

THE LIBRARY OF CONGRESS

Consolidated Statement of Financial Position

As of September 30, 1997

ASSETS

Entity Assets:

Intragovernmental Assets

Fund Balance with Treasury (Note 2)	\$ 160,695,865
Investments (Note 4)	19,045,045
Accounts Receivable, Net	5,304,320
Interest Receivable	201,005

Governmental Assets

Investments	11,949,516
Accounts Receivable, Net	301,758
Advances and Prepayments	32,436
Pledges Receivable - Donations (Note 5)	11,851,685
Cash and Other Monetary Assets	708,398
Inventory	795,092
Operating Materials and Supplies	1,307,247
Property and Equipment, Net (Note 6)	59,765,358
Library Collections (Note 1.M)	59,765,358

Total Entity Assets \$ 271,957,725

Non-Entity Assets:

Fund Balance with Treasury (Note 2)	148,062
Investments, Intragovernmental Securities (Note 4)	728,085,884
Accounts Receivable, Net - Intragovernmental	88,539
Accounts Receivable, Net - Public	4,232
Interest Receivable	427,142
Cash and Other Monetary Assets	22,759

Total Non-Entity Assets 728,776,618

Total Assets \$ 1,000,734,343

LIABILITIES

Liabilities Covered by Budgetary Resources:

Accounts Payable - Intragovernmental	\$ 563,918
Accounts Payable - Public	17,658,405
Accrued Funded Payroll, Benefits	12,459,280

Total Liabilities Covered by Budgetary Resources \$ 30,681,604

Liabilities not Covered by Budgetary Resources:

Accounts Payable - Public	73,494
Advances From Others - Intragovernmental	33,582,972
Advances From Others - Public	796,170
Custodial and Deposit Account Liability	732,237,971
Receipts Held for Treasury	92,323
Accrued Unfunded Annual and Compensatory Leave	15,307,563
Accrued Unfunded Workers' Compensation (Note 8)	11,982,622
Capital Lease Liabilities	401,221

Total Liabilities not Covered by Budgetary Resources 794,474,336

Total Liabilities \$ 825,155,940

NET POSITION (Note 10)

Balances:

Unexpended Appropriations	74,420,165
Invested Capital	57,727,290
Cumulative Results of Operations	52,955,022
Unrealized Gain on Governmental Investments	847,337
Donations and Other - Restricted	16,918,774
Future Funding Requirements	(27,290,185)

Total Net Position 175,578,403

Total Liabilities and Net Position \$ 1,000,734,343

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

3. SUPPLEMENTAL SCHEDULES

F. STATEMENT OF ACTIVITIES BY FUND - EXPENSES

LIBRARY OF CONGRESS TRUST FUND BOARD
SUMMARY FOR STATEMENT OF ACTIVITIES BY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997

TRUST FUND NAME	STAFF SUPPORT	TRAVEL & TRANSPORT.	SUPPLIES & MATERIALS	PRINTING & REPRODUCTION	PERFORMANCES	PROF. & CONSULT. FEES	OTHER SERVICES	GRANTS	POSTAGE	TOTAL EXPENSES
Allen, Rae Virginia	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Ameritech National Digital Library	117,499	6,935	4,422	8,942	0	7,341	56,238	410,473	870	612,720
Babine, Alexs	0	0	0	0	0	0	0	0	0	0
Bendiner Memorial	1,641	0	1,963	0	0	0	0	0	0	3,604
Benjamin, William E.	243	0	0	0	0	0	446	0	0	689
Berta, Julian & Freda	537	0	0	0	0	0	0	0	0	537
Berryman, C. K. Memorial	0	0	0	0	0	0	0	0	0	0
Billington, James H.	0	0	0	0	0	0	0	0	0	0
Boorstin, D & R Publications Fund	372	0	0	0	0	0	0	10,000	0	10,372
Bowker, R. R.	67	0	0	0	0	0	0	0	0	67
Carnegie Corporation	89	4,338	0	0	0	0	0	0	0	4,427
Center For The Book	0	0	0	0	0	0	0	0	0	0
Center For the Book Endowment	0	0	0	0	0	0	0	0	0	0
Combined Fund	28,144	0	0	0	0	0	5,000	0	0	33,144
Coolidge Foundation	154	5,253	0	209	386	5,000	18,746	0	0	29,748
Croft, William & Adeline	404	1,213	0	386	18,524	0	0	0	0	20,527
Cronin, John W. Bequest	0	0	0	0	0	0	0	0	0	0
Dadian, Arthur H.	34,725	277	0	0	0	1,500	(341)	0	0	36,161
Development Fund	472	0	376	21	0	858	2,027	0	0	3,754
Elson Memorial Fund	0	0	0	0	0	0	0	0	0	0
Evans, Archibald	0	0	0	0	0	0	0	0	0	0
Feinberg, Lenore & Charles	0	0	0	0	0	0	0	0	0	0
Friends of Music	0	150	0	0	0	0	0	0	0	150
Freud, Sigmund Fund	9,592	6,036	0	0	0	5,000	11,008	0	0	31,636
Gershwin, Ira & Leonore	2,624	20,977	0	0	4,399	88,419	164,731	60,000	0	341,150
Goldman, Joanna J. Memorial	197	415	0	261	0	3,000	3,995	0	0	7,868
Guggenheim, Daniel Fund	34,425	0	0	0	0	0	0	0	0	34,425
Hanks, Nymphus C. Fund	0	0	0	0	0	0	0	0	0	0
Hispanic Division Trust Fund	6,923	0	0	0	0	0	0	0	0	6,923
Huntington, Archer M. Endowment - Purchase Hispanic Material	54	0	0	0	0	0	19,781	0	0	19,835
Bequest - Hispanic Society Room/Collections/Chair	2,354	0	0	602	0	1,000	0	0	0	3,956

