



## THE LIBRARIAN OF CONGRESS

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

Mr. President and Madam Speaker:

It is my pleasure to submit to you the Library's fiscal year 2007 financial statements and accompanying opinion of the independent auditors, Kearney and Company, P.C. For the twelfth consecutive year, the independent auditors have issued an unqualified "clean" opinion of the Library's consolidated financial statements.

In fiscal year 2007, the Library provided comprehensive congressional research support for policy concerns about nuclear nonproliferation, defense spending, terrorism and national security, trade agreements, and the State Children's Health Insurance Program (SCHIP), among numerous others, and provided support for the new Congress. In total, the Library delivered nearly 823 thousand research responses and services to members of Congress, a decrease in number from fiscal year 2006 due to the introduction of the Congressional Research Services's new online Product Search capability.

The Library registered more than 526 thousand copyright claims, circulated more than 26 million books and magazines free of charge to the blind and physically handicapped, and cataloged more than 363 thousand books and serials—higher than the record set in fiscal year 2006. As a result of increased ease in use of online information, the number of direct copyright inquiries has steadily decreased since 2004, as has the number of direct information requests handled by Library reference staff. We see this as a great success for the Library and a testament to the strength of our online resources.

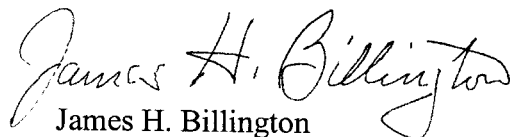
At year's end, the Library's American Memory online historical collections contained 13.5 million digital files, all of which are free and available to the public. The Library also made notable new acquisitions during fiscal year 2007, including a collection of more than 200 contemporary Japanese prints and the papers of Caspar Weinberger. The Law Library added 77 thousand volumes of congressional hearings to its Web site, and expanded the content of the Global Legal Information Network to include more than one thousand U.S. laws, court decisions, and legislative records.

The net cost of the Library's six major programs totals \$691.8 million; including \$78.4 million in costs incurred by four other agencies (i.e., the Architect of the Capitol, Government Printing Office, Office of Personnel Management, and the Department of the Treasury) in support of the Library's programs. The net cost also includes \$114.6 million in earned revenue from copyright registration fees, cataloging distribution sales, and other fee-based and reimbursable programs.

The Library continues to improve its financial and management systems while placing great emphasis on ensuring the security of our staff and collections. We recognize the need to improve controls over property and equipment accountability and classification, and we are continuing to improve our 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,

A handwritten signature in cursive script that reads "James H. Billington". The signature is written in dark ink and is positioned above the printed name and title.

James H. Billington  
The Librarian of Congress

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**THE LIBRARY OF CONGRESS**  
**Financial Statements for Fiscal Year 2007**

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# **THE LIBRARY OF CONGRESS**

## **Management's Discussion and Analysis**

Fiscal Year Ended September 30, 2007

### **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 2007.

### **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, managing 90 collections – many of them having unique and irreplaceable items – 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**

The Library has six diverse programs, staffed by more than 3,679 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 rapid growth of digitized multimedia communications. With the fiscal year 2004-2008 Strategic Plan, the Library responded to this challenge with 18 program-focused goals and outcomes. The key objectives within the plan's goals were: serving the Congress; sustaining and preserving our collections; 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 navigators – curators; moving to a networked digital environment; and opening the Packard Campus for Audio-Visual Conservation, which the Packard Humanities Institute (PHI) officially transferred to the Architect of the Capitol for the benefit of the Library of Congress and the American people.

During fiscal year 2007, the Library's Strategic Planning Team, consisting of the Library's senior management and key subject matter experts, developed and published a new Strategic Plan for fiscal years 2008-2013. The new Plan changed from the 18 program-focused goals to five Library-wide goals – Content, Customers, Outreach, Organization, and Workforce. The five goals will guide the Library as it continues to confront the critical tasks of sorting and preserving the ever-expanding world of digital knowledge and information, and integrating it into the growing body of printed works and other traditional artifactual materials. The new Strategic Plan became effective October 1, 2007.

### **Brief History**

At the dawn of the 19<sup>th</sup> century, the American republic was still little more than a bold experiment. Barely a decade removed from the establishment of constitutional democracy, our lasting future as a nation was not yet assured and our national character was only beginning to emerge.

It was in this context that the U.S. Congress created what would become one of the greatest and most distinctly American institutions. Mindful of the link between an informed people and functional governance, the Congress in



1800 established the Library of Congress by appropriating \$5,000 to purchase a collection of 740 books and three maps.

President Thomas Jefferson would make early and indelible contributions to the growing Library, signing a law in 1802 defining the institution's roles and functions, creating the first joint congressional committee (the Joint Committee on the Library) and establishing the position of Librarian of Congress.

After the British burned the Capitol during the War of 1812, destroying the Library's collection of some 3,000 volumes, it was Jefferson who again would help ensure that the Library of Congress would endure as a central contributor to American democracy, culture and intellect. Accepting the now-retired president's offer to "recommence" the Library, the Congress in 1815 purchased Jefferson's 6,487-volume personal collection (then the finest in America) at a price of \$23,950. It contained books in many languages and on a wide variety of topics, reflecting Jefferson's belief that there was "no subject to which a Member of Congress might not have occasion to refer."

While its origins were humble, six key milestones in the Library's early decades significantly expanded its scope and reach:

- The establishment of the Law Library in 1832 as the first department of the Library of Congress recalled 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 for research and reference services in foreign, comparative, and international law.
- The Copyright Law of 1870 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. The law reflected Jefferson's aspirations for the Library as a universal repository of knowledge.
- In 1886, the Congress authorized the first separate Library of Congress building to contain openly accessible reading rooms and exhibition space for the general public. In 1897, the Thomas Jefferson Building officially opened to the public.
- In 1902, the Congress authorized the Library to sell copies of its cataloging records inexpensively to the nation's libraries, thus substantially subsidizing the entire American library system.
- In 1914 the 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." Additional laws enhanced its mission in 1946 and 1970, when it was renamed the Congressional Research Service.
- In 1931, the Congress established a program in the Library to create and supply free library materials to blind and physically handicapped readers throughout the country.

In addition, Congress since the mid-1970s has statutorily created 10 programs that have further enhanced the Library's national role.

- American Folklife Center (1976)
- American Television and Radio Archives (1976)
- National Center for the Book (1977)
- National Film Preservation Board (1988)
- National Film Preservation Foundation (1996)
- Cooperative Acquisitions Program Revolving Fund (1997)
- Sound Recording Preservation Board and Foundation (2000)
- Three revolving funds for fee services (2000)
- National Digital Information Infrastructure and Preservation Program (NDIIPP) (2000)
- Digital Collections and Educational Curricula Program (2005)

One of the most recent and ambitious of these came in December 2000, when Congress tasked the Library under Public Law 106-554 with developing a plan and leading an effort to ensure that important digital materials can be preserved for our national information reserve. The National Digital Information Infrastructure and Preservation Program (NDIIPP) demonstrates the foresight of the Congress in its imperative to preserve critical data that typically exists in an unstable and transient environment.

### **The Library of Congress Today**

Today, as the Library of Congress advances further into its third century, there is still no more fitting a symbol of its vision and aspirations than the Library's 1897 building that bears Jefferson's name. Constructed as a projection of American optimism near the turn of the 20<sup>th</sup> century, the Thomas Jefferson Building is resplendent with iconography and written inspirations that describe the Library's past and, more importantly, guide its future.

The gilded Torch of Knowledge surmounts the building, while directly beneath on the underside of the dome is the mural Human Understanding, embodied by a woman removing the veil of ignorance from her eyes. Below the dome is the magnificent Main Reading Room, which was the Library's original means of providing the information that is critical to an informed citizenry.

As the Library of Congress extends its reach in the modern era, an information revolution is empowering not just countries and companies, but also individuals in the farthest reaches of the globe. Our mission remains the same, but it is more important than ever when set against a landscape of dynamism and intense international competition.

In his June 2005 testimony to Congress, Librarian of Congress James H. Billington said: "Libraries are inherently islands of freedom and antidotes to fanaticism. They are temples of pluralism where books that contradict one another stand peacefully side by side on the shelves, just as intellectual antagonists work peacefully next to each other in reading rooms."

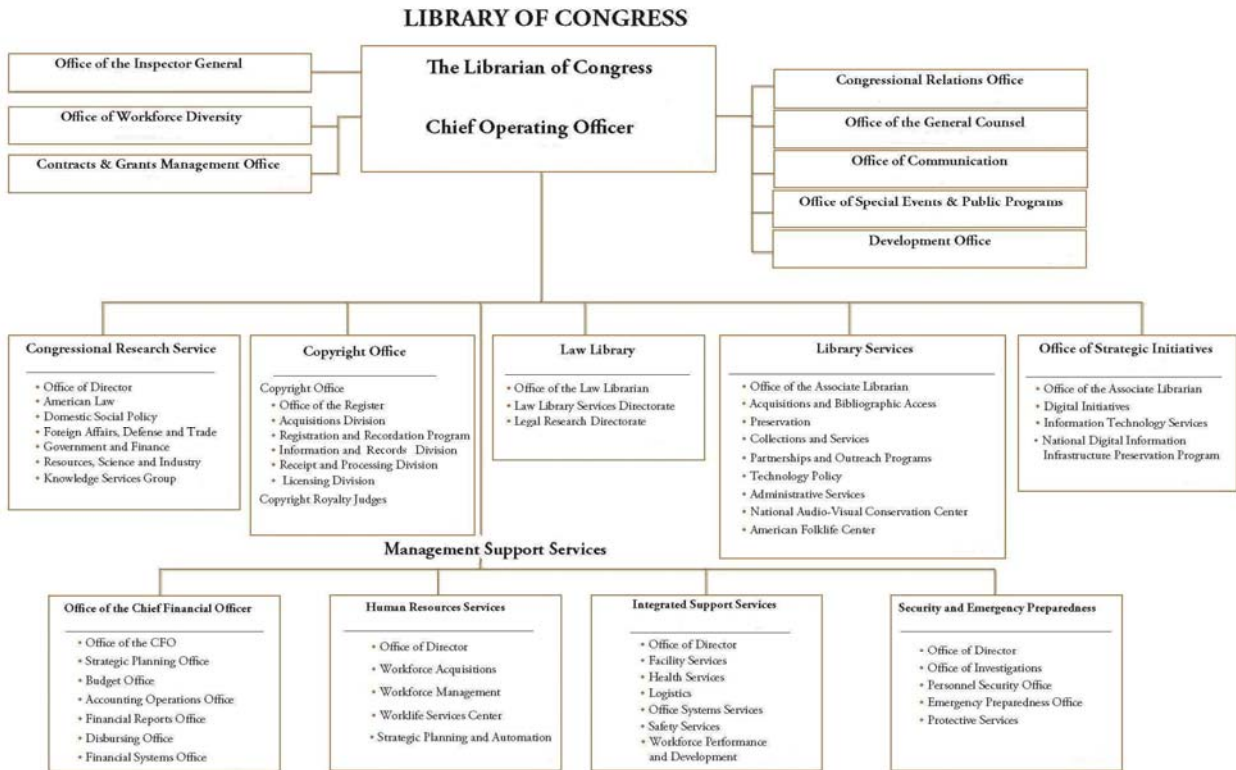
Those words hearken back to the Library's early days and Thomas Jefferson's vision of a society wherein the widest variety of information was readily available to the greatest possible number of people. "I feel ... an ardent desire," Jefferson said, "to see knowledge so disseminated through the mass of mankind that it may, at length, reach even the extremes of society; beggars and kings." (*Thomas Jefferson: Reply to the American Philosophical Society, 1808.*)

Through its strategic plan, the Library of Congress will be accountable to the American public and their elected representatives, and measured by the results that are achieved. We seek nothing less than to be ardent champions furthering the cause of human understanding and wisdom.

