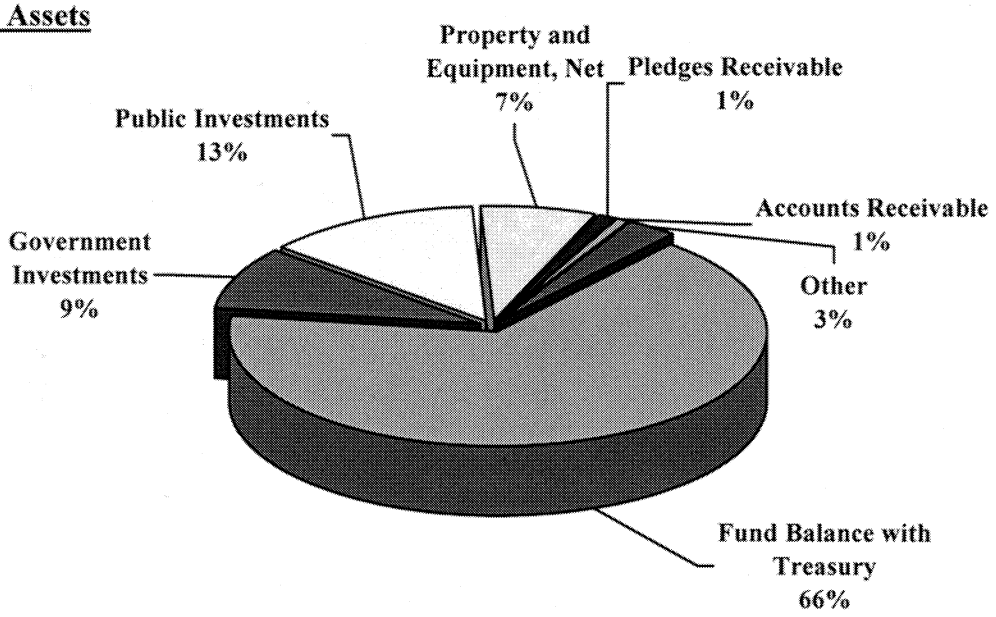
(Dollars in Thousands)

	2005			2004		
	Entity	**Non-Entity**	**Total**	**Entity**	**Non-Entity**	**Total**
Intragovernmental Assets						
Fund Balance with Treasury	$363,337	$197	$363,534	$350,369	$121	$350,490
Investments	46,641	1,048,233	1,094,874	49,493	855,585	905,078
Accounts Receivable, Net	13,827	90	13,917	5,042	4	5,046
Other Assets	7,465		7,465	5,535		5,535
Investments	75,121		75,121	68,814		68,814
Pledge Receivable - Donations	13,635		13,635	6,948		6,948
Cash and other Monetary Assets	581		581	442		442
Inventory	1,345		1,345	1,541		1,541
Property and Equipment, Net	33,301		33,301	36,118		36,118
Other Assets	916	3	919	7,095	2	7,097
Total	**$556,169**	**$1,048,523**	**$1,604,692**	**$531,397**	**$855,712**	**$1,387,109**

2005 Entity Assets



2004 Entity Assets



8 *Leases*

A. Capital Leases

The Library has assets under capitalized leases for machinery and equipment at a net book value of $12,318 and $68,010 as of September 30, 2005 and 2004, respectively. Estimated future minimum lease payments are as follows:

(Dollars in Thousands)

Fiscal Year Ended September 30	2005	2004
2005	$0	$108
2006	6	23
2007	0	0
2008	0	0
2009	0	0
2010 and thereafter	0	0
Total Future Lease Payments	6	131
Less: Imputed Interest	2	33
Net Capital Lease Liability	**$4**	**$98**

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 2005 and 2004 amounted to $3,651,192 and $3,654,466 respectively. Under existing commitments as of September 30, estimated future minimum lease payments through fiscal year 2010 are as follows:

(Dollars in Thousands)

Fiscal Year Ended September 30	2005	2004
2005	$0	$2,656
2006	1,730	199
2007	175	156
2008	112	101
2009	58	57
2010 and thereafter	5	0
Total Estimated Future Lease Payments	**$2,080**	**$3,169**

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 $1,596,827 and $1,615,594 of unbilled or unpaid workers' compensation costs as of September 30, 2005 and 2004, 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 $8,130,471 and $8,469,878 as of September 30, 2005 and 2004, 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, 2005 and 2004 are comprised of the following:

(Dollars in Thousands)

	2005	2004
Deferred Credits and pledges	$775	$2,824
Advances from the Public	2,746	2,503
Capital Lease Liability	4	98
Liability for BCA and deposit accounts	117	0
Total Other Liabilities	**$3,642**	**$5,425**

12 *Liabilities Covered and Not Covered by Budgetary Resources*

(Dollars in Thousands)

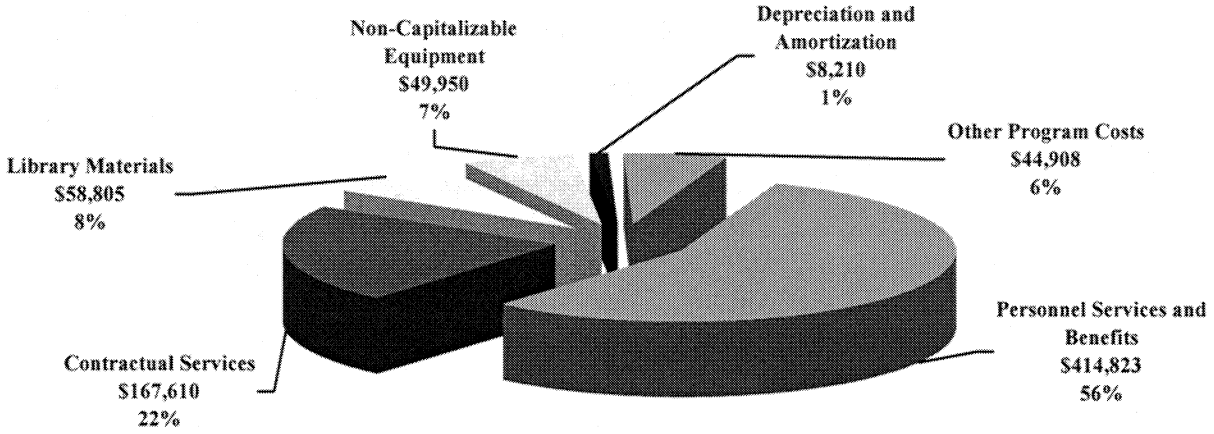
	2005	2004
Liabilities Covered by Budgetary Resources	$1,136,612	$934,148
Liabilities Not Covered by Budgetary Resources – Intra Governmental	1,597	1,615
Liabilities Not Covered by Budgetary Resources - Other	30,416	30,017
Total Liabilities	**$1,168,625**	**$965,780**

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.

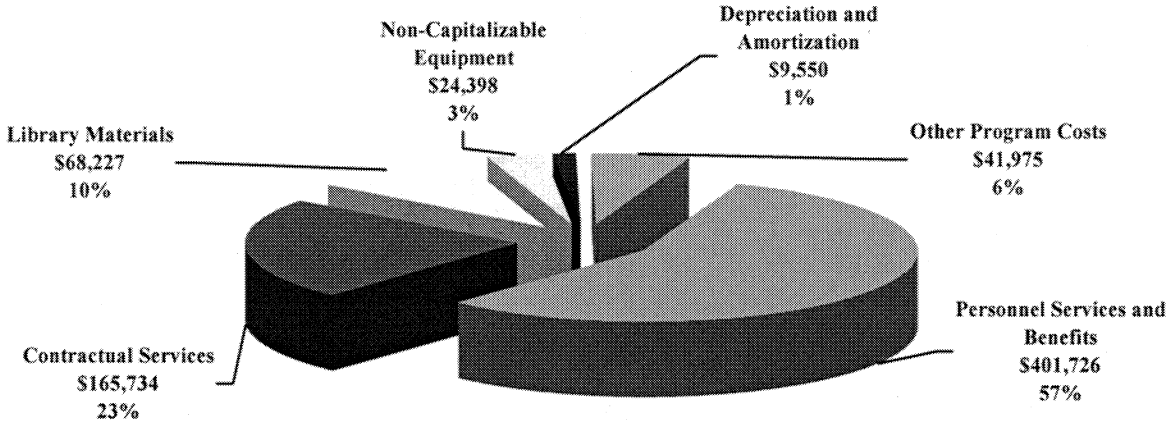
13 *Program Costs by Budget Object Classification*

(Dollars in Thousands)

FY 2005 Program Costs by Budget Object Classification



FY 2004 Program Costs by Budget Object Classification



The Library's collections are classified as "heritage assets". $11,027 and $17,996 of the amount designated as "Library Materials" above represents the fiscal years 2005 and 2004 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	2005	2004
Commerce and Housing Credit	$68,953	$59,102
Education, Training, Employment and Social Services	553,095	534,647
General Government	122,258	117,848
Income Security	0	13
Total	**$744,306**	**$711,610**

Earned Revenue by Functional Classification – Consolidated

(Dollars in Thousands)

Function Classification	2005	2004
Commerce and Housing Credit	$27,078	$26,955
Education, Training, Employment and Social Services	81,422	77,437
General Government	26	18
Total	**$108,526**	**$104,410**

15 *Program Costs and Earned Revenue for Revolving Funds*

(Dollars in Thousands)