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 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 Committees' Subcommittees on Legislative Branch Appropriations. The Library also receives funds from other agencies for services provided under the Economy Act and other statutes. In addition, the Library receives donations from the public in the form of gifts and trusts. The trust funds are controlled by the Library of Congress Trust Fund Board, which consists of the Librarian of Congress (who is Chairman and Secretary of the Trust Fund Board), the Chairman 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 (2), the U.S. House of Representatives (4), and the U. S. Senate (4).

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

B. Basis of Presentation

The accompanying consolidated statements report the financial position, operations, and changes in net position of the Library for fiscal year 1997. These consolidated 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 the form and content for

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

entity financial statements specified by the Library's Financial Management regulations and directives and the accounting policies summarized in this note.

As a legislative branch agency, the Library is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the new standards now being developed by the Federal Accounting Standards Advisory Board (FASAB). However, the Library maintains its fund balances with the Department of the Treasury and submits information required to incorporate its financial and budget data into the overall federal government structure. For purposes of financial management and reporting, the Library has issued a regulation (LCR 1510) which adopts the executive branch reporting requirements in a manner consistent with a legislative agency.

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

The statements include 5 appropriated fund accounts; 11 gift revolving funds; reimbursable funds (including four major programs); 85 trust funds; and 137 gift funds. The consolidating schedules display the funds in five groupings: appropriated, reimbursable, gift and trust, revolving, and custodial.

C. Basis of Accounting

Transactions are recorded on the accrual basis and are within budgetary limitations established to facilitate compliance with legal constraints and controls over use of federal funds. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

The General Accounting Office (GAO), Office of Management and Budget (OMB), and Department of the Treasury established the Federal Accounting Standards Advisory Board (FASAB) for the purpose of considering and recommending accounting principles, standards, and requirements to GAO, Treasury, and OMB. The three principals of FASAB, the Comptroller General, the Secretary of the Treasury, and the Director of OMB, will decide upon new principles, standards, and requirements after considering FASAB's recommendations. The resulting standards are concurrently issued by GAO and OMB. Pending issuance and effective date of a sufficiently comprehensive set of accounting standards, and in accordance with interim guidance agreed to by the three principals, the accompanying consolidated financial statements have been prepared in accordance with the following hierarchy of accounting principles and standards:

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

- Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) Principals: GAO, OMB, and the Department of Treasury, based upon recommendations from FASAB;
- Form and content requirements included in OMB Bulletin 94-01, dated November 16, 1993, and subsequent issuances;
- Library of Congress Regulations and Financial Services Directives; and
- Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improve the meaningfulness of the financial statements.

D. Revenues and Other Financing Sources

The Library receives the majority of its funding to support its programs through five appropriations that include both annual and no-year funding. The appropriated funds may be used, within statutory limits, for operating and capital expenditures including equipment, furniture and furnishings. The five appropriations are:

- Library of Congress, Salaries and Expenses - (annual) 0370101; (no-year) 03X0101
- Copyright Office, Salaries and Expenses - (annual) 0370102
- Congressional Research Service, Salaries and Expenses - (annual) 0370127
- National Library Service for the Blind and Physically Handicapped, Salaries and Expenses - (annual) 0370141; (no-year) 03X0141
- Furniture and Furnishings - (annual) 0370146; (no-year) 03X0146

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

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

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

E. Gift and Trust Funds

During fiscal 1997, the Library administered 222 gift and trust funds with combined asset value of approximately \$62 million. All 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, and custodial funds that are on deposit with the U. S. Treasury.