Past, present and future, the Library of Congress endeavors to remain the preeminent repository of information on a global scale, an inspiration to future generations, and a celebrant of achievement—a Torch of Knowledge that continues as a shining beacon for all the world.

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

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.



Library Services includes the National Library Service for the Blind and Physically Handicapped (within Partnerships and Outreach Programs); program costs are reported under the National Library Program.

The Office of Strategic Initiatives includes Information Technology Services; program costs are reported under the National Library Program and infrastructure costs are allocated.

## Overview of Financial Statements

For fiscal years 2007 and 2006, the Library has prepared Consolidated Balance Sheets, Consolidated Statements of Net Costs, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources.

### 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, 2007 and 2006. 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 reports unit measurement, mission and acquisition information in the financial statement notes (see Section 2), and provides other relevant information about their use, preservation, security, etc. in supplemental information (see Section 3). 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.

(in millions)			(in millions)		
Assets	FY 2007	FY 2006	Liabilities and Net Position	FY 2007	FY 2006
Entity Assets	\$ 537.1	\$ 578.3	Liabilities Covered by Budgetary Resources	\$ 1,227.9	\$ 1,225.5
Non-Entity Assets	1,125.3	1,122.5	Liabilities Not Covered by Budgetary Resources	31.6	32.1
			<b>Total Liabilities</b>	<b>1,259.5</b>	<b>\$ 1,257.6</b>
			Net Position	402.9	443.2
<b>Total Assets</b>	<b>\$ 1,662.4</b>	<b>\$ 1,700.8</b>	<b>Total Liabilities and Net Position</b>	<b>\$ 1,662.4</b>	<b>\$ 1,700.8</b>

The Library's assets total \$1.7 billion for fiscal year 2007 and \$1.7 billion in fiscal year 2006. Entity assets decreased by \$41.2 million during fiscal year 2007. Significant changes include a decrease of \$67.4 million in the Library's fund balance with the U.S. Treasury and an increase of \$12.2 million due to 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 68 percent and 66 percent of all assets and total \$1,125.3 million and \$1,122.5 million for fiscal years 2007 and 2006, respectively. Non-entity (custodial) assets remained relatively unchanged during fiscal year 2007 because current year royalty receipts were about the same as 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.

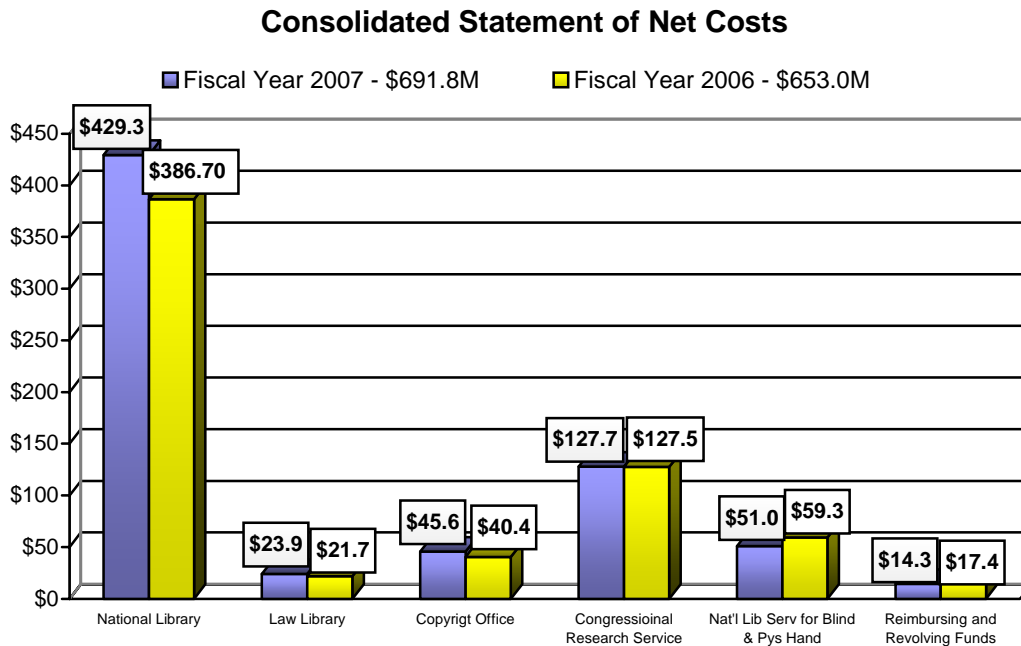
The Library's liabilities total \$1,259.5 million and \$1,257.6 million for fiscal years 2007 and 2006, respectively, with custodial and deposit account activities (i.e., funds held for future distribution to copyright owners) as the major item. The custodial liability remained relatively unchanged during fiscal year 2007, following the same pattern found in the non-entity assets. Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various operating expenses.

In general, 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, 2007 and 2006. In other words, the statements present the net costs of our programs – \$691.8 million and \$653.0 million for the fiscal years 2007 and 2006, 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 \$429.3 million and \$386.7 million for fiscal years 2007 and 2006, 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.

National Library manages the following programs and 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, standards, 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 provides reference assistance to researchers and the general public, conducts field research, and promotes the preservation of American culture throughout the United States. The Library responds to nearly 700,000 information requests a year from across the nation, including nearly 302,000 in person in the 20 reading rooms open to the public in Washington. In addition, the Library responds to more than 67,000 free interlibrary loan requests from across the nation and more than 29,000 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](http://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 nearly 411 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.

**Preservation** – The Library manages a continuing program to preserve and extend the life of 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 preservation 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 seventh National Book Festival was held on September 29, 2007, on the National Mall and had more than 120 thousand attendees.

**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 \$23.9 and \$21.7 million for fiscal years 2007 and 2006, 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 (COP), with net program costs of \$45.6 and \$40.4 million for fiscal years 2007 and 2006, 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 2007, the COP registered more than 526,000 claims to copyright, transferred more than one million works to the Library, recorded 11,534 documents containing more than 500,000 titles, logged more than 26 million external electronic transactions to its Web site, and responded to nearly 305,000 in-person, telephone and e-mail requests for information. The COP supports the Copyright Royalty Board (CRB), which is composed of three Copyright Royalty Judges and their staff, for the purpose of (a) distributing hundreds of millions of dollars in royalties that are collected under various compulsory license provisions of the copyright law, and (b) adjusting the royalty rates of these license provisions. Registration fees and authorized reductions from royalty receipts fund almost half of the COP. 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 \$127.7 and \$127.5 million for fiscal years 2007 and 2006, respectively, provides non-partisan analytical research and information services to all Members and committees of the Congress. CRS assists all Members and committees of Congress with its deliberations and legislative decisions by providing objective, authoritative, non-partisan, and confidential research and analysis. Serving Congress exclusively, CRS experts work alongside the Congress at all stages of the legislative process and provide integrated and interdisciplinary analysis and insights in all areas of policy interest. CRS support takes the form of reports, tailored confidential memoranda, individual consultations and briefings. In 2007, CRS delivered nearly 823,000 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 blind and physically handicapped people - circulating more than 26 million items a year at no cost to users. 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 2007 and 2006 net program costs for this segment were \$51.0 and \$59.3 million, respectively.
2. A cooperating network of 129 regional and subregional (local) libraries distribute the machines and library materials provided by the Library of Congress.
3. The U.S. Postal Service receives an appropriation to support postage-free mail for magazines, books, and machines, which are sent directly to readers. Reading materials (books and magazines) and playback machines are sent to a total readership of more than 811,000 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 Packard Campus for Audio-Visual Conservation, the revolving fund for gift shop, decimal classification, photo duplication, special events and public programs 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 Abraham Lincoln Bicentennial Commission, and the Open World Leadership Center).

After reflecting earned revenues of \$76.6 and \$68.1 million in fiscal years 2007 and 2006, respectively, reimbursable and revolving fund net program costs totaled \$14.3 and \$17.4 million, respectively. The net program costs were the result of the elimination of \$6.7 and \$7.9 million of intra-Library net revenues, \$7.0 and \$7.3 million in allocated administrative overhead, and \$1.8 million and \$1.8 million in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds for fiscal years 2007 and 2006, 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 \$3.0 million for 2007 and \$2.9 million for 2006.

**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 2007 and 2006 were \$0.4 million and \$0.4 million, respectively, of which \$0.2 million and \$0.2 million were for intra-Library transactions, which were eliminated for both years in the consolidated statements.

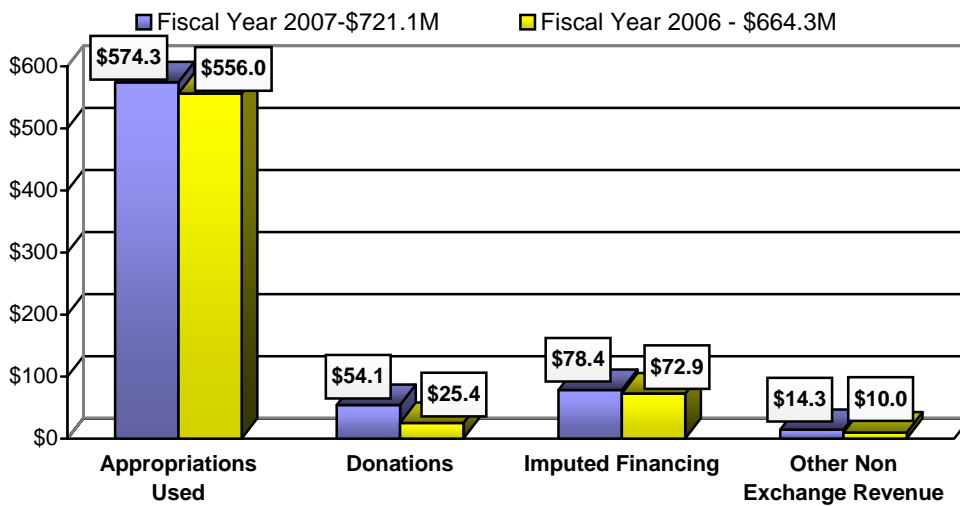
**Gift Shop, Decimal Classification, Photo Duplication, Special Events and Programs and related services** – This revolving fund provides for the operation of a gift shop or other sales of items associated with collections, exhibits, performances, and special events of the Library of Congress; decimal 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 \$6.1 million and \$7.7 million in fiscal years 2007 and 2006, respectively, and intra-Library transactions of \$1.1 million and \$2.7 million were eliminated during consolidation.