	2005	2004
Audio Visual Services:		
Program Cost	$691	$822
Less Earned Revenue	185	161
Net Program Cost	$506	$661
Cooperative Acquisitions Program:		
Program Cost	2,528	2,112
Less Earned Revenue	2,606	2,046
Net Program Cost	(78)	66
Decimal Classification:		
Program Cost	303	314
Less Earned Revenue	285	337
Net Program Cost	18	(23)
Document Reproduction and Microfilm Services:		
Program Cost	3,583	3,596
Less Earned Revenue	3,064	2,023
Net Program Cost	519	1,573
Gift Shop Operations:		
Program Cost	1,422	1,285
Less Earned Revenue	1,324	1,378
Net Program Cost	98	(93)
Federal Research Division:		
Program Cost	2,509	2,169
Less Earned Revenue	3,212	2,127
Net Program Cost	(703)	42
FEDLINK:		
Program Cost	66,913	63,341
Less Earned Revenue	64,727	63,062
Net Program Cost	2,186	279
Special Events:		
Program Cost	1,930	2,404
Less Earned Revenue	1,143	1,316
Net Program Cost	787	1,088
Total Program Cost	$79,879	$76,043
Less Total Earned Revenue	$76,546	$72,450
Total Net Program Cost	$3,333	$3,593

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 for providing these goods and services, this would in some cases reduce the quantity for 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 2005	**Intragovernmental**				
	Production	**Non-Production**	**Public**	**Non Production**	**Total**
National Library	$114,912	$34	$272,736	$27	$387,709
Law Library	6,972	2	13,990		20,964
Copyright Office	20,499	(8)	48,363		68,854
Congressional Research Service	31,883	18	90,479		122,380
National Library Service for the Blind and Physically Handicapped	6,609	4	44,088		50,701
Revolving and Reimbursable Funds	7,124	20	86,554		93,698
	187,999	70	556,210	27	744,306

(Dollars in Thousands)

Fiscal Year 2004	Intragovernmental		Public	Total
	Production	Non-Production	Production	
National Library	$95,494	$72	$278,210	$373,776
Law Library	6,788	4	12,994	19,786
Copyright Office	18,188	98	40,817	59,103
Congressional Research Service	29,595	20	89,638	119,253
National Library Service for the Blind and Physically Handicapped	4,932	4	45,866	50,802
Revolving and Reimbursable Funds	6,962	36	81,892	88,890

18 *Imputed Financing Sources*

(Dollars in Thousands)

Agency	2005	2004
Architect of the Capitol – Library buildings and grounds costs	$40,195	$37,232
Government Printing Office – exchange program costs	860	801
Office of Personnel Management – staff benefit costs	32,466	31,032
US Treasury Judgment Fund – Imputed Costs	0	435
Total	**$73,521**	**$69,500**

19 *Budgetary Resources*

Budgetary resources are classified as follows:

(Dollars in Thousands)	2005			2004		
	Appropriated Capital	Non-Appropriated Capital	COMBINED	Appropriated Capital	Non-Appropriated Capital	COMBINED
Budgetary Resources						
Budget authority						
Appropriations received	$549,760	$245,925	$795,685	$526,105	$235,912	$762,017
Net transfers (+/-)	(496)	2	(494)	(249)	0	(249)
Other		(1)	(1)	0	0	0
Unobligated balance:						
Beginning of period	109,813	919,497	1,029,310	127,179	850,325	977,504
Spending authority from offsetting collections						
Earned						
Collected	66	127,552	127,618	876	120,643	121,519
Receivable from Federal sources	(62)	3,260	3,198	19	(1,714)	(1,695)
Change in unfilled customer orders						
Advance received		(7,261)	(7,261)	0	1,500	1,500
Without advance from Federal sources		6,353	6,353	0	(2,416)	(2,416)
Transfers from trust funds	0	0	0	0	293	293
Subtotal	4	129,904	129,908	895	118,306	119,201
Recoveries of prior year obligations	3,609	746	4,355	17,358	8,120	25,478
Temporarily not available pursuant to Public Law	(20)	31	11	0	371	371
Permanently not available-Cancellation of Authority	(3,128)	(70)	(3,198)	(3,677)	(160)	(3,837)
Permanently not available-Enacted Recissions	(4,398)		(4,398)	(3,104)	0	(3,104)
Total Budgetary Resources	$655,144	$1,296,034	$1,951,178	$664,507	1,212,874	$1,877,381

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended September 30, 2005 and 2004

(Dollars in Thousand)	2005			2004		
Status of Budgetary Resources:						
Obligations incurred, direct & reimbursable	$544,712	$184,910	$729,622	$554,689	$293,382	$848,071
Unobligated balance-Exempt from Apportionment	101,815	1,107,418	1,209,233	103,032	919,377	1,022,409
Unobligated balance not available-other	8,617	3,706	12,323	6,786	115	6,901
Total Status of Budgetary Resources	655,144	1,296,034	1,951,178	664,507	1,212,874	1,877,381
Relationship of Obligations to Outlays						
Obligated balance, net, beginning of period	164,679	43,574	208,253	143,181	48,496	191,677
Obligated balance transferred, net (+/-)		102	102			
Obligated balance, net, end of period:						
Accounts receivable	(164)	(4,584)	(4,748)	(19)	(1,174)	(1,193)
Unfilled customer orders from Federal sources		(9,746)	(9,746)	0	(3,873)	(3,873)
Undelivered orders	140,181	35,062	175,243	137,365	33,668	171,033
Accounts payable	31,535	24,410	55,945	27,299	14,987	42,286
Total obligated balance, net, end of period	171,552	45,142	216,694	164,645	43,608	208,253
Outlays:						
Disbursements	534,300	173,232	707,532	515,849	294,281	810,130
Collections	(65)	(120,231)	(120,296)	(876)	(122,436)	(123,312)
Total Outlays	$534,235	$53,001	$587,236	$514,973	$171,845	$686,818

For trust funds, approximately $13.0 million and $11.3 million of unobligated authority for fiscal years 2005 and 2004, 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 $75.0 and $75.0 million of restricted authority has been obligated and expended to invest in non-Treasury securities for the fiscal years 2005 and 2004, respectively.

THE LIBRARY OF CONGRESS

STEWARDSHIP REPORT

THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 2005

STEWARDSHIP REPORT

HERITAGE ASSETS

OVERVIEW OF THE LIBRARY COLLECTIONS

The Library of Congress is the world's largest library collection with approximately 132 million items, including research materials in over 470 languages and various media. The collections include more than 30 million books and other printed materials, 59 million sheets of manuscripts, 14 million photographs, 5.2 million maps, 5.3 million pieces of music, three million audio recordings, and 981 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.

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.

The Library's five-tiered framework of risk, first formulated and published in the 1997 Security Plan, remains the unifying construct in the security plan as of the end of the fiscal year. The five tiers are: **platinum** (the most priceless items); **gold** (items having prohibitive replacement costs, high market value, and significant cultural, historical, and or artifactual importance); **silver** (items requiring special handling or that are at high risk); **bronze** (items without special restriction in the Library's reading rooms and materials that may be loaned without stringent restriction); and **copper** (items the Library does not intend to retain but are held until a decision is made).

Recognizing that resource constraints preclude protecting the entire universe of the collections at the platinum level established for the nation's treasures, the Library's approach sets clearly defined, differentiated degrees of protection. 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. This ground-breaking approach to collections security has been shared with a wide array of professional associations and, at the time of the development of this security plan, no other major cultural institution sampled was found to have a plan as complete as that of the Library.

The Library holds the papers of 23 presidents of the United States as well as papers of individuals from many diverse arenas – Susan B. Anthony, Sigmund Freud, Pamela and Averell Harriman, Henry Kissinger, Thurgood Marshall, Harry A. Blackmun, 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 2005, the Library's collecting priorities included:

- Serials.
- New electronic resources.
- Digital materials regarding the 2004 United States elections and 2004 Olympic Games.

COLLECTIONS POLICY

The collections are organized into two major categories: the print collections, which include classified books, rare 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. This ensures that the Library makes every effort to possess all books and library materials necessary for 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 makes available the Collections 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 Collections Policy Statements and announces its work plan to all the recommending officers in the Library. The committee is composed of the:

- Director for Acquisitions & Bibliographic Access,
- Director for Collections & Services,
- Director for Preservation,
- Director, Law Library Services,
- Assistant Director, Knowledge Services Group, Congressional Research Service, and
- Others as appointed.

Digital Preservation – 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, continues to be the major focus for the Office of Strategic Initiatives (OSI). The program is overseeing the development of a digital preservation infrastructure consisting of a network of partners with defined roles and responsibilities working within a technical architecture. The NDIIPP "master plan," the result of an 18-month planning, research and consultation process, was approved by Congress in December 2002.

NDIIPP Project Partners - The eight consortia comprising 36 institutions, which received NDIIPP awards totaling nearly $14 million during fiscal year 2004, met twice in Washington in 2005.

In fiscal year 2005, all the partners have shown considerable progress during the initial year of their projects, particularly in establishing practical working

frameworks and developing digital preservation tools and services.

Library of Congress-National Science Foundation Awards – In May 2005, NDIIPP and the National Science Foundation awarded 10 university teams a total of $3 million to undertake pioneering research to support the long-term management of digital information. These awards are the outcome of a partnership between the two agencies to develop the first digital-preservation research grants program.

Archive Ingest and Handling Test- The Archive Ingest and Handling Test (AIHT) was successfully completed in June 2005. In June 2004, the Library entered into a joint digital preservation project with Old Dominion University, Department of Computer Science; Johns Hopkins University, Sheridan Libraries; Stanford University Libraries & Academic Information Resources; and Harvard University Library to explore strategies for the ingest and preservation of digital archives. The twelve-month project was supported by Information Systems Support, Inc.

AIHT was designed to identify, document and disseminate working methods for preserving the nation's increasingly important digital cultural materials, as well as to identify areas that may require further research or development.