G. Cash and Other Monetary Assets

Cash and other monetary assets is defined as all cash not held by the U.S. Treasury. This category includes deposits in transit, cash on hand, imprest funds, and foreign currency.

The Library receives and utilizes foreign currencies in carrying out operations abroad. It conducts business through six overseas offices and uses local currencies. Additionally, the Library administers two U.S. Treasury foreign currency accounts (Indian rupees and Japanese yen). At year-end, account balances remaining in foreign currencies were remeasured to U.S. dollar equivalents at the uniform government-wide Treasury reporting rates. Foreign currency balances at year-end are immaterial to the consolidated financial statements.

H. Investments (Net)

Trust Funds - The Library of Congress Trust Fund Board determines the investment policy for the Library's 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 five stock funds and one money market fund.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

The five stock funds recommended by the Trust Fund Board's investment committee are:

- Vanguard Index Trust - Small Capitalization Stock Portfolio
- CGM Mutual Fund
- Mutual Beacon Fund
- Fidelity Fifty
- Fidelity Stock Selector

Under 2 U.S.C. 158, up to \$10,000,000 of the Library's 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 equity in the statement of financial position.

All trust fund investments are obtained and held by the trust funds under conditions set forth in the respective 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.

I. Accounts Receivable, Net

Accounts receivable generally resulted from billings to other federal agencies under reimbursable interagency agreements for data base retrieval and other library services. The Library has established an allowance for doubtful accounts of \$22,891 against governmental accounts receivable based on past collection experience. In fiscal year 1997, any allowance

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

for doubtful accounts pertaining to intra governmental accounts receivable was eliminated based on the FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities", which cites that "losses on receivables should be recognized when it is more likely than not that the receivable will not be totally collected". Intra governmental 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. Inventories and Operating Materials and Supplies

The Library's inventories are primarily comprised of unissued supplies 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, Net

The Library capitalizes furniture and equipment at cost if the initial acquisition cost is \$10,000 or more. Depreciation is computed on a straight-line basis using estimated useful lives.

The largest category of equipment is for the National Library Service for the Blind and Physically Handicapped lending program which is classified as equipment on loan to the public in Note 6. The Library purchases this unique, specially designed equipment from the manufacturer in large lots with a high bulk value. For financial reporting purposes, the machines are grouped by the aggregate amount purchased and shipped to machine lending agencies during a fiscal year. Each fiscal year group is then accounted for over the estimated useful life of the assets in the aggregate. The value of the equipment does not include any freight or postage costs. These shipping costs are included under the U.S. Postal Service's

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

"free matter for the blind and physically handicapped." The value of this service cannot be determined.

Operating equipment is amortized over a 4 to 20 year period. ADP software is software purchased from outside vendors with a value of \$10,000 or more per item and an estimated useful life of three years or more. It does not include internally developed or leased software.

Leased equipment meeting the criteria for capitalization in accordance with Statements of Federal Accounting Standards is included in property and equipment.

The Library occasionally acquires property and equipment by direct gift or by purchase from funds donated for a specific purpose or project. Because property is generally not restricted for use to gift and trust activities, property accounts are not maintained in the gift and trust funds. Capitalized property and equipment acquired through gifts are recognized as donated revenue in the gift and trust funds and transferred to the Library's appropriated fund. The Library records the donated property and equipment at its fair market value at the time of the gift.

Land and buildings are excluded from the Library's property and equipment accounts because they are under the custody and control of the Architect of the Capitol. This arrangement encompasses four Capitol Hill buildings (the Thomas Jefferson, James Madison, John Adams Buildings, and the Special Facilities Center) and a secondary storage facility at Fort Meade, Maryland. Costs associated with the acquisition and maintenance of these buildings are accounted for by the Architect. In fiscal year 1997, the Architect received an appropriation totaling \$9.8 million to fund the structural and mechanical care of these buildings. This appropriation is not reflected in the accompanying consolidated financial statements. The Library does capitalize and depreciate leasehold improvements to all of its facilities as long as the improvement was made using the Library's funding sources.

M. Library Collections

The Library's collections are classified as heritage assets, and their value is not presented on the financial statements. Stewardship information covering the acquisition, use, preservation, and security of the collections is contained in a supplementary Stewardship Report.

N. Liabilities

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

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

enacted, or are the result of custodial and deposit account activities, are classified as liabilities not covered by budgetary resources. For accrued unfunded annual leave, compensatory time

earned and workers' compensation liabilities, it is not certain that appropriations will be enacted to fund these amounts.