**The FEDLINK program and Federal Research program (FRP)** – 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 130 major vendors to provide services to approximately 1,200 Federal offices participating in the program saving the offices an estimated \$17.4 million in cost avoidance benefits and more than \$15.4 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 2007 and 2006, earned revenues were \$68.9 and \$60.1 million, respectively, and intra-Library transactions of \$1.1 million and \$0.8 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 \$721.1million and \$664.3 million for the fiscal years ended September 30, 2007 and 2006, respectively.

**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, 2007 and 2006 totaled \$574.3 and \$556.0 million or 80 and 84 percent for fiscal years 2007 and 2006, respectively, of all financing. Along with appropriations made directly to the Library, other government agencies (i.e., the Architect of the Capitol, the Office of Personnel Management [OPM], Government Printing Office) used Congressional appropriations and other financing sources to provide support for the Library's programs totaling an estimated \$78.4 and \$72.9 million (imputed financing) for fiscal years 2007 and 2006, respectively. The support provided included structural care and maintenance of the Library's buildings and grounds (\$46.4 million and \$40.6 million), employee benefits (\$30.6million and \$31.6 million), acquisitions exchange services (\$1.0 million and \$0.6 million) and legal claims (\$0.4 million and \$0.1 million). Other non-exchange revenues are positive for fiscal year 2007 primarily due to the unrealized gains on non-treasury investments (\$12.2 million and \$5.7 million).



The Library's net position decreased by \$40.3 million during fiscal year 2007, primarily due to rescission of amounts appropriated for the National Digital Information Infrastructure and Preservation Program (NDIIPP) and other activities.

### **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 \$2.2 billion and \$2.2 billion for fiscal years 2007 and 2006, respectively, of which \$0.6 billion and \$0.7 billion were from appropriated funds and \$1.6 billion and \$1.5 billion were from non-appropriated funds. Total outlays of \$823.1 and \$695.5 million were incurred with the outlays of appropriated funds (\$575.5 and \$544.0 million) combined with outlays of the non-appropriated funds (\$247.6 and \$151.5 million) in fiscal years 2007 and 2006. The increase in outlays is largely a result of an increase of distributions of royalty fees during fiscal year 2007.

## **Key Performance Measures**

Since 2003, the Library's Internet transactions have grown dramatically from 2.6 billion to 4.9 billion in fiscal year 2007. 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 13.5 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."

Other noteworthy workloads include the following:

- The number of Congressional requests and services provided by CRS declined during fiscal year 2007 due to the introduction of the new Product Search capability on the CRS website, which allows clients to find the desired research products without going to the Home Page. Individual page views are not reported in order to be consistent with prior year data.
- Copyright office registrations were 5,472 greater in fiscal year 2007 than in fiscal year 2006. The number of copyright direct inquiries (in-person, phone, and correspondence) was 66,758 less in 2007 than in 2003. Decreases 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 decreased by 4.59 percent from 715 thousand in 2003 to 683 thousand in 2007, while the number of Internet transactions increased from 2.6 billion to 4.9 billion. In addition, 1.3 million non-digital items circulated, compared to 1.375 million in 2003. This trend reflects greater use of the Library's on-line resources.
- The number of items preserved, treated, and deacidified increased by 5.9 million from 2003 to 2007 primarily due to an increase in the number of pages reformatted or deacidified.
- The number of mainframe transactions decreased by 0.3 million during fiscal year 2007 primarily due to the migration of nearly all applications off of the mainframe platform.

**THE LIBRARY OF CONGRESS**

**COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS**

For the Fiscal years 2003, 2004, 2005, 2006, and 2007

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	CHANGE 2003 – 2007	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	\$539,469,502	\$559,299,548	\$584,870,304	\$603,622,800	600,417,000	60,947,498	11.30%
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	4,020	4,056	3,937	4,302	3,679	-341	-8.48%
<b>WORKLOAD STATISTICS:</b>							
Unprocessed Library Arrearages	20,422,598	19,313,015	15,983,986	15,901,826	16,786,643	-3,635,955	-17.80%
CRS - Requests & Services Provided Congress	875,197	899,284	906,445	933,430	822,697	-52,500	-6.00%
Loans of Collections to Congress	29,454	29,067	29,646	29,275	26,003	-3,451	-11.72%
Copyright Claims Registered	534,122	661,469	531,720	520,906	526,378	-7,744	-1.45%
Copyright Direct inquires (in person, phone, correspondence)	371,446	381,845	362,263	338,831	304,688	-66,758	-17.97%
Services to the Blind & Physically Handicapped (BPH) – Readership	766,137	766,137	793,891	793,891	811,015	44,878	5.86%
BPH - Books & Magazines; Total Circulated	23,780,639	23,780,639	24,677,023	24,677,023	26,296,198	2,515,559	10.58%
BPH - New Braille & Audio Books & Magazines Titles	2,764	5,486	4,275	4,275	4,338	1,574	56.95%
Print Materials Cataloged	269,568	294,510	312,818	346,182	363,064	93,496	34.68%
National Coordinated Cataloging Operation (NACO) - LC Contribution	93,584	101,081	101,829	127,672	116,371	22,787	24.35%
National Coordinated Cataloging Operation - Outside Contribution	176,487	156,098	161,230	185,184	194,565	18,078	10.24%
Exhibits, Displays, & Publications (Funded by Appropriations)	23	23	27	32	29	6	26.09%
Regular Tours (Participants)	111,755	109,252	140,847	159,604	163,467	51,712	46.27%
Reference Service	715,479	682,264	685,408	686,923	682,672	-32,807	-4.59%
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65	0	0.00%
Items Circulated	1,375,807	1,389,161	1,226,067	1,049,230	1,312,489	-63,318	-4.60%
Preservation Treatment - Original Format	1,591,735	2,648,334	2,754,425	4,058,707	7,489,491	5,897,756	370.52%
Mainframe Computer Transactions	111,175,428	103,463,022	50,730,911	600,000	300,000	-110,875,428	-99.73%
Integrated Library System Input/Update Transactions	96,495,434	98,312,132	103,644,698	104,087,835	117,329,910	20,834,476	21.59%
Machine Readable Cataloging (MARC) Records	33,758,594	35,758,828	36,873,893	38,527,975	40,141,678	6,383,084	18.91%
Internet Transactions (i.e., LOCIS, MARVEL, World Wide Web, and THOMAS public transactions)	2,620,884,359	3,360,481,609	3,845,481,430	4,594,485,103	4,931,310,401	2,310,426,042	88.15%

**Major Goals and Accomplishments**

The following section presents the significant annual goals and accomplishments for fiscal year 2007 as they relate to the strategic goals of the Library's 2004-2008 strategic plan. The organizational annual goals and accomplishments that follow are cited under the strategic goal that is most applicable. For each annual goal, the responsible organization is named followed by the text of its goal and related accomplishment.

**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, Library Services (LS) – Activities planned will enhance both the breadth and relevance of the collections.

**Accomplishments:** Acquisitions operations continued throughout the year to acquire materials from areas of importance to Congress, primarily through our overseas offices. In addition to the acquisitions from the areas covered by the Cairo, Islamabad, Jakarta, Nairobi, New Delhi and Rio de Janeiro offices, examples of special items or collections identified and funded during the year included: geospatial data and newspapers & serials database from North Korea; Iranian oral history documents; access to a database of Chinese news; and items from several former Soviet republics.

New collections acquired include electronic and born digital research materials such as digital photographs of contemporary architecture and periodical databases. Special attention was paid to acquisitions based on changing geopolitical, cultural and technological situations, such as Chinese census data, U.S. oil and gas pipeline geographic information system (GIS) data, websites related to Darfur crisis, and Asian/Pacific-American resources.

Motion Picture, Broadcasting, and Recorded Sound (MBRS) moving image and recorded sound collections were moved from Capitol Hill and Landover Annex storage areas to new state-of-the-art collections security and preservation environments in newly occupied Packard Campus for Audio-Visual Conservation in Culpeper, Virginia. General collections continue to be moved to the Ft. Meade, MD book storage Module 2 which also provides state-of-the-art collections security and preservation environment for Library materials. Construction of Modules 3 and 4 will be dedicated to special collections and is on schedule.

The Library continued to mount exhibitions to showcase new collections that forge strong relationships with donors and increase the likelihood of new deposits. In fiscal year 2007, the Interpretive Programs Office mounted five new exhibitions: *Cartoon America*; *Illuminating the Word: The Saint John's Bible*; *MacDowell Colony*; *Shakespeare in America*; and *On the Cutting Edge: Contemporary Japanese Prints from the 50th College Women's Association of Japan Print Show*.

The Library's Preservation Division began developing requirements for the Conservation Digital Documentation System. Dedicated server space is now reserved for the documentation of high value artifacts.

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

**Annual Goal:** Copyright Office (COP) – Initiate and enhance online services to the public for registrations, statutory license filings, and rulemakings; increase online access to historical records.

**Accomplishments:** Progress on baselines is pending implementation of reengineering processes, which will be fully in place in early fiscal year 2008; baselines will be completed in fiscal year 2008 (for most processes) and fiscal year 2009 (for licensing). There was no paper records digitization in fiscal year 2007 because Congress did not fund it. The digitization is expected to proceed in fiscal year 2009.

**Annual Goal:** LS – Planned activities will result in increased quality and effectiveness in providing access to the collections of the Library for our users.

**Accomplishments:** Acquisitions and Bibliographic Access completed the processing of 363,064 items selected for the Library's collections. To continue to improve and increase access to the Library's collections and services via the Internet, the following representative sites were launched: *Chronicling America*, an online electronic database that includes historic Washington, DC newspapers; *Cartographic Treasures*, featuring newly scanned maps in the Geography & Maps division; *Frontline Diplomacy*, site with recently donated and digitized oral history interviews with former Foreign Service diplomats; U.S. Civil War photographs made by A.J. Russell, the first official war photographer; and a unique collection of handwritten biographies of Soviet Korean leaders.