The AIHT participants investigated and applied various digital preservation strategies, using a digital archives donated to the Library by the Center for History and New Media at George Mason University. The archives is a collection of 57,000 digital images, text, audio and video related to the September 11, 2001, events. The transfer of these 12 gigabytes of digital content was being used to emulate the problems that arise in digital preservation and to test possible solutions.

Electronic Deposit for Electronic Journals Project -The purpose of the eDeposit for eJournals project is to build a prototype system by the end of fiscal year 2006 that will ingest, archive and create access to electronic journals and other digital content in the Library of Congress collections.

The project is a collaborative effort among three service units of the Library: the U.S. Copyright Office, Library Services and OSI. The project will consider the near- and long-term needs of library users, as well as the technologies available, by studying other systems and technologies in order to build the most efficient system using available resources

Working groups have been established, and these groups have begun pooling their resources, tallying the content demographic in the digital environment, assessing their interdependencies and planning their collaborative approaches to building a Library-wide ingestion tool.

National Digital Library Program - The National Digital Library Program continues to be one of the premier web sites of the federal government, with millions of users across the country and around the world. American Memory, the most visited of the Library's web sites, offers 10,174,031 digital items in 133 thematic presentations from the collections of the Library and its partners. The number of digital files in the new collections for fiscal 2005 totals 551,761; the number of files added to preexisting collections was 359,427, for a grand total of 911,317 new digital files added to American Memory in fiscal year 2005.

Building the Digital Collection - During fiscal year 2005, the Library continued its three-pronged 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 its second year, OSI's Web Capture Team worked to establish broader institutional support for, and participation in, capturing at-risk content from the web. The team established a regular stream of content identification and selection to harvest the content within a reliable technical environment. The team also worked with custodians of the materials Library-wide to archive the content.

In collaboration with representatives from the Congressional Research Service, the Law Library and Library Services, the Web Capture Team worked with recommending officers and curators to expand the Library's collection of web content by 15 terabytes of data, comprising more than 3,500 web sites. To date, the Library has captured a total of 34 terabytes of web content. The web materials relate to such events as the national elections of 2004 and the papal transition from John Paul II to Benedict XVI. The Library also continued to capture web sites associated with the war

in Iraq, recent Supreme Court nominations and Hurricane Katrina.

Seven new multimedia collections were added in fiscal year 2005 as part of the National Digital Library Program:

- *September 11, 2001, Documentary Project*
- *Freedom's Fortress: The Library of Congress and World War II*
- *James Madison Papers at the Library of Congress*
- *Women of Protest: Photographs from the Records of the National Woman's Party*
- *World War I Newspaper Rotogravures*
- *The Jedediah Hotchkiss Map Collection*
- *Rochambeau Maps from the American Revolutionary Era*

The Law Library created the *Supreme Court Nomination Digital Collection*. The collection contains digitized copies of the hearings, floor debates, floor votes, and senate floor statements for all nominees, both confirmed and unconfirmed beginning in 1969. In addition, a web harvesting project is collecting the important "born digital" debate on the John. G. Roberts, Harriet Miers and Joseph Alito nominations so that this material will be preserved for future legal scholars.

The Global Legal Information Network, or GLIN (http://www.glin.gov), is an initiative of the Law Library designed to provide timely access to the laws of the world. It is a multinational database containing laws and other legal materials from countries and international organizations in Asia, Africa, Europe and the Americas. A network of government agencies and representatives of 28 countries, international organizations, and non-governmental organizations contributes information directly to the database while legal analysts in the Law Library input information for sixteen other Spanish- and Portuguese-speaking nations that are not yet contributing laws themselves. During the year, GLIN members contributed over 9,100 laws to the database, and Law Library staffers added about 1,250 laws. Currently, there are over 82,000 laws in the GLIN database.

The Law Library continues to expand its online resources. The major acquisitions were the purchase of the entire online file of the *Laws of Kenya*; the *Law n B*, a Korean legal information service providing access to cases, statutes and other legal references; the *RDB de Rechtsdatenbank*, an Austrian legal information service providing access to Austrian legal journals, collection of cases, and other resources related to the laws of Austria.

Bibliographic Enrichment Activities – The Library's inter-divisional Bibliographic Enrichment Advisory Team (BEAT) is responsible for initiating research and development projects to increase the value of cataloging products to library users. The team's best-known project is the enrichment of online catalog records by providing electronic table of contents data (TOC). In fiscal year 2005, BEAT-developed software supported the inclusion of TOC in more than 42,000 records for Electronic Cataloging in Publication titles and enabled links to and from another 6,300 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, book jacket illustrations, author information, 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 more than 330,000 links, including links to more than 7,500 sample texts and more than 63,000 publisher descriptions of their publications. The Library counted approximately 3.5 million visits this fiscal year to the D-TOC and ONIX records residing on its server; there have been a total of more than 7.5 million visits since the project began in 2001.

In fiscal year 2005, BEAT expanded its Review Project, which began with links from catalog records for selected monographs in the LC collections to *H-NET Reviews,* by linking to book reviews in publications such as *Education Review* (Arizona State University) and *Bryn Mawr Classical Review* (Bryn Mawr College and the University of Pennsylvania), publications that are freely accessible on the Internet. In addition, with the help of a Leadership Development Fellow, BEAT established the foundation for a further expansion later in the year to include Baker & Taylor's Yankee Book Peddler (YBP) Library Services' online publication, *E-STREAMS*, which provides reviews in the fields of engineering, agriculture, medicine and science.

Another noteworthy BEAT project has continued this year to provide significantly improved access to pre-1970 Congressional hearings, resulting in improved

service to the Congress, centralized availability of information now widely dispersed throughout the Library's collections, modernization and uniformity of catalog formats for the hearings, and addition or inclusion of other information, such as the existence and location of alternate data sources. Completed in fiscal year 2005 was processing of all the Senate hearings, except for those "not on shelf", for a total of 4,000. By year's end, 2,000 records for House hearings had also been upgraded.

International Digital Projects - Fiscal year 2005 saw the completion of two Global Gateways projects in the African and Middle Eastern Division: digitization of the division's collection of 38 cuneiform tablets - the earliest dating back to 2400 B.C.E. - as well as its most important illuminated Hebrew manuscript, the *Washington Haggadah*, which originated in Central Europe in 1478. More than 450 Arabic script calligraphy sheets were described and digitized, and are to be mounted in fiscal year 2006 on the Library's web site. A major Global Gateway project was inaugurated with the National Library of Egypt on *Islam and Science*.

The Library signed an agreement with the National Central Library in Taipei in March 2005 to digitize selected Chinese rare books as a way of protecting the original items and making these treasures accessible to scholars and researchers online. The two-year collaborative project may be extended one more year. In May 2005, the National Central Library sent a team of four staff to the Library with equipment to perform the digitization. The estimated cost of approximately $1 million was funded by the Taiwan government. In preparation for the digitization, the Chiang-Ching Kuo Foundation provided two consecutive grants of $40,000 each for fiscal year 2004 and fiscal year 2005 for the Division to contract with Chinese rare book specialists to conduct a complete review of the Chinese rare books, many of which have not been cataloged before, and to work on their authentication and description.

The European Division mounted a new web site, *Polish Declarations of Admiration and Friendship for the United States*, that presents the first thirteen manuscript volumes of a larger collection of 111 volumes, compiled in Poland in 1926 and delivered to President Calvin Coolidge to honor the 150th anniversary of the Declaration of Independence. The collection is illustrated with original works by prominent Polish graphic artists, and includes the greetings and signatures of national, provincial, and local government officials, representatives of religious, social, business, academic, and military institutions, and approximately 5.5 million schoolchildren.

The Library and the Bibliotheque Nationale de France launched a bilingual, multiformat English-French digital library that explores the history of the French presence in North America and the interactions between the French and American peoples from the early 16th to the early 19th centuries. The project will include more than 100,000 images from the rare book, manuscript, map, and print collections of the two partner libraries.

The European Division also completed an update and expansion of the *Meeting of Frontiers* web site, the eighth since the site was launched in December 1999. Newly added collections and interpretive essays highlighted the purchase of Alaska by the United States from Russia in 1867 and the Russo-Japanese War of 1904–05 and its conclusion at the Portsmouth Peace Conference in Portsmouth, New Hampshire in September 1905. The most recent expansion added more than 45,000 digital images from the Library of Congress, the National Library of Russia (St. Petersburg), the Russian State Library (Moscow), and the U.S. National Archives and Records Administration. With the most recent additions, the *Meeting of Frontiers* web site included more than 630,000 digital images.

The Hispanic Division and Global Gateway launched *The United States, Spain and the American Frontier, Historias Paralelas*, a bilingual English/Spanish web site, prepared in collaboration with the National Library of Spain. It explores the history of Spain's presence in today's United States and its interaction with other European powers, from the sixteenth to the early nineteenth centuries. The Division continued enhancing *United States and Brazil: Expanding Frontiers, Comparing Cultures*, a collaborative project with the National Library of Brazil.

Two Chinese map projects were initiated during the year by the Geography and Map Division. Professor Li Xiaocong, Beijing University, reviewed pre-1900 maps of China in the Division in an effort to follow up on his publication, *A Descriptive Catalogue of the Traditional Chinese Maps Collected in the Library of Congress* (Beijing: Cultural Relic Publishing House, 2004). In addition, the Library signed an agreement with Academia Sinica, Taipei, to allow that research group

to work in the collection of maps of China as they develop a web presentation on history and space in China.