Advances From Others are funds received for the reimbursable programs and the Photoduplication Service that have not yet been earned.

Custodial and Deposit Liabilities are customer funds on deposit for Copyright and Cataloging Distribution Service products and services. This category also includes the custodial funds for Copyright royalties.

Accrued Annual and Compensatory Leave - The Library's basic leave policy is contained in Title 5, U.S.C., the Uniform Annual and Sick Leave Regulations of the Office of Personnel Management, and the decisions of the Comptroller General. Generally, each employee may carry forward a maximum of 240 hours of annual leave per calendar year. Accrued annual leave is accrued as it is earned and adjusted at the end of each fiscal year based on annual leave earned and taken. Annual leave earned in excess of the maximum permitted carryover is forfeited. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Employees' compensatory time earned but not taken is also accrued at year-end. An employee may accumulate a maximum of 40 hours of compensatory time during the fiscal year. A maximum of 20 hours may be carried forward from one leave year to the next only when it was earned during the last pay period of the leave year. Exceptions to the accumulation and carry forward rules require the approval of the Librarian or his/her designee.

Sick leave and other types of nonvested leave are expensed as taken.

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

O. Retirement Plans

Approximately 55 percent of the Library's employees participate in the Civil Service Retirement System (CSRS), to which the Library makes matching contributions equal to 7 percent of pay. Forty-five percent are covered by the Federal Employees Retirement System

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

(FERS) to which the Library makes employer contributions equal to the agency's share of the normal costs of benefits, automatically contributes one percent of pay for the Thrift Savings Plan (TSP) and matches any employee contribution to the TSP up to an additional four percent of pay. Under FERS, the employee is also covered by Social Security (FICA) to which the Library contributes the employer's matching share. The accrued amounts due for the contributions due at the end of the fiscal year are reported as liabilities covered by budgetary resources. Contributions for fiscal year 1997 were as follows:

CSRS	\$9,416,829
FERS	8,627,592
TSP	3,073,737
FICA	<u>5,067,991</u>
Total	<u><u>\$26,186,149</u></u>

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", a current year expense of \$22.3 million was recorded for the service cost of the Library's employee retirement, health and life insurance benefits and was offset by an imputed financing source, which represents the amount being financed directly by OPM.

P. Intra governmental Activities

The financial activities of the Library interact with and depend on other federal government agencies. Thus, the Library's consolidated financial statements do not reflect all financial decisions and activities applicable to it as if it were a stand-alone entity.

1. The Library's consolidated financial statements are not intended to report the agency's share of the federal deficit or of public borrowings, including interest thereon.
2. The Library does not report retirement (CSRS or FERS), health benefits, and life insurance liabilities, accumulated plan benefits, or unfunded liabilities, if any,

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

applicable to its employees. Reporting such amounts is currently the responsibility of the Office of Personnel Management (OPM).

3. The Library's program for the blind and physically handicapped participates in the U.S. Postal Service's "Matter for Blind and Other Handicapped Persons" program (39 U.S.C. 3403 - 3406). This Postal Service program receives an appropriation from Congress to provide free postage for qualifying organizations, programs, and individuals such as mail from war zones, letters from blind people to anyone, and organizations which work for the blind. The Library's National Library Service for the Blind and Physically Handicapped uses this free matter program for mailing all books and equipment to its participating lending libraries and patrons.

4. Certain legal actions to which the Library may be a named party are administered and, in some instances, litigated by other federal agencies. Generally, claims to be paid under any decision, settlement, or award pertaining to these litigations are paid from the Treasury's Claims, Judgments, and Relief Acts Fund. In accordance with the FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government", the Library is required to record an expense and liability for legal claims that are probable to end in a loss against the Federal entity and the loss is estimable.

5. Governmental Services:

a. The Library is authorized to provide to other federal libraries and agencies services such as automated library information and other data base retrieval services through data base vendors and in-house research studies. These services are provided on a cost reimbursement basis and are billed in advance of providing the services. At year-end the Library estimates the amount received in advance (Advances From Others - Intra governmental) and the amount to be received for services provided (Accounts Receivable - Intra governmental).

b. Three government agencies provide administrative services to the Library on a reimbursable basis:

- The Department of Agriculture's National Finance Center (NFC) processes the Library's personnel, payroll, and employee benefits accounting transactions. In fiscal year 1997, the Library paid \$511,110 for these services.