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

**Annual Goal:** LS – Planned activities will interpret and present the collections and facilitate both use and access by a broad section of patrons.

**Accomplishments:** The Music Division presented thirty-seven concerts in its 2006-2007 season, many enhanced by pre-concert talks and displays of items from the collections relating to the concert program, including music for which the Library holds the original manuscript and music commissioned by the Library. The Division hosted a public symposium celebrating "Liszt and His World" introducing participants to the Library's Liszt holdings. Library Services divisions continued to organize and contribute materials and staff expertise to the Library's public

programs, including "Treasure Talks." The Science, Technology and Business (ST&B) division organized several public programs that enhance the knowledge and understanding of LC's broad science, technology and business collections, presenting talks on global warming and satellite imagery by NASA scientists, organic farming and safe food, and urban planning. ST&B also provided extensive outreach programs for math and science teachers nationwide.

The 2007 National Book Festival, held on the National Mall on Sept. 29, was a huge success, attracting a record crowd of more than 120,000. The Center for the Book has major responsibilities in each year's festival, coordinating its author program and managing the largest and busiest pavilion, the Pavilion of the States. This event benefits the public through the promotion of reading and literacy and the Library through increased visibility of its collections and programs.

The Interpretive Programs Office continued to share the Library's collections through traveling exhibitions and an extensive program of loans to cultural institutions throughout the world. Five exhibits traveled to five cities across the U.S. in fiscal year 2007, including 26 outgoing loans for 231 objects, to 11 states and six foreign countries. These activities broaden the world's knowledge of the Library and its collections.

The Veterans History Project (VHP) continued to develop programs and educational outreach to highlight the collections. Several new presentations of digitized materials were presented on the VHP website including "*Asian-Pacific Americans: Going for Broke*," selected oral histories, photo, and letter collections from World War II, the Vietnam War, and the Iraq War; "*China-Burma-India: World War II's Forgotten Theater*," selected oral histories, photo, and letter collections; and the Viewer's Companion to "*The War*" TV series, encompassing selected narratives of episodes in WWII.

**Annual Goal:** LS – Planned activities will provide leadership to libraries and archives world-wide in such areas as standards, policies, guidance, etc.

**Accomplishment:** Acquisitions and Bibliographic Access (ABA) expanded its collaborative efforts to provide access to and archiving of electronic government documents through work with Government Printing Office (GPO) staff to take advantage of the Library's Electronic Resources Management System (ERMS). Library Services staff explored with GPO how to resolve issues regarding broken URLs (Uniform Resource Locators)/PURLs (Persistent Uniform Resource Locators)/Handles and how to update them to assure access to the government documents stored on remote databases. Staff also explored how the Library might offer international partners data sets of bibliographic records loaded in the ERMS. These activities have furthered our collaborative efforts.

Library Services engages in cutting edge digital standards prototyping of document systems. The website, *Library of Congress Presents* and the Veterans History Project offer multiple media types and complex document challenges. METS (Metadata Encoding and Description Schema), MODS (Metadata Object Description Schema) and other new standards are incorporated into the prototype. Working with an international committee sponsored by the Online Catalog Library Center and the Research Libraries Group, the Network Development and MARC Standards Office, participated in the development of PREMIS (Preservation Metadata: Implementation Strategies), a core set of technical preservation data elements for digital objects of all media types. The standards and implementation components of the eJournal scanning project, new journal scanning for electronic storage and access, is a joint effort of the Law Library of Congress, the Library's Office of Strategic Initiatives and Preservation Reformatting.

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

**Annual Goal:** Office of Strategic Initiatives (OSI) – Enable creation and intake of sustainable digital content.

**Accomplishment:** Through use of current and developing technologies and expertise, OSI worked with Library service units and external partnerships to enable the significant growth of the Library's digital content, both born digital and converted.

**Strategic Goal 5:** Manage and sustain digital content.

**Annual Goal:** OSI – Increase usage and seamless access to digital content and services.

**Accomplishment:** The Library, through its web presence, now serves growing online general public and education-focused communities, warranting innovative virtual content and service delivery approaches and mechanisms.

**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 (LAW) -- To improve legal research, analysis, and reference services to Congress and other clients.

**Accomplishment:** The Law Library of Congress responds to all Congressional requests for research and to public reference inquiries within stated deadlines. Exceeded the goal by meeting deadlines 100% of the time when responding to Congressional and other customer requests for reports, studies, opinions, legal briefs and legal research and reference inquiries, including more than 634 legal research reports, special studies, and memoranda written in response to congressional inquiries. Completed a major user interface and content revision to the Law Library public website, including access to approximately 77,000 volumes of congressional hearings organized by subject. Web casts were also added to the Law Library public website for the first time. Law Library staff assisted members of Congress and congressional committees in researching legislative issues, particularly in the areas of children's rights, habeas corpus rights, immigration and environmental law. The Law Library's World Law Bulletin provided members of Congress with 854 articles focused on timely and developing global legal issues. The Law Library's special collections on Terrorism, Aviation Safety and War Powers were updated and maintained.

**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 – Ensure that the 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.

**Accomplishment:** Collection specialists worked with legal specialists to assure acquisition of primary legal materials and to address critical regions and languages in response to Congressional interests. Issued contracts to process, preserve and shelve collection material, avoiding new arrearages. Using contract and government resources, processed all new receipts within five days of receipt. Inventoried and shipped on average 250 volumes a day to off-site storage facility at Fort Meade. Enhanced digital recording security equipment in the Law Library Reading Room. The Law Library's collections fall under the Library of Congress collection security standards, and these standards are implemented accordingly.

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

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

**Accomplishment:** Expanded content of the GLIN database to include over 1,000 United States laws, court decisions, and legislative records and approximately 30,000 retrospective laws from Latin American countries. Efforts to increase membership to incorporate content from additional jurisdictions resulted in agreements with four new countries.

**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:** COP – Set optimal processing times and maintain or reduce current processing time to meet the optimal times.

**Accomplishments:** The Office has met many processing targets, and is making positive progress on many of the others. The two most crucial times were still some distance from the targets. Copyright anticipated processing times would be further affected by staff moving back to the Madison Building and by reengineering implementation startup issues. The Office developed contingency plans to address the impact and expects to adjust its processing capability in fiscal year 2008 to recover from the affects of the implementation. The average for the entire year to issue a certificate: 82 days (target was 60). The average for the entire year to record a document: 44 days (target was 30).

**Annual Goal:** COP – Increase the acquisition of all types of works, through registration and voluntary deposit, including works created in digital form in a variety of formats; broaden publishers' understanding of mandatory deposit provisions and their obligations under those provisions.

**Accomplishment:** IT system development is progressing, publisher education initiatives are on track, and the online acquisitions baseline is to be determined after system implementation.

**Annual Goal:** COP – Implement reengineered business processes to deliver public services more effectively and efficiently.

**Accomplishment:** Started four planned processes; two more are scheduled to start in early fiscal year 2008 and one is delayed to fiscal year 2009 due to significant regulatory changes. The Office is in a problem-solving phase to address IT related dependencies that have an impact on processing time.

**Annual Goal:** COP – Support key business processes with new information technology systems infrastructure to deliver public services more effectively and efficiently.

**Accomplishments:** The Office implemented the Receive Mail, Maintain Accounts, Register Claim, and Answer Request modules; significant elements of Register Claim, such as group registrations, are taking longer than originally planned. Bottlenecks and bugs in the new system are slowing productivity and requiring remediation. Record Document and Acquire Deposit should be implemented in the first quarter of fiscal year 2008; licensing processes will probably be delayed to fiscal year 2009 due to significant regulatory changes.

**Annual Goal:** COP – Support key business processes with reconfigured or new facilities to deliver public services more effectively and efficiently.

**Accomplishments:** Construction and moves proceeded on or ahead of schedule. Renovated spaces met needs of new processes and organization. Resolved unexpected space needs successfully to accommodate unfinished business from old systems.

**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:** COP – Provide timely, quality service to Congress, the executive branch, and the courts to address current and emerging challenges to copyright policy and law, especially relating to (1) digital technology and other issues, and (2) protection of copyrighted works internationally.

**Accomplishments:** Provided testimony and advice on several visible issues: orphan works legislation, public performance right in sound recordings, and music licensing reform; provided input on twelve court cases; worked on several regulations, including those related to fees and the triennial section 1201 rulemaking; advised the U.S. Trade

Representative on a number of international issues; participated in twelve important U.S. delegations on intellectual property. Assistance promoted protection of creative works domestically and internationally.

**Strategic Goal 11:** 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:** COP – Reach current and new audiences, through a broad range of information media, with copyright information and a message about the importance of copyright principles as a means of promoting creativity and protecting the rights of creators.

**Accomplishments:** Provided effective outreach at meetings, symposia, conferences; special copyright programs in California, New York, and Nashville; other conference and symposium outreach in Russia, England, Egypt, and several in the United States; video conferences to El Salvador, Israel, Jordan, and other countries; International Copyright Institute with 20 guests from developing countries; public roundtable concerning proposed World Intellectual Property Organization (WIPO) Treaty for Protection of Broadcasting Organizations; content creation and posting of copyright web pages for students (aged 11-13) and teachers entitled "Taking the Mystery Out of Copyright" which resulted in many positive comments from bloggers; and hosted an official of the National Copyright Administration of China as a visiting scholar.

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

**Annual Goal:** Congressional Research Service (CRS) -- Contribute to an informed national legislature with timely, objective, and nonpartisan expertise across all active policy areas so that the Congress can make policies that best meet the needs of the nation.

**Accomplishments:** CRS supported Congress by establishing and maintaining a research agenda directly aligned to congressional policy-making needs. To support the policy issues on the research agenda, CRS developed and maintained research products and improved interdisciplinary collaboration. Through management initiatives, CRS is making progress in addressing concerns about the consistency in the quality of CRS research support for Congress.

**Annual Goal:** CRS – Best serve the Congress' legislative needs by organizing functions and activities, and allocating resources to optimize economy, efficiency, and effectiveness.

**Accomplishments:** CRS conducted ongoing outreach to inform Members and staff about the distinctive mission of CRS, the services CRS provides, and ways to use CRS services most efficiently and effectively. Following a systematic review, CRS improved management of a complex project for introducing a CRS research product format and underlying authoring and publishing processes. To improve the quality and effectiveness of CRS services to Congress, CRS began implementing significant changes to management positions.