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 published 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 2005, research materials obtained for the collections through copyright deposits totaled 1,098,420 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 over 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 2005, the Library obtained 66,011 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 worldwide 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, was initiated to examine the Library's duplicate materials exchange program. The goals of the process 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.

The final step in this process was reached during the fiscal year. The online version of the Duplicate Materials Exchange Program, called Web DMEP, was launched at the end of July, with launch letters, instructions and passwords being air mailed to 3,063 partners in 118 countries. The site employs shopping cart functionality to allow the Library's exchange partners to select materials that they would like to receive in exchange for materials that they send to the Library.

In fiscal year 2005, the Library received 148,696 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 2005, the Library received 35,088 items from federal agencies, and, although only a very small number were selected for the collections, several thousand were used in exchanges with other libraries for materials needed by the Library of Congress. Other federal transfers were used in the Library's surplus books programs. The Library has been working closely with federal agencies 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:

Source	Pieces 2001	Pieces 2002	Pieces 2003	Pieces 2004	Pieces 2005
Purchases:					
Appropriated - GENPAC/LAW	711,133	897,193	732,603	768,870	684,848
Appropriated Other	55,564	34,397	25,146	26,365	16,389
Gift and Trust Funds	4,514	393	3,003	13,065	7,159
Total Purchases	771,211	931,983	760,752	808,300	708,396
Non-Purchases:					
Exchange	211,107	163,138	149,744	162,952	148,696
Government Transfers	126,590	140,105	110,689	86,655	75,217
Gifts	1,760,344	864,398	1,488,847	949,918	1,090,439
Cataloging in Publication/PCN	71,963	67,971	95,967	91,747	66,011
Copyright Deposits	728,034	896,504	869,083	1,038,561	1,098,420
Total Non-Purchases	2,898,038	2,132,116	2,714,330	2,329,833	2,478,783
Total All Acquisitions	3,669,249	3,064,099	3,475,082	3,138,133	3,187,179

PRESERVATION OF LIBRARY COLLECTIONS

The Preservation Directorate's mission is to assure long-term, uninterrupted access to the Library's collections, either in original or reformatted form. This mission is accomplished through the collaboration of the Directorate's four Divisions: Conservation, which surveys, treats and houses special collection photographs, prints, rare books and audio/visual items; Binding and Collection Care, which labels, repairs, prepares, binds, and houses general and reference books and other shelf material; Preservation Research and Testing, which undertakes analyses to develop treatments, analyze materials, test supplies, and create specifications; and Preservation Reformatting, which converts deteriorated material into various new formats. The Directorate also administers two additional long-term programs: the National Digital Newspaper Program, which aims to make available digitally 50,000 pages annually; and the Mass Deacidification Program, which treats books and paper sheets. In addition, the Directorate administers two short-term initiatives funded separately by Congress: the Preventive Care Project, which has installed 94 preservation environmental monitors in the Library's Capitol Hill buildings and stabilized approximately 320,000 items in three years, and the Preparation of Collections for Moves to Fort Meade and Culpeper Project, which to date has prepared more than 115,000 items for transfer to offsite storage at Fort Meade, Maryland, and 2,000,000 items for transfer to the National Audio-Visual Conservation Center in Culpeper, Virginia. Additional core activities of the Directorate include responsibility for preserving the Library's Top Treasures; cost-effective preventive care measures such as environmental control, integrated pest management, and emergency preparedness, with associated response and recovery of collections.

During fiscal year 2005, the Preservation Directorate furthered the Library's goal to preserve all formats of its national collections for use by Congress and other customers by completing more than 12,103,456 assessments, treatments, rehousings, and reformattings for books, codices, manuscripts, maps, cartoons, political posters, palm leaves, architectural drawings, photographs, newspapers, discs, film, magnetic tapes, and artifacts. This figure represents an increase of 20 percent over the amount of this work that was accomplished in fiscal year 2004. In addition, 7,143,845 items were repaired, mass deacidified, or microfilmed, a 70 percent increase over fiscal year 2004, attributable to increased efficiency in the Preventive Care and Preparation of

Collections for Moves projects, where temporary staff have now completed advanced training.

Mellon Photograph Survey Grant - The Andrew W. Mellon Foundation awarded a $40,000 grant to the Directorate for a three-pronged project: a comprehensive survey of the Library's photograph collections, an evaluation of a database structure to use as an assessment tool related to the conservation of those collections, and recommendations to address the needs identified in the survey. The comprehensive survey will allow photo conservators to plan and conduct photo preservation activities more effectively and efficiently than has been possible in the past, and will provide a model that can be used to survey other photograph collections in large research institutions. The project was expected to take fifteen months, continuing through fiscal year 2006.

Preservation of Treasures - To improve protection of the Top Treasures of the Library during fiscal year 2005, the Directorate focused on securing and safeguarding the treasures' alarmed cases. Working with the Office of Security and Emergency Preparedness, Facilities Design and Construction, and the Architect of the Capitol, improvements were initiated for the Treasures' cold vault and the cases used to display the Great Bibles. Work also began on a contract with the National Institute of Standards and Technology (NIST) for the design and construction of an argon encasement for the display of the Waldseemüller Map. With the acquisition of a multi-spectral digital imaging camera, the Directorate also enhanced its capacity to safeguard, promote understanding, treat and preserve treasured collections. The equipment allows conservators and scientists to conduct non-destructive analysis in multiple infrared and ultraviolet imaging modes that reveal information or damage unseen by the unaided eye. Conservators used the system to examine an annotated draft of the U.S. Constitution before and after treatment to identify iron gall ink, showing changes after treatment, the dispersion of ink on the page, and the effects of a prior backing and silking treatment. Images taken with the system and enhanced with imaging software also revealed text, written in iron gall ink on another manuscript document that had been water damaged, that was not visible to the naked eye.

Core Preservation Program Activities

Conservation Division - The Conservation Treatment Section surveyed 3,744,985 special collection items for treatment, digitization, exhibition, and relocation to off-site storage. To make collections from twelve curatorial divisions available for use, staff treated 57,644 books, paper, photographic and mixed media materials, and housed 786,676 items, including audio/visual materials. Preservation staff also prepared 577 items for exhibitions worldwide and 4,188 items for the National Digital Library and Internet access. Highlights included the conservation treatment of several colonial documents including the papers of George Mason, a letter from the Continental Congress to George Washington, the 1787 Articles of Confederation, Benjamin Franklin's 1754 Draft of the Albany Plan of Union, and the Declaration of Rights made by Representatives from Virginia. Ancient and exotic materials were also treated, such as a medieval Ethiopian vellum manuscript story of Saint Takle, the 15th century *Washington Haggadah,* a 16th century Mishnah Torah with wooden boards, the *Dhuratul Taj* illuminated manuscript of Shi'a text, the 17th century Sanson *Atlas Nouveau,* an 18th century Italian parchment scroll containing the Book of Esther, a 19th century Tibetan thangka painting, and a 19th century map of Peru. The Ezoshi Collection of 130 unique and rare volumes about the Ainu indigenous people of Japan was fully examined, repaired and rehoused.

To aid in the accessibility of collections, the section assisted with more than fifteen major digital conversion projects. Book and paper items were treated in preparation of scanning for the *Nichibunken, I Hear America Singing, Meeting of Frontiers* and *France in America* projects.

The Preventive Conservation Section completed the fourth year of a five-year project to preserve 'at-risk' collections on Capitol Hill. To protect such collections from handling, light and pollutants as part of a stabilization initiative, more than 13,255 enclosures, folders and boxes were made to house more than 965 books, 5,618 paper items, 6,645 photographs, and 27 objects.

To provide environmentally stable storage for special format collections, Preservation completed the final year of a three-year initiative for environmental monitoring and control with the Image Permanence Institute. This resulted in the establishment of a working group with the Library's Facility Services organization and the Architect of the Capitol to instigate and track specific improvements.

Preparation of Collections for Moves to Fort Meade and Culpeper Project - Additional three-year initiatives to prepare collections for environmentally controlled cool and cold storage in buildings at

Culpeper, Virginia, and Fort Meade, Maryland, continued. A team of conservators continued to work with curators of the Motion Picture, Broadcast, and Recorded Sound Division (MBRS) and the American Folklife Center to assess and make recommendations for more than 400 collections earmarked for transfer to the National Audio-Visual Conservation Center in Culpeper. During the year, all collections were assessed and recommendations made for stabilization of collections prior to the move and during transport. More than 1,157,000 selected books, manuscripts, art on paper, maps, photographs, color transparencies, microfilms, motion picture films, and magnetic media have been prepared for moving. The contract awarded to Central Business Group completed processing and rehousing of 125,000 nitrate films now stored at Dayton, Ohio. In collaboration, MBRS preservation specialists inventoried 52,000 items, sorted and evaluated 58,000, treated 13,500, and labeled over 210,000 audio/visual items. Research was done on customized housing for cylinder recordings, broken discs, and the paper print collections, as well as analysis of the composition of discs and cylinders. Proposals were made for high-risk collections, such as lacquer discs. Work continued toward developing specifications for film cans that protect contents from acid build-up and moisture penetration, and for labels that can withstand cold storage.

A second team of conservators continued to prepare collections for transfer to Fort Meade. Assessments were done for fifteen collections containing 2,000 paper items and 1,540,500 photographs. Surveys were done for 5,499 items: 4,014 bound volumes; 769 paper items; and 716 photographs. Housing was completed for 78,339 items: 6,861 bound volumes; 1,895 paper items; 69,552 photographs; and 31 three-dimensional objects. Treatment was done for 331 paper items and 150 photographs. Labeling was completed for 2,089 books and pamphlets. Highlights from this initiative include the completed stabilization and housing of 4,014 Brazilian chapbooks and the treatment of 150 and rehousing of 77,000 photographs stored in damaging file cabinets at the Landover Facility. More than 130 architectural drawings from the Rudolph Collection were treated for mold removal prior to further assessment and housing.