- The Library utilizes the services of the Department of State as documented by

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

the International Cooperative Administrative Support Services (ICASS) system to support the Library's six overseas field offices. The ICASS system replaced the previous system, the Foreign Affairs Administrative Support (FAAS) system on October 1, 1996. The Library paid \$632,706 for these support services in fiscal year 1997.

- The General Services Administration (GSA) provides building and vehicle leasing services for the Library. (See Note 7)

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

Q. Related Party Organizations

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

1. **Civilization Magazine - *Civilization***, a bimonthly magazine published under license from the Library by Civilization, L.L.C., a limited liability company based in Delaware, was launched in November, 1994. The original publisher was L.O.C. Associates, L.P., which sold their interest to Civilization, L.L.C., in January, 1997. The cooperative agreement was approved by the Joint Committee on the Library in the fall of 1993. Under the licensing agreement, the Library may receive donations and must approve all promotional, editorial, and advertising material using the Library's name. Twelve hundred federal depository libraries and all members of Congress received free subscriptions in fiscal 1997. In connection with the magazine, the Library formed the Library of Congress Associates Program. By subscribing to *Civilization*, a person becomes a Library of Congress Associate entitled to special tours of the Library as well as discounts on food and gift shop merchandise sold at the Library. Two individuals, who are paid by *Civilization*, greet Library of Congress Associates in the Library's Visitor's Center in the Thomas Jefferson Building. The donations received by the Library as a result of this publication and the revenue foregone as a result of the discounts given cannot readily be determined.

2. **Telephone Pioneers of America** - The Telephone Pioneers is a large industry-related organization that voluntarily repairs playback machines for the blind and physically handicapped program. Approximately 1,500 Telephone Pioneers (AT&T

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

retirees) and Elfuns (General Electric retirees) repair the cassette book machines and talking book machines. Their labor is valued at \$4.2 million per year.

3. Library of Congress Child Care Association (LCCCA) - The LCCCA is a nonprofit corporation under the District of Columbia's Nonprofit Corporation Act. It was granted 501(c)(3) status by the Internal Revenue Service on August 31, 1992, and currently operates as the "Little Scholars Child Development Center." The center is located on the ground floor of the Library's Special Facilities Center, 601 East Capitol Street in the District of Columbia. The center provides child care for Library employees and other federal and non-federal employees. Its operations, management, and employees are the responsibility of the association 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. The Library provides an official who is a non-voting representative on the center's Board of Directors and who acts as a liaison with the Library.

4. The Archer M. Huntington Charitable Trust - This charitable trust was established in 1936 and is controlled and invested by the Bank of New York. The assets of the endowment are not a part of the Library of Congress Trust Fund Board and the Board's only control over its investment activities is through the Librarian of Congress' role as trustee. The trust is defined as a split-interest agreement with a fair value of assets at September 30, 1997 of \$5,383,967. 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. In fiscal year 1997, the Library received \$61,710 from the trust.

5. Ira and Leonore Gershwin Trust Fund and Related Charitable Trust - Under the will of Mrs. Leonore Gershwin, the Library of Congress Trust Fund Board is the beneficiary of 37.5 percent of Mrs. Gershwin's "1987 Trust." The will established the "Library Charitable Trust" which was accepted by the Library of Congress Trust Fund Board in January 1992. The primary purpose of the Trust is to perpetuate the name and works of George and Ira Gershwin through all resources of the Library. The Charitable Trust does not belong to the Library but is a separate entity administered by trustees. The net income of the Charitable Trust is distributed to the Library's Ira and Leonore Gershwin Trust Fund monthly or in installments after the Library submits project requests. Income is recorded by the Library in the period received. The

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

balance of principal of the Charitable Trust will be distributed to the Library in 2033, fifty years after the date of death of Ira Gershwin. The Library received \$194,100 from the trust during fiscal year 1997.

6. "Friends" Organizations - Three organizations lend support to Library programs through gifts of money and other property but are incorporated as independent entities under the Internal Revenue Service Code, Section 501 (c)(3).

a. Millennium Foundation, Inc. - The Foundation operates for charitable, educational and literary purposes solely to benefit, support, and carry out the purposes of the Library. The Library allows the Foundation to use its name in connection with the performance of activities approved by the Library. This right exists only so long as Millennium is engaged in activities that directly or indirectly support the mission and objectives of the Library. In its third quarter report, dated September 30, 1997, the Foundation reported total assets on hand of \$81,854.

b. Friends of the Law Library - This national non-profit organization supports research, the acquisition of rare materials, educational programs, and other activities of the Law Library not covered by federal appropriations. In fiscal 1997, the Friends established a grants-in-aid program for legal research. The Friends provided support for the Law Library's participation in the annual meeting of the American Association of Law Libraries and for several staff programs.