**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:** National Library Service for the Blind and Physically Handicapped (NLS/BPH) – Provide high quality services, distribute reading materials and equipment to patrons while maintaining the program's mission and integrity.

**Accomplishment:** NLS produced 2,205 analog books during the year. Cassette player production ceased as NLS became fully-focused on producing and distributing digital talking books (DTBs) and players. NLS will continue to support the use of cassette players beyond 2012 and has purchased spare parts to keep existing players in service.

Through program policies, NLS continued to support and encourage training, professional development, diversity and recruitment efforts to ensure a competent, skilled and knowledgeable workforce.

**Annual Goal:** NLS/BPH -- Design and provide an array of services, content, and equipment through existing and new digital technology.

**Accomplishment:** The Web Braille service expanded during the year, with 831 additional new Braille books, 302 music scores and 496 new patrons. NLS produced 2,205 new DTB titles and 1,600 analog books were converted to DTB format. Work continues as titles become available. The digital cartridge contract met its target date with procurement initiated in June 2007 and award anticipated shortly. Mailing container molds have been procured and are in process.

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

**Annual Goal:** The Office of the Chief Financial Officer (OCFO) – Manage and utilize revolving and reimbursable funds not intended to generate profits in an efficient and cost effective manner – to assist service units that operate revolving funds or receive reimbursable funds to identify and develop business plans that will maximize the potential to generate profits and to cover all costs associated with the program.

**Accomplishment:** OCFO reviewed on average two business plans each fiscal year, for a total of six business plans reviewed during the period fiscal years 2005 to 2007. In reviewing the business plans, OCFO (1) assessed the nature and completeness of the factors management used in planning the operations of the fund and (2) identified strengths of and improvements to the scope of the business plans. OCFO also monitored the revolving and reimbursable funds for cumulative results and status of funds.

**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:** Human Resource Services (HRS) – The Library's staff have the knowledge, skills, abilities and other characteristics needed to serve the Congress and other customers now and in the future.

**Accomplishment:** Met or exceeded all targets associated with this goal by providing high quality classification, position management and reorganization consultation services to Library management and staff. In addition, continuously provided timely initial referrals and supplemental lists to selecting officials and conducted job analyses to prepare well-defined job descriptions, vacancy announcements, and interview questions.

**Annual Goal:** HRS -- Provide responsive, efficient, and effective human resources services - continuously improve human resources processes to better serve and support the Library.

**Accomplishments:** Met or exceeded all annual performance targets by providing accurate and timely classification, position management, staffing, and recruitment services. Provided effective and efficient labor-management relations, employee relations and performance management services. Successfully administered full range of HRS programs including the Employee Assistance Program, Library's Leave Program, Time and Attendance Program, and the Reduction-In-Force Program. HRS directed the Library's efforts to convert to OPM's Electronic Official Personnel Folder (eOPF) system. Successfully reduced the average processing time of personnel actions to well under 10 business days of receipt.

**Annual Goal:** COP -- Support key business processes with redesigned organization and human capital initiatives to deliver public services more effectively and efficiently.

**Accomplishment:** The Office approved and implemented its new organization, completed its overall human capital plan for 2008-2013, and developed training plans.



**Strategic 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:** Integrated Support Services (ISS) – Implement the fiscal year 2007 Facility Project Plan, including support for return of the Copyright Office to Capitol Hill and move of Motion Picture Broadcasting and Recorded Sound Division staff to the Packard Campus for Audio-Visual Conservation in Culpeper, Virginia.

**Accomplishment:** ISS improved the functionality, safety, accessibility, and efficiency of Library space in fiscal year 2007 by completing 26 major design and construction projects listed on the Facility Services Fiscal 2007 Facility Projects Plan, including provision of its full range of services to support completion, occupancy, and operation of the Library's Packard Campus for Audio-Visual Conservation in Culpeper, Virginia. Support included completion of furnishing reviews, procurement of furniture and furnishings, hiring of a full-time Facility Specialist for the facility, arrangement for provision of health services to the Packard Campus for Audio-Visual Conservation staff by local providers, disposition of more than 150 pieces of excess and surplus furniture and equipment located and WPAFB in Dayton, Ohio, implementation of mail and transportation services, development of the mandatory written hazard communication program, and ensuring the provision of environmental and industrial hygiene support services to assist the Center in meeting EPA and OSHA regulatory requirements. The work affected 177,934 square feet of space and 683 Library staff members. An additional 26 major projects were in progress at the close of the year. The largest of these was support of the Copyright Office's Business Process reengineering initiative. Renovation (except punch list items) off 144,000 square feet of Copyright Office space in the Madison Building was completed, including installation of 530 new work stations and relocation of the bulk of Copyright office staff in the new spaces. The work was accomplished efficiently and effectively, with no interruption in Copyright Office services, or service to the public.

**Annual Goal:** ISS – Support disease prevention and emergency readiness by administering a minimum of 2,000 flu vaccinations for the 2007 flu season; identifying, training, and equipping five Library Community Emergency Response Teams (CERT); and inspecting, testing, and re-certifying all Automatic External Defibrillators (AED) machines located in off-site Library facilities.

**Accomplishments:** ISS administered 2,064 flu shots administered for 2007 flu season; trained 5 Community Emergency Response Teams trained; and checked and recertified all off-site AEDs (Automatic External Defibrillators).

**Annual Goal:** ISS – Track and report quarterly to service and support units the number of lost-time mishaps, with an aim to maintain agency-wide lost-time rate at or below 0.9.

**Accomplishment:** ISS tracked the Library's lost-time injury rate for fiscal year 2007 and reported that it was 0.71 injuries per 200,000 hours worked, well below the federal average of 1.86 cases per 200,000 hours worked.

**Annual Goal:** ISS – Track and report monthly on the number of safety training courses offered and participants.

**Accomplishment:** ISS supported and enhanced the safety, health, and efficiency of the Library's staff during fiscal year 2007 by providing mandatory safety training to meet OSHA and other regulatory requirements. Safety training was provided to 426 Library staff members via 228 training sessions.

**Annual Goal:** ISS – Develop system requirements by September 30, 2007, for replacement of fixed asset tracking system to support all service and support units, and account annually for the Library's received property valued over \$25,000.

**Accomplishment:** ISS developed a detailed draft document of Functional Technical Requirements for replacement of the current automated fixed asset tracking system.

**Annual Goal:** Office of the Librarian (LIBN/O) – Provide timely award of contracts, grants, funded cooperative agreements, awards, and fellowships.

**Accomplishment:** The office of Grants and Contracts Management awarded 4,075 contracts in the amount of \$148,761,278; 22 grants and cooperative agreements in the amount of \$11,725,199; and 42 awards and fellowships in the amount of \$1,710,730.

**Annual Goal:** LIBN/O -- Provide timely and effective legal support and advice for the Library's initiatives within time frames established by clients.

**Accomplishment:** The Office of the General Counsel provided timely and effective legal support and advice for the Library's initiatives within time frames established by clients. This included: reviewing contracts, cooperative agreements and gift instruments for legal sufficiency; drafting contracts, agreements, legislation, regulations, recommended final agency decisions, and other legal documents; preparing formal and informal legal opinions on compliance with applicable statutes and regulations; preparing and submitting court pleadings, discovery materials, motions, and briefs in accordance with established court schedules; and offering legal counsel on optimal approaches for conducting Library initiatives.

**Strategic Goal 17:** Manage and sustain mission-critical IT programs.

**Annual Goal:** Office of Strategic Initiatives (OSI) -- Maintain, expand, and adopt technology infrastructure to support mission performance and enable information stewardship.

**Accomplishment:** Building on the foundation of the Library's current information technology services, OSI provided future-oriented, flexible, scalable, and to the maximum extent feasible, interoperable technology infrastructure for sustainable digital content management and service delivery.

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

**Annual Goal:** Office of Security and Emergency Preparedness (OSEP) -- Complete perimeter security requirements around the James Madison Building.

**Accomplishment:** Completed the installation of retractable bollards, barriers, and police shelters in accordance with the Library's Security Enhancement Implementation Plan.

**Annual Goal:** OSEP – Ensure that the physical security controls in place are providing effective security for the Library's collections.

**Accomplishment:** Implemented the Congressionally approved Collections Security Plan, and enhanced and continually updated the plan through the Collections Security Oversight Committee.

### **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 fiscal year 2007, Library staff performed vulnerability assessments on all of the 207 identified financial and non-financial modules and assigned, based on an established scoring system, a high, medium or low risk to the modules. Then, based on risk and scheduling, Library staff performed 40 detailed control reviews in fiscal year 2007 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 foregoing 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. The Library has continued to enhance the central financial system that was implemented in 2004 to improve controls, reduce paper-based transactions, and decrease the number of program and subsidiary systems.

### **Stewardship Reporting**

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 29, "Heritage Assets and Stewardship Land," the Library reports descriptive, non-financial information on heritage assets as basic information in its financial statements. SFFAS No. 29 is effective for reporting periods beginning after September 30, 2005.

Prior to the issuance of SFFAS No. 29, information on heritage assets was reported as Required Supplementary Stewardship Information (RSSI). SFFAS No. 29 reclassifies all heritage assets information as basic financial information, except for condition information, which is reclassified as Required Supplementary Information (RSI). SFFAS No. 29 provides for a phased-in approach whereby heritage asset information is moved from RSSI to basic information in the financial statements. Certain disclosures must be reported as basic information beginning in fiscal year 2006, with other disclosures reported as basic information beginning in fiscal years 2008 or 2009. While full implementation of the standard is not required until reporting periods beginning after September 30, 2008, the Library has implemented the standard one year early and will complete full implementation by the reporting periods beginning after September 30, 2008.

The phased-in disclosures are as follows: (a) for fiscal year 2006 a statement explaining how heritage assets relate to the mission of the entity and a description of the entity's stewardship policies; (b) for fiscal year 2007, a description of the major categories and physical unit information of those categories as of the end of the reporting period; and (c) for fiscal year 2008, the units added and withdrawn during the year and a description of the methods of acquisition and withdrawal.

**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 these statements have been prepared from the books and records of the Library, they are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.