Binding and Collections Care Division – The Binding and Collections Care Division provides timely commercial bindery preparation, labeling, box-making, and repair of Library collections. The Library Binding Section (LBS) is responsible for preparing items to be sent to, and for the quality review of items returning from, the Library's commercial library binder. In addition, LBS provides shelf preparation of items to be added to the collections, which includes property marking and labeling. The Collections Care Section provides repair and housing of the collections. The repair activities primarily focus on the treatment of the General and reference collections, where damaged items are identified through use. Housing for collections throughout the Library is provided through the use of an automated box-making system.

The Library Binding Section sorted 179,600 volumes into binding styles in preparation for commercial binding, sent 238,437 volumes to the commercial binder, and labeled 161,454 pieces. Staff also conducted serial binding preparation training sessions for the Congressional Research Service and the African and Middle Eastern Division to enable those units to process serials for binding. Collaborations continued with the Acquisitions and Bibliographic Access Directorate to more fully realize efficiencies in the decentralization of labeling to the cataloging divisions, made possible by the Library's integrated library system (ILS).

The Library Binding Section implemented two initiatives to reduce persistent binding backlogs. In the first, an existing contract with Preservation Technologies (PTLP), requiring review and selection of newly bound items for mass deacidification treatment, was modified to include preliminary binding quality review and routine ILS update tasks for all commercially bound volumes. This action resulted in a 30 percent increase in the number of items being prepared for commercial binding on a weekly basis during the last two months of the fiscal year. The second efficiency initiative involved a pilot project to defer commercial binding of most softbound copies assigned to the General Collections that are cataloged by the History and Literature Cataloging Division (HLCD), provided that a first bound copy is in the collections. Instead of full commercial binding, these duplicate volumes are labeled and processed for storage in the more environmentally beneficial Fort Meade storage facility. Use of these items will be monitored to determine if additional binding actions are required. Advantages realized from this new approach include the ability to redirect existing binding resources to other higher priority material; improved throughput for all items received by LBS; and, from a public service perspective, uninterrupted access to current high-demand monographs.

The Collections Care Section continued to improve its core activities to provide repair and box-making services. During the year, 2,954 volumes were repaired and 15,489 boxes were made, an increase of 93 percent over fiscal year 2004 levels.

More than 30,000 maps from the American Title Map collection were rehoused through the section's management of a contract with History Associates. This project will continue in the following fiscal year.

Near the close of the fiscal year, the Collections Care Section acquired a new automated box-making system, the Kasemake. The new system enables staff to create several hundred box and wrapper styles using a wider variety of materials including boxboard, foam, cloth and matboard, with greater precision and speed and at less cost. The new wrappers take up less space in storage areas while still protecting at-risk volumes.

Preservation Research and Testing Division - The Preservation Research and Testing Division (PRTD) conducts original research to advance preservation of the Library's collections. From a materials science perspective, the Library's collections are composed of traditional, audio/visual and digital objects based on their composition, properties and use. In order to extend the useful life of these objects, research projects investigate material composition and aging properties of collections and the materials used to housed them, as well as the deleterious or beneficial effects of storage environments and conservation treatments.

To support the preservation of the Library's analog and digital collections, the Division's Quality Control and Assurance Program ensures that collection items in all formats are housed only in the highest quality materials to achieve the maximum usable life expectancy for the item. Materials procured through the Preservation Supply Catalog, and by individual divisions, are required to meet Library of Congress specifications and are subjected to rigorous testing prior to acceptance. In fiscal year 2005, PRTD conducted a total of 1,256 tests of 126 items composed of various materials, including paper, card, board, book-cloth, plastics, film, and foam. Staff initiated a Specification Discussion Group to collaborate with conservators and custodial divisions in developing new specifications and updating older ones. Experiments were planned to more precisely correlate the performance requirements established by the group for card and board stock, as well as the physical requirements for corrugated board products used in pre-made boxes, with laboratory testable specifications. The results of this study will be discussed with the Library's suppliers to reach a balance among preservation needs, commercially available manufacturing processes, and cost.

Forensic analytical services program - To provide scientific and technical support for projects related to the conservation of the Library collections, staff conducted physical and chemical analyses of a variety of materials brought to the lab by curators and conservators. In fiscal year 2005, Library Services approved the purchase of a new state-of-the-art "Diagnosis in Real Time" (DART) mass spectrometer capable of almost instantaneous and non-destructive identification of organic materials found in and on collection material. This was used to authenticate and/or date materials or anticipate relative stability. Highlights in fiscal year 2005 included analyses of written adulterations on an original manuscript by Andrew Jackson for his inaugural address; analyses of cross sections of ground, pigments, and coatings on Islamic lacquer book-bindings; analyses of pigments and varnish on a 1910 gouache painting for the cover of the *New Yorker* by Rae Irvin; analyses of cellulose acetate residues removed during treatment of two documents by George Mason; and analysis of a substance used to impregnate the cover and pages of the *Arkieratikon,* a Greek book of liturgy from the Medieval and Renaissance Collection, Rare Book and Special Collections Division.

Safety assurance - Analyses were also conducted to determine safety or health hazards imposed by handling objects with suspect materials. In fiscal year 2005, staff determined that suspect substances found on plastic film cans in the cold vaults at the Landover Center Annex, a Balinese palm leaf book from the Asian Division, and three books in the African and Middle Eastern Division that were being scanned for the Islam and Science Project posed no harm to either curators or other handlers.

Digital Media Composition and Aging Research Program - This program continued to focus on several long-term research endeavors to assess the usable lifetimes of digital optical media, using natural and accelerated aging. The CD-Audio Media Natural Aging Project expanded from the original limited sample of 125 titles, selected in 1996 and analyzed every three years, to a second study of 1,050 discs selected to represent each year that discs have been produced from the beginning of their emergence on the consumer market, with 431 of these being analyzed in fiscal year 2005 to judge the physical and

chemical effects of natural aging on them. The CD-Audio Media Accelerated Aging Project utilized accelerated aging over a range of temperature and relative humidity levels to observe the chemical and physical effects of aging, as well as the effect of laser-engraving discs as a collection security measure. The first phase of this study, which employed standard American National Standards Institute aging conditions, was completed last year. Work began in fiscal year 2005 to analyze the discs in the accelerated aging study to determine the components of CD-ROM discs that cause them to fail earlier than discs with a more extended projected longevity.

The Digital Media Research Program was undertaken with the National Institute for Standards and Technology to develop a method for forecasting the obsolescence of optical media, assign life expectancy ratings for various brands, establish optimum storage conditions, and develop a pilot project to integrate best practices into the Library workflow. The results will be used to guide consumers and institutions in purchasing discs that have the components that will protect important data from being corrupted or lost over time and to recommend appropriate refreshing schedules.

Other Initiatives - PRTD continued to participate in a 100-year Natural Aging of Papers Project, sponsored by the American Society for Testing and Materials in collaboration with four other laboratories and ten libraries across the U.S. and Canada. The parallel Accelerated Aging of Papers Project has resulted in the potential for a new standard test that would be appreciably faster, requiring only three rather than thirty days, and would not require expensive humid aging chambers.

The Division, in collaboration with the National Archives and Records Administration, began testing all materials that will be used in exhibitions in the Capitol Visitors' Center to ensure that the materials will not negatively impact Library collection objects.
To ensure that all items in the Library collections are housed in the highest quality materials, a project was initiated to determine the adverse effects of migration of chemical degradation products from poor quality materials to collection materials via long-term contact. The first phase of the study gathered preliminary data on the aging behavior of a small set of mixed paper and boards and was completed in early 2005.

The nature and properties of pressure-sensitive adhesives, which include the stability of the paper or film stock and the stability of the image printed on the labels, are being investigated. One result from this work is new Library specifications for suppliers.

Preservation Reformatting - The Preservation Reformatting Division provides access to at-risk materials by converting items to new preservation formats, such as microfilm, preservation facsimile copies or digital reproductions. In carrying out this responsibility, the Division plans and manages the preservation reformatting budget; executes annual reformatting plans by establishing requirements and standards for preservation reformatting; and collaborates with other institutions to develop preservation reformatting projects that improve the quality, content and accessibility of reformatted works. In fiscal year 2005, the Preservation Reformatting Division successfully converted 4,664,992 units of library material (e.g. pages, photographs, posters), a 13 percent increase over the fiscal 2004 level, through a combination of preservation microfilming (4,622,631 pages or 2,658,510 exposures), preservation facsimile (16,669 pages or 32 volumes), digitization (40,826 pages or 4,197 works), and other preservation photographic reproductions (4,531 images and 1,000 acetate microfilm reels) for service to the public. The reformatted material was drawn from ten divisions of the Collections and Services Directorate, the Law Library, and the master negative microform collection.

New initiatives included reformatting of copyright drama scripts from the Manuscript Division, and Asian language newspapers held by the Asian Division and the Serial and Government Publications Division. A multi-year effort to address severely embrittled World War I era military serials continued. Photographic collections receiving special attention included the Library's early acetate-based newspaper master microfilm collection managed by the Photoduplication Service, nitrate photographic negatives from the Prints and Photographs Division stored at Wright Patterson Air Force Base, and a unique collection of 19th century stereograph negatives. Work continued on digitally reformatting brittle monographs identified through use (e.g. loan request, reference request, collection care request) that could not otherwise be served to readers.