c. Friends of Libraries for the Blind - The non-profit organization's purpose is to heighten awareness and visibility of national library services for blind and physically handicapped individuals in the United States and Canada and assist and promote library services, provide cultural enrichment programs and create and issue periodic communications on topics related to blind and physically handicapped individuals.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 2. Fund Balance With Treasury

Fund balances with Treasury at September 30, 1997, are summarized as follows:

1. ENTITY	Obligated	Unobligated / Available	Unobligated/ Unavailable/ Restricted	Total
Appropriated Funds	\$76,900,303	\$9,193,582	\$16,081,209	\$102,175,094
Reimbursable Funds	33,598,818	0	323,592	33,922,410
Gift and Trust Funds	2,858,807	15,781,039	21,984	18,661,830
Gift Revolving Funds	2,346,777	2,793,584	796,170	5,936,531
Total Entity	\$115,704,705	\$27,969,054	17,022,106	160,695,865
2. NON-ENTITY				
Custodial Funds			148,062	148,062
Total Non-Entity			\$148,062	\$148,062

(1) At September 30, 1997, the gift and trust fund balance with Treasury Included \$10,000,000 invested in the permanent loan at an interest rate of 6.25 percent.

(2) The fund balance on the financial statement is \$587,150.20 less than the year-end Treasury balances due to posting of OPAC activity, which was accomplished by September, 1997 but was not posted in time to report to Treasury (Treasury reflects amount on year-end TFS-6652 Statement of Differences). Rather than report this amount as an accounts payable, the fund balance was reduced since cash was transferred from our Treasury General Account as of September 30, 1997.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 3. 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 the cable television operators for retransmitting television and radio broadcasts, from satellite carriers for retransmitting "superstation" and network signals, and from importers and manufacturers for distributing digital audio recording products (DART). Refunds may arise when a cable, satellite, or DART remitter inadvertently overpays or is otherwise entitled to a refund. The Licensing Division invests the licensing royalty fees in market-based U.S. Treasury notes and bills. Because these investments are held in a custodial capacity for the copyright owners, income does not accrue to the Library's benefit.

If disputes arise regarding the disposition of the royalties, the Librarian convene a copyright royalty arbitration panel. The panel consists of three arbitrators selected from a list of professional arbitrators nominated by professional arbitration associations. The Librarian, upon the recommendation of the Register of Copyrights, selects two of the three arbitrators who, in turn, select the third arbitrator. This individual serves as the chairperson of the panel. The Librarian reviews the panel's decisions and has 60 days to adopt or reject the panel's decision. Decisions may be appealed in Federal court.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 4. Investments, Net

Investments at September 30, 1997 are as follows:

1. ENTITY ASSETS - Trust Funds	Face Value	Cost	Unamortized Premium	Unrealized Discount	Investments, Net	Market Value
A. Intra governmental Investments Non-Marketable, Market-Based	\$19,013,000		\$165,040	\$133,000	\$19,045,040	\$19,122,993
B. Governmental Investments Private Sector		\$11,102,179			11,102,179	11,949,516
Total - Entity	19,013,000	\$11,102,179	\$165,040	133,000	30,147,219	31,072,509
NON-ENTITY ASSETS - Custodial: Copyright Royalties						
A. Intra governmental Investments Non-Marketable, Market-based	\$731,122,000			\$3,036,115	\$728,085,885	\$728,195,003

A. Intra governmental 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 range from October 2, 1997 to May 15, 2000, and interest rates range from 4.4 percent to 8.9 percent. Custodial funds investment maturity dates range from October 16, 1997 to August 31, 1998, and interest rates range from 4.8 percent to 5.3 percent.

B. Governmental Investments

Governmental 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, 1997, are as follows:

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Type of Investment	Cost Basis	Market Value
Money Market Fund	\$6,702,519	\$6,702,519
Equity Mutual Funds	4,399,660	5,246,997
Total	\$11,102,179	\$11,949,516

Note 5. Pledges Receivable

At September 30, 1997, the Library had unconditional pledges of contributions totaling \$13.1 million (rounded) which were discounted through fiscal year 2002 at a market discount rate and included in the statement of financial position at their discounted value of \$11.9 million (rounded). The amounts due in future years, at September 30, at their current discounted value are:

	Present Value	Discount	Future Value
FY 1998	\$5,394,257	\$302,498	\$5,696,755
FY 1999	3,785,806	450,298	4,236,104
FY 2000	1,788,799	334,405	2,123,204
FY 2001	860,394	224,592	1,084,986
FY 2002	22,428	7,572	30,000
Totals	\$11,851,684	\$1,319,365	\$13,171,049

Note 6. Property and Equipment (Net)

Property and equipment accounts are maintained in two categories of funds: Appropriated and Revolving. The appropriated fund category includes all property and equipment used by the Library for general operations. Property and equipment used by Photoduplication Services is recorded in the revolving fund.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

The following table shows property and equipment which was capitalized at September 30, 1997.