**THE LIBRARY OF CONGRESS****Consolidated Balance Sheets**

As of September 30, 2007 and 2006

(in thousands)

	FY 2007	FY 2006
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 314,554	\$ 382,059
Investments (Note 4)	1,174,112	1,176,359
Accounts Receivable, Net (Note 5.A)	10,191	14,545
Other Intragovernmental Assets	686	2,608
<b>Total Intragovernmental</b>	<b>1,499,543</b>	<b>1,575,571</b>
Cash and Other Monetary Assets (Note 1.G)	92	622
Pledges Receivable – Donations (Note 5.B)	9,094	9,711
Investments (Note 4)	100,972	77,445
Inventory and Operating Supplies and Materials (Note 1.K)	1,003	917
Property and Equipment, Net (Note 6)	48,217	31,765
Other Assets	3,495	4,757
Library Collections (Note 1.M)		
<b>TOTAL ASSETS</b>	<b>\$ 1,662,416</b>	<b>\$ 1,700,788</b>
<b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Funded Payroll, Benefits	\$ 5,521	\$ 7,945
Advances from Others	30,255	30,377
Accrued Unfunded Workers' Compensation (Note 9)	1,634	1,758
Other Intragovernmental Liabilities (Note 11)	13	250
<b>Total Intragovernmental</b>	<b>37,423</b>	<b>40,330</b>
Accounts Payable and Accrued Funded Payroll, Benefits	55,111	54,221
Custodial Liability (Note 3)	1,125,291	1,122,435
Deposit Account Liability	7,327	6,553
Accrued Unfunded Annual and Compensatory Leave	22,431	22,591
Actuarial Unfunded Workers' Compensation (Note 9)	7,478	7,748
Other Liabilities (Note 11)	4,413	3,695
<b>TOTAL LIABILITIES</b>	<b>\$ 1,259,474</b>	<b>\$ 1,257,573</b>
Commitments and Contingencies (Note 10)		
<b>NET POSITION</b>		
Unexpended Appropriations – All Other Funds	\$ 184,520	\$ 254,175
Cumulative Results of Operations – Earmarked Funds (Note 18)	191,713	180,273
Cumulative Results of Operations – All Other Funds	26,709	8,767
<b>TOTAL NET POSITION</b>	<b>\$ 402,942</b>	<b>\$ 443,215</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,662,416</b>	<b>\$ 1,700,788</b>

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

## THE LIBRARY OF CONGRESS

### Consolidated Statements of Net Costs

For the Years Ended September 30, 2007 and 2006

(in thousands)

	FY 2007	FY 2006
<b>NET COSTS BY PROGRAM AREA</b>		
<b>National Library:</b>		
Program Costs	\$ 433,832	\$ 391,139
Less: Earned Revenue	(4,546)	(4,397)
<b>Net Program Costs</b>	<b>429,286</b>	<b>386,742</b>
<b>Law Library:</b>		
Program Costs	23,925	21,670
Less: Earned Revenue	(8)	(11)
<b>Net Program Costs</b>	<b>23,917</b>	<b>21,659</b>
<b>Copyright Office:</b>		
Program Costs	78,973	69,822
Less: Earned Revenue	(33,431)	(29,433)
<b>Net Program Costs</b>	<b>45,542</b>	<b>40,389</b>
<b>Congressional Research Service:</b>		
Program Costs	127,688	127,511
Less: Earned Revenue	(2)	(5)
<b>Net Program Costs</b>	<b>127,686</b>	<b>127,506</b>
<b>National Library Service for the Blind and Physically Handicapped:</b>		
Program Costs	51,040	59,324
Less: Earned Revenue	(1)	(4)
<b>Net Program Costs</b>	<b>51,039</b>	<b>59,320</b>
<b>Revolving and Reimbursable Funds:</b>		
Program Costs	90,940	85,484
Less: Earned Revenue	(76,631)	(68,081)
<b>Net Program Costs</b>	<b>14,309</b>	<b>17,403</b>
<b>NET COSTS OF OPERATIONS</b>	<b>\$ 691,779</b>	<b>\$ 653,019</b>

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

**THE LIBRARY OF CONGRESS**  
**Consolidated Statements of Changes in Net Position**

For the Years Ended September 30, 2007 and 2006

	FY 2007			FY 2006		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
<b><i>CUMULATIVE RESULTS OF OPERATIONS</i></b>						
Beginning Balances	\$180,273	\$8,767	\$189,040	\$166,960	\$10,751	\$177,711
Budgetary Financing Sources:						
Appropriations Used	0	574,291	574,291	0	555,955	555,955
Non-exchange Revenue	3,083	0	3,083	2,469	1	2,470
Donations of Cash or Securities	13,276	0	13,276	9,053	0	9,053
Transfers In/(Out) Without Reimbursement	(2,997)	(488)	(3,485)	617	(556)	61
Other	1,102	0	1,102	1,220	0	1,220
Other Financing Sources (Non-exchange):						
Donations of Property and Services	273	40,588	40,861	12	16,388	16,400
Imputed Financing	2,691	75,745	78,436	2,240	70,633	72,873
Other	13,597	0	13,597	6,315	1	6,316
<b>Total Financing Sources</b>	<b>31,025</b>	<b>690,136</b>	<b>721,161</b>	<b>21,926</b>	<b>642,422</b>	<b>664,348</b>
<b>Net Cost of Operations</b>	<b>(19,585)</b>	<b>(672,194)</b>	<b>(691,779)</b>	<b>(8,613)</b>	<b>(644,406)</b>	<b>(653,019)</b>
<b>Net Change</b>	<b>11,440</b>	<b>17,942</b>	<b>29,382</b>	<b>13,313</b>	<b>(1,984)</b>	<b>11,239</b>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>	<b>191,713</b>	<b>26,709</b>	<b>218,422</b>	<b>180,273</b>	<b>8,767</b>	<b>189,040</b>
<b><i>UNEXPENDED APPROPRIATIONS</i></b>						
Beginning Balances		254,175	254,175		258,356	258,356
Budgetary Financing Sources:						
Appropriations Received		558,309	558,309		567,424	567,424
Appropriations Transferred In/(Out)		(594)	(594)		(594)	(594)
Other Adjustments		(53,079)	(53,079)		(15,056)	(15,056)
Appropriations Used		(574,291)	(574,291)		(555,955)	(555,955)
<b>Total Budgetary Financing Sources</b>		<b>(69,655)</b>	<b>(69,655)</b>		<b>(4,181)</b>	<b>(4,181)</b>
<b>TOTAL UNEXPENDED APPROPRIATIONS</b>		<b>184,520</b>	<b>184,520</b>		<b>254,175</b>	<b>254,175</b>
<b>NET POSITION</b>	<b>\$191,713</b>	<b>\$211,229</b>	<b>\$402,942</b>	<b>\$180,273</b>	<b>\$262,942</b>	<b>\$443,215</b>

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



**THE LIBRARY OF CONGRESS**  
**Combined Statements of Budgetary Resources**  
For the Years Ended September 30, 2007 and 2006

(in thousands)

	FY 2007	FY 2006
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1	\$ 1,300,193	\$ 1,221,556
Recoveries of Prior-year Unpaid Obligations	10,750	6,069
Budget Authority:		
Appropriation	866,810	857,900
Spending Authority from Offsetting Collections:		
Earned:		
Collected	133,292	112,742
Change in Receivables from Federal Sources	(1,547)	(21)
Change in Unfilled Customer Orders:		
Advances Received	3,426	7,765
Without Advances from Federal Sources	(2,174)	(492)
Expenditure Transfers from Trust Funds	0	2
Total Budget Authority	999,807	977,896
Nonexpenditure Transfers, Net	(3,294)	(545)
Temporarily Not Available Pursuant to Public Law	0	175
Permanently Not Available	(53,124)	(15,151)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 2,254,332</b>	<b>\$ 2,190,000</b>

<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct	\$ 883,122	\$ 771,756
Reimbursable	133,046	118,051
Total Obligations Incurred	1,016,168	889,807
Unobligated Balance – Exempt from Apportionment	1,226,452	1,290,989
Unobligated Balance – Not Available	11,712	9,204
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$ 2,254,332</b>	<b>\$ 2,190,000</b>

<b>CHANGE IN OBLIGATED BALANCE</b>		
Unpaid Obligated Balance, Net, Brought Forward, October 1:		
Unpaid Obligations, Brought Forward	\$ 253,095	\$ 231,350
Less: Uncollected Customer Payments, Brought Forward	(14,462)	(14,975)
Total Unpaid Obligation Balance, Net	238,633	216,375
Obligations Incurred, net	1,016,168	889,807
Less: Gross Outlays	(1,018,098)	(861,993)
Less: Recoveries of Prior-Year Unpaid Obligations	(10,750)	(6,069)
Change in Uncollected Customer Payments from Federal Sources	3,721	513
Unpaid Obligated Balance, Net, End of Period:		
Unpaid Obligations	240,415	253,095
Less: Uncollected Customer Payments from Federal Sources	(10,741)	(14,462)
<b>TOTAL UNPAID OBLIGATED BALANCE, NET, END OF PERIOD</b>	<b>\$ 229,674</b>	<b>\$ 238,633</b>

<b>NET OUTLAYS</b>		
Gross Outlays	\$ 1,018,098	\$ 861,993
Less: Offsetting Collections	(136,718)	(120,509)
Less: Distributed Offsetting Receipts	(58,253)	(45,942)
<b>NET OUTLAYS</b>	<b>\$ 823,127</b>	<b>\$ 695,542</b>

*(The Library has no Non-Budgetary Credit Program Financing Accounts; all amounts above are Budgetary.)*

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

**NOTE 1****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Reporting Entity**

The Library of Congress (the Library), a legislative branch agency of the U.S. 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 funds and funds accepted and controlled by the Library of Congress Trust Fund Board (TFB).

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, which are classified as gifts or funds accepted and 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 of the Library for fiscal years 2007 and 2006. 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.

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; 23 (23) reimbursable funds; 102 (104) TFB funds; and 120 (126) gift funds for fiscal year 2007 (and 2006, 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) Circular No. A-136, Financial Reporting Requirements. The Library is not required to adopt this circular, 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 2007 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 (over time). 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 Packard Campus for Audio-Visual Conservation in Culpeper, Virginia.
- 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.

The revolving funds report but are not required to recover unreimbursed inter-entity costs (imputed costs).

### ***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 2007 and 2006 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.

Controversies regarding the distribution of the royalties are resolved by the Copyright Royalty Board (CRB), which is composed of three Copyright Royalty Judges and their staff. The CRB has full jurisdiction over setting royalty rates and terms and determining distributions. Decisions may be appealed to the United States Court of Appeals for the District of Columbia Circuit.