The Division continued its "Scan on Demand" digitization of embrittled items requested via the Interlibrary Loan program. Sixty-nine work items were completed, comprising approximately 20,000 pages

Micrographic and facsimile program - An existing four-year preservation microfilming contract was successfully completed. A new multi-year preservation microfilming and digital imaging contract was successfully competed and awarded to OCLC Preservation Service Centers at the close of the fiscal year. This contract will allow the Library to continue high-volume preservation reformatting activities for a wider variety of library materials at a very effective cost. Deliverables under this new contract include microfilm, microfiche and master digital files and derivative files.

A coordinated effort with the African and Middle Eastern Division and the New Delhi Field Office allowed for more efficient reformatting of newsprint serials acquired by the Nairobi and Cairo field offices. This effort resulted in a reduction in the amount of material awaiting reformatting attention in Washington while increasing the timely delivery of fully preserved material to custodial divisions.

Significant improvement was made in the bibliographic control of material currently being reformatted with the addition of a newspaper cataloger to the staff. Guidelines were drafted for the establishment of preliminary newspaper bibliographic records and master microfilm holding records in preparation for a physical inventory of the master negative microfilm collection in fiscal 2006. Master negative microfilm holding records were created for all of the Library's newspapers published in Latin America. These holdings records were then successfully exported to the Center for Research Libraries in support of the National Endowment for the Humanities-funded International Coalition on Newspapers (ICON) Union List.

U.S. Newspaper Program – Over the past twenty-two years, access to American newspapers has been greatly enhanced through the efforts of the United States Newspaper Program (USNP) to catalog and preserve on microfilm approximately 67.5 million historical newspaper pages. In fiscal year 2005, the Library continued to provide technical support to USNP grant recipients under an interagency agreement with the National Endowment for the Humanities (NEH), which announced USNP awards of $1.4 million in fiscal year 2005 to fund continuing projects in three states: California (University of California, Riverside), Illinois (University of Illinois, Urbana), and Virginia (Library of Virginia, Richmond). Other projects continued in Illinois (Chicago Historical Society, Chicago), New York (New York State Library, Albany), Pennsylvania (Pennsylvania State University), and Tennessee (University of Tennessee, Knoxville). To date, NEH has provided more than $52 million in support of USNP projects in each of the fifty states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

National Digital Newspaper Program – The National Digital Newspaper Program, a partnership between NEH and the Library, is a long-term effort to develop an Internet-based, searchable database for all U.S. newspapers and select digitized historic titles. Supported by NEH, this rich digital resource will be developed and permanently maintained by the Library of Congress. This program directly contributes to the strategic goals of Library Services by creating a national collection of historical newspapers; developing a web-accessible repository to the national newspaper collection of digitized content selected by state awardees; providing free and open Internet user-friendly access to important historical content; and developing consensus on standards and best practices for both digitized historical newspaper content and access and digital library preservation practices.

Over the life of the program, NEH intends to fund the contribution of content from each U.S. state and territory totaling millions of pages. For the initial two years (2004-2006), the program is in a development phase, investigating a viable and extensible program model for funding and digitization in awardee institutions, creating a sustainable digital repository, and exploring varying technical approaches for the processing and accessing of complex digital objects.

Mass Deacidification Program – To extend the life and utility of collections through appropriate treatment and technologies, the Directorate deacidified 296,119 books and 1,012,500 document sheets as part of its thirty-year initiative to stabilize more than 8.5 million general collection books and at least 30,000,000 pages of manuscripts. The Library continued providing international leadership to solve the worldwide problem of deteriorating, acidic paper. Deacidification is an economic approach to keeping books available in usable form. It results in extending the useful life of acidic and slightly brittle books by a minimum of 300 percent, assuring in most cases that, given proper handling and storage, treated books will survive for 300-1,000 years rather than becoming extremely brittle and degraded in less than a century. This modern preservation technology achieves economies of scale and is an excellent example of a cost-avoidance strategy, as a cost-effective "preventive preservation" activity that compares quite

favorably with other alternatives such as microfilming and digitization. For example, a book can be deacidified for about $14.50, preventing it from becoming so brittle that it would eventually need to be microfilmed at many times this cost.

With a successful mass deacidification program in place since 1995, the Library has to date extended the useful life of 1,379,360 books and 2,928,000 sheets of manuscript materials from the collections through utilization of an advanced preservation technology that neutralizes the acid in paper. 2005 was the final production year of a five-year contract that enabled the Library to deacidify over one million books. At the end of the year, another contract was initiated to provide deacidification services for the next five years. This initiative will save 1,250,000 books and more than five million sheets of original manuscript materials.

Preservation statistics for fiscal year 2005 are as follows:

Treatment:	
Volumes treated	4,261
Unbound items treated, paper-based	44,105
Photographs (examined, treated, housed)	123,079
Commercial library binding, volumes	170,466
Mass Deacidification, volumes	296,119
Mass Deacidification, paper sheets	1,012,500
Housing/Rehousing:	
Protective boxes constructed	24,081
Items rehoused, paper-based	601,265
Copying/Reformatting:	
Preservation photocopying, volumes/pages	32 volumes = 9,504 pages
Paper-based materials converted to microfilm, exposures	2,658,510
Paper-based materials converted to digital format, works/pages	201 works = 40,063 pages

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 twenty 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 must register, provide photo-identification, and receive a reader registration card. They then may submit call slips to the staff in the reading rooms, who retrieve the items from the secured collections storage areas and deliver them to the reader. In fiscal year 2005, the Library issued reader registration cards to 33,233 on-site readers.

The Collections Access, Loan and Management Division (CALM) is responsible for retrieving materials, packaging them, and preparing loan charge records for materials that circulate outside the Library. In fiscal year 2005, a total of 110,262 items were circulated externally to authorized borrowers.

COLLECTIONS SECURITY

Baseline Inventory Program and Other Inventory Efforts - The Baseline Inventory Program (BIP) inventoried 830,667 volumes in fiscal year 2005, an increase in production over previous years. Production was increased because Ft. Meade Module 1 was filled in February 2005, allowing BIP to return

to a sequential inventory of the collections for seven months of the fiscal year. The sequential process is more efficient because all volumes of a given title are inventoried at the same time. Since the Program's inception in 2002, a total of 2,114,395 items have been inventoried. Other Library units also inventoried retrospective collections. The Law Library inventoried 128,641 items, and the Collections Access, Loan and Management Division inventoried 183,668 volumes. That brought the total inventory production for the year to 1,142,976 volumes.

Office of Security and Emergency Preparedness - During the past twelve months, the Protective Services Office (PSO) of the Office of Security and Emergency Preparedness (OSEP) sponsored numerous initiatives to improve the physical security of Library buildings, staff, patrons, and collections on Capitol Hill. The office strengthened electronic security controls protecting the new Rare Book secure storage area. Upgrades have been completed or are ongoing in the Madison and Adams Buildings, including the Madison Building loading dock, several special collections storage areas, secure storage facilities in the Music and Serial and Government Publications divisions, and the Science and Business reading room. Staff also redesigned alarm systems protecting the Library's Top Treasures case. Staff designed and supervised the installation of electronic and physical security controls protecting three temporary exhibits.

Designing and installing physical and electronic security controls protecting Library annexes posed special challenges for PSO. The office's technical experts worked closely with senior Library staff, Architect of the Capitol staff, and contractors preparing for the opening of the National Audio-Visual Conservation Center (NAVCC) in Culpeper, Virginia, as well as Module 2 at Ft. Meade, Maryland. Staff drafted Memoranda of Understanding with counterpart state, county, and military officials outlining responsibilities and procedures for response to alarms and incidents. PSO also worked closely with senior Copyright Office managers, Department of Homeland Security counterparts, and contractors on the design and installation of controls protecting Copyright's temporary relocation site in Crystal City, Virginia, and planned renovations in the Madison Building.

Working in close collaboration with the Collections Security Oversight Committee (CSOC), PSO facilitated the preparation and publication of the Library's Strategic Plan for Safeguarding the Collections, 2005-2008 (SPSC). Approved by the Librarian of Congress in July 2005, the plan integrates physical security, preservation, and inventory management controls protecting the Library's collections. The SPSC utilizes the Library's five-tiered framework of risk as the unifying approach to collections security, identifying minimum standards and quantifiable performance measures for all three safeguarding controls. This plan supersedes the Library's Security Plan published in October 1997, which focused solely on physical security controls.

Monitoring the effectiveness of staff security practices and enhancing staff security awareness once again were significant initiatives led by PSO in collaboration with the CSOC throughout fiscal year 2005. Over the past twelve months, PSO and the CSOC launched a second round of Staff Assistance Visits (SAVs) to forty divisions. Two-person teams, comprised of a physical security expert and a librarian, conduct the SAVs with two weeks' notice. SAV findings are reported to the Director, OSEP, and to the chief of the division visited. A brief summary of findings is shared with service unit and infrastructure heads. The SAVs continue to enhance security practices and the staff's awareness of their critical role in protecting the collections. Division chiefs have repeatedly requested that PSO specialists conduct roundtable discussions with staff on security-related issues, as they have seen significant advances made in terms of enhanced key control procedures, timely charging of books, and the proper display of Library identification badges.

Separate web sites for patrons and staff, developed by PSO in concert with the CSOC, have also enhanced security awareness. The public patron web site has received more than 475,000 hits since the site went up in November 2001. Feedback from staff suggests that a higher percentage of first-time visitors to the Library are now more aware of the extraordinary safeguarding controls in place, to include x-ray machines and magnetometers at entrances, reader registration, personal belongings restrictions, and exit inspections.