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Appropriated:			
Operating equipment	\$35,274,308	\$20,579,793	\$14,694,515
ADP software	3,573,897	2,618,866	955,031
Furniture & Furnishings	959,808	127,082	832,726
Capital Leases	439,978	196,865	243,113
Leasehold Improvements	9,632,837	4,474,833	5,158,004
NLS/BPH Equipment - loan to public	75,071,805	37,744,109	37,327,696
Total Appropriated	124,952,633	65,741,548	59,211,085
Revolving:			
Equipment	1,412,659	965,659	447,000
Capital Leases	309,516	202,243	107,273
Total Revolving	1,722,175	1,167,902	554,273
Total Property and Equipment	\$126,674,808	\$66,909,450	\$59,765,358

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 7. Operating Leases

The Library leases office space and vehicles from the General Services Administration and has entered into other operating leases for various types of equipment. Additionally, the Library's overseas field offices lease operating space from the Department of State. Lease costs for office space, vehicles and equipment for fiscal year 1997 amounted to \$4,819,689. Estimated future minimum lease payments through fiscal year 2006 are as follow:

Fiscal Year Ended September 30	
1998	\$4,272,793
1999	4,008,826
2000	4,007,888
2001	2,800,822
2002	2,183,142
Thereafter	7,226,911
Total Estimated Future Lease Payments	\$24,500,382

Note 8. 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 accrued \$2,462,582 of unbilled or unpaid workers' compensation costs as of September 30, 1997, and established an estimated unfunded liability for future costs based on historical claims rates. The estimated future unfunded liability is \$9,520,040 and is based on a ten year projection.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 9. 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.

Note 10. Net Position

The components of net position at September 30, 1997 are as follows:

Balances:	Appropriated	Reimbursable	Gift & Trust	Revolving	Consolidated
A. Unexpended Appropriations:					
Undelivered Orders	\$53,219,178				\$53,219,178
Unobligated	22,953,737				22,953,737
Adjusted (Net)	<u>(1,752,750)</u>				<u>(1,752,750)</u>
Total Unexpended Appropriations	74,420,165				74,420,165
B. Invested Capital	57,727,290				57,727,290
C. Cumulative Results of Operations	2,187,291	11,304	44,450,752	6,305,675	52,955,022
D. Unrealized Gains			847,337		847,337
E. Other:					
Donations and Other - Restricted	1,157,177		15,761,597		16,918,774
F. Future Funding Requirements	(26,880,041)	(410,144)			(27,290,185)
G. Total	\$108,611,882	\$(398,840)	\$61,059,686	\$6,305,675	\$175,578,403

A. Unexpended Appropriations

Unexpended appropriations consist of unobligated balances and undelivered orders. Unobligated balances represent amounts appropriated which are unobligated and have not lapsed, been rescinded, or withdrawn. Undelivered orders represent obligations the Library

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

had incurred as of September 30, 1997, for goods and services which were ordered but had not been received by that date.

Unobligated balances are: 1993-97 annual (unavailable), \$13,180,379
 No-Year (Available), \$9,773,358

B. Invested Capital

Invested capital represents U.S. Government resources invested in certain Library assets. This balance consists of the net book value of property and equipment that is financed by appropriations. Revolving fund property and equipment are not included since they are not purchased from appropriated funds.

C. Cumulative Results of Operations

Cumulative results of operations represent the net difference between expenses and losses and financing sources, including appropriations, revenue and gains, since the inception of the activity.

D. Unrealized Gains

Unrealized gains are gains on governmental securities during fiscal year 1997 that were recognized but not realized.

E. Donations and Other - Restricted

Donations and other - restricted represent the total trust fund balance from current and prior years that is permanently restricted (principal may not be spent). It also includes the undepreciated value of property and equipment donated to the Library which is transferred to the appropriated fund upon acquisition. These assets are available for the general use of the Library. Revolving fund property and equipment balances are not included since they are not purchased from appropriated funds.