### ***Donation and Interest Revenue***

The Library receives monetary gifts from donors and receives interest on invested funds. The Library also received gifts of donated property or services during fiscal years 2007 and 2006. 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. Several vendors provided in-kind donations for the Library's annual book festivals and several other meetings. 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 TFB Funds**

The Library administered gift and TFB funds with combined asset value of approximately \$170.4 million and \$154.4 million during fiscal years 2007 and 2006, 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 TFB funds by the terms of an agreement or donor's will. Library fund managers administer and oversee the gift and TFB 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 TFB funds, 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 TFB Funds - The Library of Congress Trust Fund Board determines the investment policy for the Library's gift and TFB funds. The policy provides three options for investment of TFB 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 2007 and 2006:
  - 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 TFB 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 TFB fund investments are obtained and held by the gift and TFB funds under conditions set forth in the respective gift and TFB 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 TFB 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. The Library regularly monitors the status of all pledges and adjusts accordingly; 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, and 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**

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 TFB funds. Capitalized property and equipment acquired through gifts are recognized as donated revenue in the gift and TFB 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), a secondary storage facility at Fort Meade, Maryland, and the Packard Campus for Audio-Visual Conservation in Culpeper, Virginia. 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 classifies its collections as Heritage Assets, that is, assets with historical, cultural, educational, artistic or natural significance. 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.

The Library's collection development policies are designed to fulfill its responsibilities to serve (1) the Congress and United States government as a whole, (2) the scholarly and library community, and (3) the general public. Written collection policy statements ensure that the Library makes every effort to possess all books and library materials necessary to the Congress and various offices of the United States government to perform their duties; a comprehensive record, in all formats, documenting the life and achievement of the American people; and a universal collection of human knowledge embodying, primarily in print form, the records of other societies, past and present.

Copyright deposits are a major source of the Library's collections of Americana. 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. Various preservation methods are used to maintain the collections, and disposals occur only for the exchange and gift of unwanted or duplicate copies. As of September 30, 2007 the Library has 90 collections managed by its custodial units.

The cost of acquiring additions to the collections is expensed, when incurred, in the statement of net cost. (See note 13.) Supplemental information regarding the condition and preservation of the collections is included with the Management Assertion on the collections.

### **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 30 percent and 31 percent of the Library's employees participated in the Civil Service Retirement System (CSRS) during fiscal years 2007 and 2006, respectively, to which the Library makes contributions equal to 7.0 percent of pay. Approximately 3 percent of employees under CSRS during fiscal years 2007 and 2006 are also covered by Social Security (FICA), for which the Library's contribution is slightly less.

Approximately 67 percent and 65 percent of the Library's employees were covered by the Federal Employees Retirement System (FERS) during fiscal years 2007 and 2006, respectively, to which the Library's normal contribution was 11.2 percent of pay during fiscal years 2007 and 2006, 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.

Approximately 3 percent of the Library's employees were covered only by FICA during fiscal years 2007 and 2006, respectively, 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 2007 and 2006, 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 \$5.7M and \$5.3M at September 30, 2007 and 2006, 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 the Principal of the charitable trust will be distributed to the Library in 2033, fifty years after the date of death of Ira Gershwin.

<b>NOTE 2</b>	<b>FUND BALANCE WITH TREASURY</b>
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**A. Fund balance with Treasury at September 30, 2007 and 2006, is summarized as follows:**

	(in thousands)	
	FY 2007	FY 2006
Appropriated Funds	\$ 218,841	\$ 290,367
Revolving and Reimbursable Funds	79,039	75,598
Gift and TFB Funds <sup>1</sup>	14,210	14,740
Custodial, Deposit and Other Funds	2,464	1,354
<b>TOTAL</b>	<b>\$ 314,554</b>	<b>\$ 382,059</b>

<sup>1</sup> At September 30, 2007 and 2006, the gift and TFB fund balance with Treasury included \$10 million invested in the permanent loan, which is included in fund balance with Treasury, at interest rates of 4.7 and 4.6 percent, respectively.

**B. Status of Fund Balance with Treasury**

	(in thousands)	
	FY 2007	FY 2006
Unobligated Balances – Available	\$ 59,503	\$ 121,756
Unobligated Balances – Unavailable	25,156	21,493
Obligated Balances Not Yet Disbursed	229,895	238,810
<b>TOTAL</b>	<b>\$ 314,554</b>	<b>\$ 382,059</b>

<b>NOTE 3</b>	<b>CUSTODIAL FUNDS</b>
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Custodial activity consists of the following:

	(in thousands)	
	FY 2007	FY 2006
<b>Beginning Custodial Liability</b>	<b>\$ 1,122,435</b>	<b>\$ 1,048,431</b>
Cash Collections:		
Licensing Fees	233,740	226,794
Investment Interest	54,774	43,465
Total Cash Collections	288,514	270,259
Investment Amortization / Accruals	(1,272)	840
<b>Total Custodial Revenue</b>	<b>287,242</b>	<b>271,099</b>
Disposition of Collections:		
Payments to Copyright Owners	(279,931)	(191,043)
Refunds	(964)	(935)
Change in Investment Premium	439	(0)
Retained by Copyright Licensing for Administrative Costs	(3,930)	(5,117)
<b>Total Custodial Expense</b>	<b>(284,386)</b>	<b>(197,095)</b>
<b>Net Custodial Activity</b>	<b>2,856</b>	<b>74,004</b>
<b>ENDING CUSTODIAL LIABILITY</b>	<b>\$ 1,125,291</b>	<b>\$ 1,122,435</b>

<b>NOTE 4</b>	<b>INVESTMENTS, NET</b>
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Investments at September 30, 2007 and 2006 are as follows:

FY 2007	(in thousands)		
	Intragovernmental Investments (Non-Marketable, Market-Based)	Other Investments (Private Sector)	Total
Face Value	\$ 1,176,414	\$	\$ 1,176,414
Cost		90,046	90,046
Unamortized Premium	392		392
Unrealized Discount	(3,397)		(3,397)
Interest Receivable	703		703
<b>Investments, Net</b>	<b>\$ 1,174,112</b>	<b>\$ 90,046</b>	<b>\$ 1,264,158</b>
<b>Market Value</b>	<b>\$ 1,172,913</b>	<b>\$ 100,972</b>	<b>\$ 1,273,885</b>

FY 2006	(in thousands)		
	Intragovernmental Investments (Non-Marketable, Market-Based)	Other Investments (Private Sector)	Total
Face Value	\$ 1,180,430	\$ 0	\$ 1,180,430
Cost	0	78,752	78,752
Unamortized Premium	(1)	0	(1)
Unrealized Discount	(4,743)	0	(4,743)
Interest Receivable	673	0	673
<b>Investments, Net</b>	<b>\$ 1,176,359</b>	<b>\$ 78,752</b>	<b>\$ 1,255,111</b>
<b>Market Value</b>	<b>\$ 1,175,857</b>	<b>\$ 77,445</b>	<b>\$ 1,253,302</b>

#### 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. TFB fund investment maturity dates for fiscal years 2007 and 2006 range from October 4, 2007 to April 30, 2008 and October 5, 2006 to April 30, 2008, respectively, and interest rates for the same fiscal years range from 3.72 percent to 4.91 percent and 3.50 percent to 5.05 percent, respectively.

Custodial funds investment maturity dates for fiscal years 2007 and 2006 range from October 4, 2007 to August 31, 2008 and October 19, 2006 to August 31, 2007, respectively, and interest rates for the same fiscal years range from 3.35 percent to 5.00 percent and 3.75 percent to 4.71 percent, respectively.

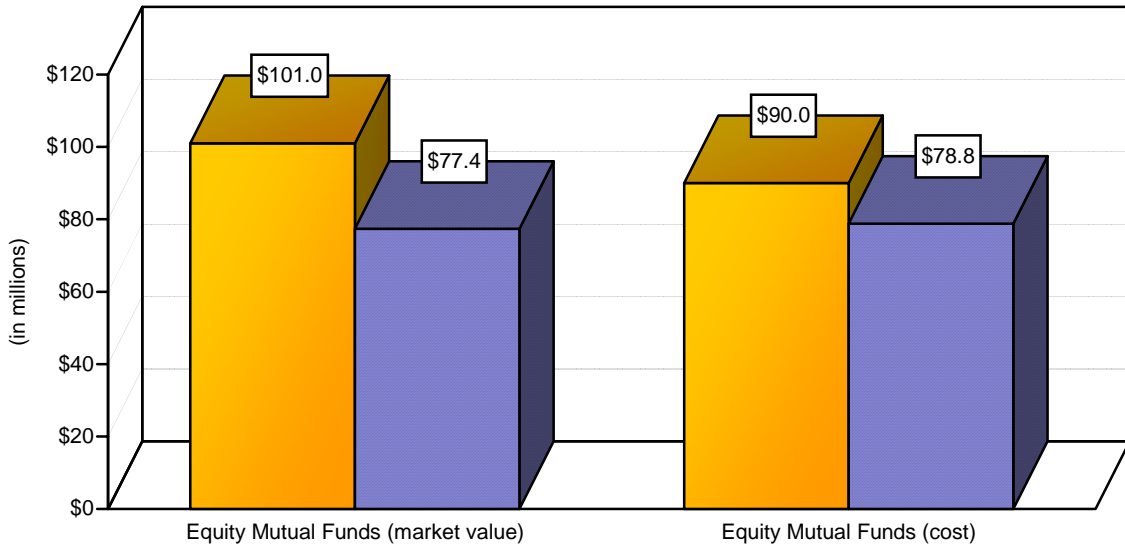
**B. Other Investments**

Other investments are the Library's investments in private sector mutual funds. Cost was derived from the investments made plus reinvested gains, dividends, and interest.

Balances at September 30, 2007 and 2006 are as follows:

**Non-Treasury Investments**

■ Fiscal Year 2007 ■ Fiscal Year 2006



<b>NOTE 5</b>	<b>RECEIVABLES</b>
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The breakdown of consolidated gross and net accounts receivable at September 30, 2007 and 2006 are as follows:

**A. Accounts Receivable**

(in thousands)		
	FY 2007	FY 2006
Intragovernmental Accounts Receivable, Gross and Net	\$ 10,191	\$ 14,545
With the Public:		
Accounts Receivable, Gross	3,505	4,553
Less: Allowance for Doubtful Accounts	(32)	(27)
Accounts Receivable, Net	\$ 3,473	\$ 4,526

**B. Pledges Receivable**

At September 30, 2007 and 2006, the Library had unconditional pledges of contributions totaling \$10.4 million and \$11.1 million, which were discounted through fiscal years 2033 and 2032 at a market discount rate and included in the statement of financial position at their discounted value of \$9.1 million and \$9.7 million, respectively.