Security Targeting - Book theft detection targets were installed in 316,756 volumes included in the incoming materials in the Copyright Office. In addition, targets were installed in 222,931 volumes that were bound by the Library's commercial bindery. Also, staff of the

Serial and Government Publications Division applied 1,781 theft detection tags to high-risk materials served in the Newspaper and Current Periodical Reading Room. The Law Library installed 16,641 book theft detection targets in volumes received directly in the Law Library. The installation of theft detection targets is an example of an asset control applied at the item level.

CATALOGING & ARREARAGE REDUCTION

In fiscal year 2005, the Library Services bibliographic access divisions, including the Serial Record Division, cataloged a total of 312,818 bibliographic volumes (new works, added volumes, and items added to collection-level records), the highest total in their history, representing an increase of more than six per cent over the 294,510 bibliographic volumes cataloged in fiscal year 2004. Production of full or core original cataloging, the most expensive category of cataloging for the general collections, increased very slightly to 185,531 bibliographic records compared to 185,309 the previous year. These records have full description, subject analysis, and Library of Congress Classification numbers, as well as full authority records for all descriptive and subject access points, which are drawn from controlled vocabularies.

In all other categories, the bibliographic access divisions and Serial Record increased production, utilizing less expensive modes of cataloging in order to meet production goals while providing effective access to collection materials. Production of minimal-level cataloging records increased 21.45 percent, to 28,993 items, providing timely and cost-effective access to items that do not require fuller cataloging or authorized forms of access points. Copy cataloging production also showed an impressive increase of more than twenty per cent, to 55,925 records compared to 46,363 in fiscal year 2004. Two pilot copy cataloging initiatives utilizing innovative workflows contributed to the increase. The Serial Record Division also introduced copy cataloging this year, producing a total of 788 copy-cataloged titles, and increasing its total production in all categories to 13,827 new records and 6,000 International Standard Serial Numbers assigned to new serials. The Rare Book Team, SMCD, cleared 11,046 items for the Rare Book and Special Collections Division (RBSCD), Law Library, Prints and Photographs Division (P&P), and other divisions.

Production of name authority work by Library of Congress staff decreased in most categories this year, reflecting the use that Acquisitions & Bibliographic Access (ABA) Directorate made of authority work performed by its cooperative cataloging partners. The Bibliographic Access Division, with the Serial Record Division and the field offices administered in the African/Asian and Overseas Operations Division, created 88,828 new name authority records, a decrease from 92,311 the previous year, and 9,056 new series authority records, an increase of more than three per cent over the 8,770 new series authorities created last year. Changes to name and series authority records totaled 60,747, compared to 72,494 in fiscal year 2004. In-house production of subject and classification authority records, on the other hand, generally increased. Total new subject headings including those produced by catalogers and by the Subject Heading Editorial Team, Cataloging Policy and Support Office (CPSO), numbered 6,678 (an increase of nearly 4.5 percent over fiscal year 2004), bringing the size of the entire subject headings database to more than 290,000 records. Total changes to subject headings numbered 6,020, compared to 6,313 in fiscal year 2004. Catalogers proposed 1,747 new numbers in the Library of Congress Classification, an increase of 9.53 percent from the previous year, and changes to 132 Classification numbers.

The Law Library's pre-1991 China country holdings shelved under LAW were classified into the K classification system. A total of 6,479 titles were classed, and 12,085 volumes were inventoried.

Cataloging was completed for the following rare book collections: the Law Library Blackstone collection (239 titles); for the Rare Book and Special Collections Division, Pforzheimer Bruce Rogers ephemera (ca. 26,400 items created by or related to American book designer and printer Bruce Rogers); Franklin monographs (672 titles written, printed, edited, or published by Benjamin Franklin); Confederate States of America monographs (1,175 titles); English Printing monographs published between 1521 and 1641 (1,578 titles). Cataloging continued on numerous other, very large collections of rare materials, including Thacher French Revolution books (676 titles in a collection of 5,193 items collected by John Boyd Thacher and including French

Revolution material, incunabula, early Americana, and autographs of European notables); and Incunables (ca. 1,324 titles completed this year from a collection of 6,911).

Arrearage Reduction – During the fiscal year, Library Services re-evaluated the materials awaiting processing and categorized as *arrearages*. In some formats, the remaining amount of unprocessed materials had been reduced to the point that sound management practices dictated that the remainders be handled with current work on hand rather than as a separate arrearage category. The formats that were completely "zeroed-out" as arrearages were:

- Print materials
- Rare books
- Prints and photographs
- Maps

Arrearages still remain for other formats of material. The format with the largest remaining arrearage is manuscripts. At the end of the year, the manuscript arrearage stood at 7,860,342 items, compared to 7,580,760 at the end of fiscal year 2004. Although intensive effort cleared 619,057 manuscript items from the arrearage this year, the arrearage increased because of the acquisition of 898,639 new items – nearly 13.5 percent more than the normal acquisition levels in the past several years.

Arrearage statistics as of September 30, 2005 and 2004 are as follows:

Items in Arrearage	2005	2004	Change
Print Materials	0	278,156	(278,156)
Special Materials	15,505,746	19,034,859	(3,529,113)
Total	15,505,746	19,313,015	(3,807,269)

OFFSITE STORAGE FACILITIES

Fort Meade - During the year, Module 1 of the High Density Storage Facility at Fort Meade, Maryland, was filled to capacity and now contains 1,582,666 monographs and bound periodicals. Module 2 was completed during the year, and a formal ribbon cutting ceremony was held on May 23, 2005. Since then, Library staff and contractors have been preparing the module for occupancy by installing security and telecommunications systems and labeling each of the more than ten thousand shelves in this module. Meanwhile, the Architect of the Capitol has been addressing some sprinkler-related issues that need to be completed before collections can be stored there. When full, Module 2 will house approximately 2.2 million monographs and bound serials. Funding to construct Modules 3 and 4 and four cold vaults which will house special format collections (e.g., maps, manuscripts) was approved as part of the Fiscal 2006 budget.

National Audio-Visual Conservation Center – Construction continued on the Library's National Audio-Visual Conservation Center (NAVCC) in Culpeper, Virginia. When it opens in fiscal year 2006, the state-of-the-art conservation facility will consolidate the activities of the Motion Picture, Broadcasting, and Recorded Sound Division (MBRS) in one location and increase preservation efficiencies and throughput. Phase 1 was well underway in fiscal 2005 with the Collections Building and Central Plant scheduled for completion in November 2005. At that time, MBRS will begin moving non-nitrate film, video, recorded sound and paper collections to the facility. At the end of fiscal year 2005, installation of nearly 55 linear miles of high-density, mobile compact shelving was underway in the Collections Building. Phase 2 of the project, comprising the new Conservation Building and Nitrate Vaults, is

scheduled for completion in November 2006, at which time the entire facility will be transferred to the government, and staff from Washington and Dayton, Ohio, will be relocated to Culpeper.

The systems architecture and requirements document for NAVCC was prepared in December 2004. The document identified twenty-seven core program and administrative functions, ten master workflows, ten subsystems, twelve system interfaces, six storage systems, five networks, and 250 workflow task nodes. In July, the requirements were used to award a contract to Ascent Media Group, which will design the NAVCC productions system and integrate its system components. Ascent's work began in the fourth quarter of fiscal year 2005.

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 currently 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, 2005:

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	19,729,698	364,956	3,366	20,091,288	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.	9,821,216	338,399	228	10,159,387	
Total Print Collections	29,550,914	703,355	3,594	30,250,675	
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	100,647,514	1,038,075	57,900	101,627,689	Acquisitions: Copyright deposits, purchase; exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA.
Total Collections	130,198,428	1,741,430	61,494	131,878,364	

THE LIBRARY OF CONGRESS

MANAGEMENT REPORT

THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 2005

MANAGEMENT ASSERTION ON CONTROLS FOR THE COLLECTIONS

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 approximately 132 million items, in over 470 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 a balance 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 205-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 highly acidic wood pulp 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 moved to serve a wider audience and as the collections have grown, the risk of theft, mutilation, and accidental damage through handling has been elevated. Though this problem has always been widely recognized and conscientiously addressed in relation to 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.

While the Library has, within the past 110 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 space, 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. 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. Also, it 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 is scheduled to be completed in November 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 of the project, comprised of the new Conservation Building and Nitrate Vaults, is scheduled for completion in November 2006, at which time the entire facility will be transferred to the government and staff from Washington and Dayton, Ohio, will be relocated to Culpeper.

Years of planning for off-site storage of other collections at Fort Meade, Maryland, came to fruition when the facility opened November 18, 2002. 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. During FY 2005, Module 1 of the High Density Storage Facility at Ft. Meade was filled to capacity and now contains 1,582,666 monographs and bound periodicals. Module 2 was completed during the year, and materials should be moved in beginning in FY 2006. When full, Module 2 will house approximately 2.2 million monographs and bound serials. Funding to construct Modules 3 and 4 and four cold vaults which will house special format collections (e.g., maps, manuscripts) was approved as part of the fiscal year 2006 budget.

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 storage facility away from Capitol Hill for its most highly valued collections. During fiscal year 2004, such an off-site storage location, with the appropriate level of security, for the Library's treasures was identified, and transportation plans have been developed in the event that the items must be moved to that location.

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 laws and regulations, and financial reporting based upon established control criteria. 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 shelflist 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; deacidification; 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 Preservation Board and the National Recording Preservation Board.