F. Future Funding Requirements

Future funding requirements represent liabilities reported in the Statement of Financial Position which are not covered by available resources. This amount consists of the Accrued Unfunded Annual and Compensatory Leave and Workers' Compensation Liability balances.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 11. Prior Period Adjustment

The Library has recorded a prior period adjustment to capitalize leasehold improvements that were paid out of the Library's funding sources and to depreciate the improvements over the applicable useful life. As a result, the Library has recognized a net increase of \$5.1 million of property and equipment on the Consolidated Statement of Financial Position (\$9.6 million increase in leasehold improvements less \$4.5 million of accumulated amortization of leasehold improvements) . Total revenues and total expenses on the Consolidated Statement of Operations and Changes In Net Position decrease equally by \$0.1 million. In addition, prior period revenues and prior period expenses decrease equally by \$5.0 million which does not require an "Adjustments" line on the Consolidated Statement of Operations and Changes In Net Position. Finally the posting of these leasehold improvements results in a Non-Operating Change of \$5.1 million on the Consolidated Statement of Operations and Changes In Net Position.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 12. Non-Operating Changes

	Appropriated	Gift & Trust	Consolidated
A. Increases:			
(1) Transfers-In:			
(a) Treasury Warrants from Appropriations	\$331,758,000		\$331,758,000
(b) Offsetting Collections from Appropriations	23,817,522		23,817,522
(c) Non-Expenditure Transfers	908,084		908,084
(d) Donated Assets	227,685		227,685
(e) Capitalized Assets	51,060		51,060
(2) Increase in Invested Capital	12,386,472		12,386,472
(3) Unrealized Gain on Governmental Assets		\$776,018	776,018
(5) Total Increases	369,148,823	776,018	369,924,841
B. Decreases:			
(1) Transfers Out:			
(a) Appropriations Used	365,659,162		365,659,162
(b) Canceled BFY 92 Authority	6,763,823		6,763,823
(c) Non-Expenditure Transfers	642,760		642,760
(d) Donated Assets		227,685	227,685
(e) Capitalized Assets		51,060	51,060
(2) Depreciation on Transferred Assets	184,708		184,708
(3) Correction of prior year capitalization of supplies	99,279		99,279
(4) Other Decreases	72,292	35,671	35,671
(6) Total Decreases	373,422,025	314,416	373,736,441
Total Non-Operating Changes	(\$4,273,202)	\$461,602	(\$3,811,600)

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 13. Subsequent Events

A. Legislative

1. Public Law 105-55, approved October 7, 1997, authorized the establishment of the Cooperative Acquisitions Program Revolving Fund. The Cooperative Acquisition Program, which previously was funded with gift funds, provides library materials obtained by the Library's overseas offices to participating libraries and other institutions. This legislation also grants the transfer of available funds previously received by the Library for this activity to the new revolving fund.

2. Public Law 105-144, approved December 15, 1997, authorized the Architect of the Capitol to acquire a facility in Culpepper, Virginia which will be used by the Library of Congress. This facility, which is owned by the Federal Reserve Bank of Richmond, will be used by the Library as a national audiovisual conservation center. This law also authorized the transfer of gift or trust funds that were given to the Library or the Library of Congress Trust Fund Board for structural and mechanical work and refurbishment of Library buildings and grounds to the Architect of the Capitol to be used for the same purposes as originally received. The development of a master plan for the facility is underway and the transfer of the property from the donor to the Architect of the Capitol is planned for 1999.

3. Public Law 105-80, approved November 13, 1997, authorized the Register of Copyrights to increase copyright fees to be paid to the Copyright Office to cover the reasonable costs of its basic services. In addition, this law allows the investment of deposit account funds in interest-bearing U.S. Government securities and the interest income derived from the invested funds may be retained by the Copyright Office.

B. Non-Legislative

1. On August 24, 1997, the Copyright Arbitration Royalty Panel (CARP) approved a rate increase, effective July 1, 1997, on satellite carriers to retransmit broadcast station that would result in an increase of approximately \$27 million in non-entity assets for the Library. On October 23, 1997, the Librarian of Congress endorsed and adopted the recommendation of the Register of Copyrights, which approved the amount of the increase recommended by the CARP but delayed the effective date of implementation of the new rates until January 31, 1998. The Satellite Broadcasting & Communications Association (SBCA) has petitioned the United States Court of Appeals for the District of Columbia to stay the effective date of the Librarian's decision and to review the Librarian's decision. The stay had been denied and the appeal is pending at this time.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

2. At the James Madison National Council Business Meeting on February 20, 1998, Chairman John W. Kluge announced that he will pledge up to \$5 million for the National Digital Library Program in the form of a 2:1 matching gift, which will enable the Library to reach its goal of \$45 million for the National Digital Library Program.