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

3) Providing access to our collections inevitably puts them at risk and could impair the Library's ability to serve the Congress and other users in the future. However, the collections exist to be used, and management accepts the responsibility of mitigating risk to the collections at the same time it fulfills its mission of service to the Congress and the nation. While we have aggressively addressed deficiencies in bibliographic, inventory, preservation, and security controls in the past fiscal year, our assessment of internal controls identified the following material weaknesses, which could adversely affect the Library's ability to meet its internal control objectives, and, as a result, we cannot provide reasonable assurance that the internal control structure over safeguarding the Heritage Assets against unauthorized acquisition, use, or disposition, was completely effective as of September 30, 2005, 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, 2005, the Library had reduced the arrearage count to 15,505,746 items. The 1989 benchmark number is 39.7 million items. 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 books and serials in the general collections. Holdings information is 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 modules 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 2005, the Library sustained its advances in collections security by continuing to implement actions outlined in the 1997 security plan, reader registration, contracting for security monitors in reading rooms, and continuing the marking and security tagging of library materials. The Library has also integrated its preservation, bibliographic, and inventory controls within the security planning framework developed for the 1997 security plan.

The Library has integrated preservation and inventory management and tracking controls within the five tiered framework of risk first published in the Library's 1997 plan. The Office of Security and Emergency Preparedness, in coordination with the Collections Security Oversight Committee, has prepared and published the Library's Strategic Plan for Safeguarding the Collections, 2005-2008 (SPSC). Approved by the Librarian of Congress in July 2005, the plan integrates physical security, preservation, and inventory management controls protecting the Library's collections. The SPSC utilizes the Library's five-tiered framework of risk as the unifying approach to collections security, identifying minimum standards and quantifiable performance measures for all three safeguarding controls. This plan supersedes the Library's Security Plan published in October 1997, which focused solely on physical security controls.

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

THE LIBRARY OF CONGRESS

REPORT OF INDEPENDENT AUDITORS

UNITED STATES GOVERNMENT LIBRARY OF CONGRESS

Memorandum

Office of the Inspector General

TO: James H. Billington
Librarian of Congress

May 15, 2006

FROM: Karl W. Schornagel
Inspector General

SUBJECT: Results of the Library of Congress FY 2005 Financial Statements Audit

The attached reports present the results of the annual audits of the Library of Congress financial statements for fiscal years 2005 and 2004.

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) for the audits. The contract required that the audits be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget's Bulletin 01-02, *Audit Requirements for Federal Financial Statements.*

Results of Independent Audit

Financial Statements

For the tenth consecutive year we are pleased to report that the auditor issued an unqualified ("clean") opinion on the Library's financial statements.

Report on Internal Controls

Kearney found two reportable conditions related to controls over information technology (IT). To address these conditions, the Library took the following actions that the auditors will assess during the fiscal year 2006 audit:

- Implemented a separate computing environment for financial system applications in June 2005 to strengthen IT controls over the financial systems.
- Established a comprehensive entity-wide security program in line with best practices in January 2006. Kearney noted that full implementation of an entity-wide IT security plan typically takes three to five years depending on the entity's size and complexity.

Compliance with Laws and Regulations

Kearney reported that the Library did not comply (as reported by the Office of Compliance) with the Congressional Accountability Act of 1995, requiring maintenance of specified safety standards.

Management Assertion on Controls for the Collections

Kearney concluded that management's assertion fairly stated that internal controls over collections were not completely effective. Although management continues to address deficiencies, it would be impractical to implement full controls over all collections.

OIG Evaluation of Kearney's Audit Performance

Kearney is responsible for the attached auditor's reports dated April 28, 2006, and the conclusions expressed therein. The Office of Inspector General is responsible for technical and administrative oversight regarding Kearney's performance under the terms of the contract.

To ensure the quality of the audit work performed, we conducted a review of Kearney's fiscal years 2005 and 2004 financial statements audit of the Library. Our review, as differentiated from an audit, was not intended to express an opinion on the Library's financial statements or conclusions on internal controls, compliance with laws or regulations, or management's assertion on controls over collection assets.

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

Attachments

cc: Deputy Librarian
Chief Financial Officer

KEARNEY& COMPANY

Certified Public Accountants and Consultants

4501 Ford Avenue, Suite 1400, Alexandria, VA 22302
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

Independent Auditor's Report

Office of Inspector General
Library of Congress

We have audited the accompanying consolidated balance sheet of the Library of Congress (Library) as of September 30, 2005, and the related consolidated statement of net cost, statement of changes in net position, statement of financing, and the combined statement of budgetary resources (hereinafter referred to as financial statements), for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the Library's financial statements for the year ended September 30, 2005 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 the identification of two reportable conditions:

- Weaknesses in the general support systems (GSS)
- Entity-Wide Security Program not fully implemented.

However, we do not consider these reportable conditions to be material weaknesses.

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:

- Non-compliance 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 and management cannot provide reasonable assurance that the internal control structure over safeguarding Heritage Assets against unauthorized

acquisition, use, or disposition was completely effective as of September 30, 2005, for all of the Library's collections.

- The Library and management cannot assert that inventory controls are fully implemented during the in-processing and in-storage life cycles for all of the Special Collections, as of September 30, 2005.

The following sections discuss our opinion on the Library's 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, 2005, and 2004, and the related consolidated statements of net costs, statements of changes in net position, statements of financing and combined statements of budgetary resources for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 financial statements referred to above present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 2005, and 2004, and its net costs, changes in net position, budgetary resources and reconciliation of net costs to budgetary obligations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The information in the Management's Discussion and Analysis and the Stewardship Report is not a required part of the Library's financial statements, but is considered supplementary information required by Office of Management and Budget (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 we 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 (AICPA), 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 non-compliance may nevertheless occur and not be detected. We noted certain matters discussed in the following paragraphs involving internal control and its operations that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

We identified two reportable conditions in performing our audit of the Library's financial statements for the year ended September 30, 2005. The findings related to Information Technology (IT) and its role in financial transactions. The weaknesses which we identified in the Library's financial audit affected internal control structure. The reportable conditions are as follows:

1. Weaknesses in the General Support Systems (GSS) (Modified Repeat Condition)

The General Support System includes hardware and supporting utility software to maintain the overall system. The primary control objectives at this level are to safeguard

data, protect computer application programs and system software from unauthorized access, and ensure continued computer operations in case of unexpected interruptions. Effectively applied, controls in this area increase the likelihood that data confidentiality, integrity, and availability have been maintained in the application system.

We identified control weaknesses in the Library's GSS which affected the availability, integrity, and confidentiality of all applications and data residing in the processing environment. Effective October 1, 2004, the Library implemented Momentum, a web-based financial management system (FMS). Inherent in the FMS is a workflow process in which document images are maintained and approvals occur within the system. The time and attendance system also incorporated an online approval process.

In order to address the control concerns, the Library Information Technology Services (ITS) developed the Financial Hosting Environment (FHE) to maintain only certified and accredited GSS and applications. This included the financial system applications to ensure that access to financial data and applications was effectively restricted. ITS completed the FHE in late June 2005. While the FHE has appropriate risk assessments, security plans, and security testing and evaluations, it was in place for only three months; therefore, we could not rely on the FHE controls for the nine months of activity prior to the FHE's implementation. We commend ITS on their efforts to implement the new environment and recommend they continue in their efforts to secure all Library IT environments.

2. Entity-Wide Security Program not fully Implemented (Modified Repeat Condition)

The Library has not implemented an Entity-Wide Security Program in compliance with Library of Congress Regulation 1620, "*Information Technology Security Policy of the Library of Congress*" (LCR 1620), which requires risk management throughout the system life cycle, triennial certification and accreditation of all systems, and IT Security Plans for all systems. While the Library has developed a plan and strategy for an Entity-Wide Security Program (dated July 2005), the program has not been implemented entity-wide. As of January 2006, the Library has established a more comprehensive Entity-Wide Security Program in line with best practices.

The LCR 1620, indicates that an entity-wide program for security planning and management is the foundation of an entity's security control structure and is a reflection of senior management's commitment to addressing security risks. The Library's program should establish a framework and continuing cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

We recommend that the Library continue its efforts to implement, enforce, and monitor compliance with LCR 1620 and related directives across all systems, specifically those outside of the FHE. We should note that developing, implementing, and monitoring an entity-wide IT Security Program typically takes approximately three to five years

depending on the entity's size and complexity. Using a comprehensive plan and security program structure will assist the Library in minimizing the time.

In addition to the reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of the Library in a separate letter dated April 28, 2006.

COMPLIANCE AND OTHER MATTERS

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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 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 non-compliance, described below, with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

- The Library was not in compliance with the *Congressional Accountability Act of 1995* (CAA). 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. The Library of Congress is tracking the remediation of these findings, but the Office of Compliance has not yet issued a report indicating acceptance of the remediation.

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, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Alexandria, Virginia
April 28, 2006

KEARNEY& COMPANY

Certified Public Accountants and Consultants

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Independent Auditor'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, 2005. 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, 2005, is fairly stated based upon the criteria described above.

Kearney & Company

Alexandria, Virginia
April 28, 2006

UNITED STATES GOVERNMENT

Memorandum

Library of Congress
Office of the Librarian
Deputy Librarian

TO : Karl Schornagel
Inspector General

FROM : Donald L. Scott
Deputy Librarian

SUBJECT : Comments on the Audit of the Library of Congress

Thank you for the opportunity to review and comment on our audit report of the Library of Congress's consolidated financial statements for fiscal years 2005 and 2004. The audit report makes many good recommendations, and the Library is taking steps to address these recommendations.

I am pleased that the audit report no longer reflects the long-standing reportable condition related to our Continuity of Operations Plan and our Disaster Recovery Plan, as we tested and implemented these plans in fiscal year 2005. For the tenth consecutive year, the Library has received an unqualified audit opinion on the consolidated financial statements.

We recognize that there is still much work to be done, especially in the area of collections security, and that we must continue our efforts, as cited in the audit report, in the area of information technology controls. 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.