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

(in thousands)		
	FY 2007	FY 2006
2007	\$ 0	\$ 6,175
2008	5,535	1,277
2009	1,068	485
2010	799	339
2011	234	24
2012 and thereafter	1,458	1,411
<b>TOTAL</b>	<b>\$ 9,094</b>	<b>\$ 9,711</b>

<b>NOTE 6</b>	<b>PROPERTY AND EQUIPMENT</b>
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Property and equipment that were capitalized at September 30, 2007 and 2006 are as follows:

(in thousands)

Classes of Property and Equipment	FY 2007			FY 2006		
	Acquisition Value	Accumulated Depreciation / Amortization	Net Book Value	Acquisition Value	Accumulated Depreciation / Amortization	Net Book Value
Operating Equipment	\$ 61,119	\$ 47,839	\$ 13,280	\$ 78,256	\$ 73,524	\$ 4,732
Software	28,617	13,774	14,843	26,985	11,957	15,028
Furniture & Furnishings	985	613	372	985	564	421
Leasehold Improvements	28,461	12,510	15,951	22,996	11,412	11,584
Leasehold Improvements-in Progress	3,771	0	3,771	0	0	0
<b>TOTAL</b>	<b>\$ 122,953</b>	<b>\$ 74,736</b>	<b>\$ 48,217</b>	<b>\$ 129,222</b>	<b>\$ 97,457</b>	<b>\$ 31,765</b>

<b>NOTE 7</b>	<b>NON-ENTITY ASSETS</b>
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Entity assets are those assets that the Library has authority to use for its operations. Non-entity assets are those held by the Library but are not available for use in its operations.

(in thousands)

	FY 2007	FY 2006
Intragovernmental Non-Entity Assets:		
Fund Balance with Treasury	\$ 275	\$ 407
Investments	1,125,063	1,122,041
Accounts Receivable, Net	2	5
Other Assets	0	0
<b>Total Intragovernmental Non-Entity Assets</b>	<b>1,125,340</b>	<b>1,122,453</b>
Investments	0	0
Pledge Receivables (Donations)	0	0
Cash and Other Monetary Assets	0	0
Inventory	0	0
Property and Equipment, Net	0	0
Other Assets	5	3
<b>Total Non-Entity Assets</b>	<b>1,125,345</b>	<b>1,122,456</b>
<b>Total Entity Assets</b>	<b>537,071</b>	<b>578,332</b>
<b>Total Assets</b>	<b>\$ 1,662,416</b>	<b>\$ 1,700,788</b>



<b>NOTE 8</b>	<b>LEASES</b>
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**A. Capital Leases**

The Library does not have assets under capitalized leases for machinery and equipment as of September 30, 2007 or 2006.

**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 2007 and 2006 amounted to \$4,985,116 and \$4,138,250 respectively.

Under existing commitments as of September 30, estimated future minimum lease payments are as follows:

	(in thousands)	
	FY 2007	FY 2006
2007	\$ 0	\$ 4,703
2008	4,444	4,185
2009	3,933	3,899
2010	3,895	3,854
2011	1,329	1,288
2012 and thereafter	14	0
<b>TOTAL ESTIMATED FUTURE LEASE PAYMENTS</b>	<b>\$ 13,615</b>	<b>\$ 17,929</b>

<b>NOTE 9</b>	<b>WORKERS' COMPENSATION</b>
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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 \$1,634,128 and \$1,757,993 of unbilled or unpaid workers' compensation costs as of September 30, 2007 and 2006, 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 \$7,478,118 and \$7,747,786 as of September 30, 2007 and 2006, respectively, and is based on a ten-year projection. This liability is recorded on the Balance Sheet as a liability with the public.

<b>NOTE 10</b>	<b>CONTINGENT LIABILITIES</b>
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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.

<b>NOTE 11</b>	<b>OTHER LIABILITIES</b>
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Other Liabilities as of September 30, 2007 and 2006 are comprised of the following:

	(in thousands)	
	FY 2007	FY 2006
Deferred Credits and Pledges	\$ 1,037	\$ 751
Advances from the Public	3,366	2,915
Liability for BCA and Deposit Accounts	23	275
Cancelled Accounts Payable	0	4
<b>TOTAL</b>	<b>\$ 4,426</b>	<b>\$ 3,945</b>

<b>NOTE 12</b>	<b>LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES</b>
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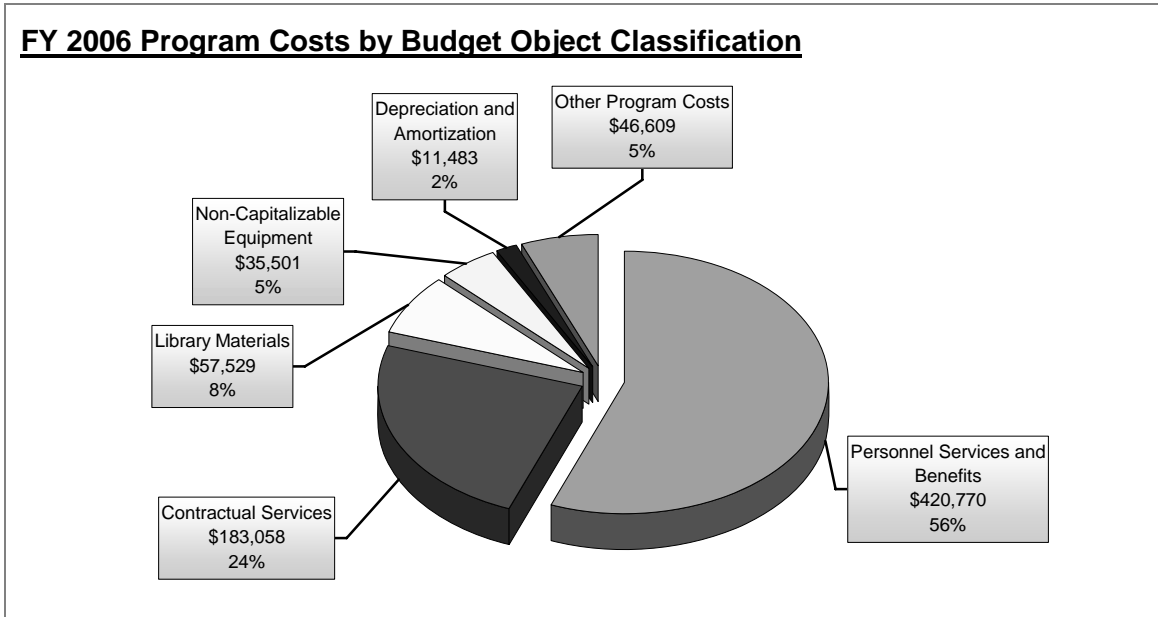
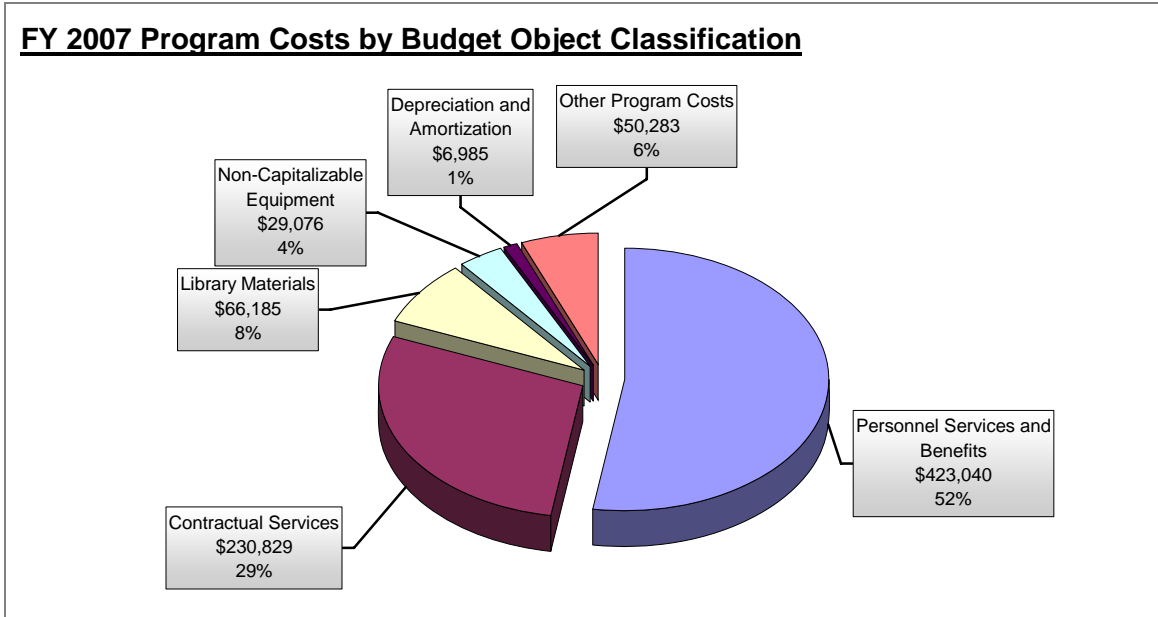
	(in thousands)	
	FY 2007	FY 2006
Liabilities Covered by Budgetary Resources	\$ 1,227,931	\$ 1,225,472
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental	1,634	1,758
Other	29,909	30,343
<b>TOTAL</b>	<b>\$ 1,259,474</b>	<b>\$ 1,257,573</b>

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, and other unfunded liabilities.

**NOTE 13      PROGRAM COSTS BY BUDGET OBJECT CLASSIFICATION**

(Dollars in Thousands)



The Library’s collections are classified as “heritage assets.” \$19.6M and \$12.2M of the amount designated as “Library Materials” above represents the fiscal years 2007 and 2006 cost incurred by the Library for “heritage assets.”

**NOTE 14****PROGRAM COSTS AND EARNED REVENUE  
BY FUNCTIONAL CLASSIFICATION****A. Program Costs by Functional Classification**

(in thousands)

	FY 2007	FY 2006
Commerce and Housing Credit	\$ 61,453	\$ 53,381
Education, Training, Employment, and Social Services	638,143	594,695
General Government	106,802	106,874
<b>TOTAL</b>	<b>\$ 806,398</b>	<b>\$ 754,950</b>

**B. Earned Revenue by Functional Classification**

(in thousands)

	FY 2007	FY 2006
Commerce and Housing Credit	\$ 33,423	\$ 29,430
Education, Training, Employment, and Social Services	81,180	72,479
General Government	16	22
<b>TOTAL</b>	<b>\$ 114,619</b>	<b>\$ 101,931</b>

<b>NOTE 15</b>	<b>PROGRAM COSTS AND EARNED REVENUE FOR REVOLVING FUNDS</b>
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		(in thousands)	
		FY 2007	FY 2006
<b>Audio Visual Services:</b>	Program Cost	\$ 557	\$ 604
	Less: Earned Revenue	(148)	(172)
	<b>Net Program Cost</b>	<b>409</b>	<b>432</b>
<b>Cooperative Acquisitions Program:</b>	Program Cost	3,047	2,391
	Less: Earned Revenue	(2,949)	(2,857)
	<b>Net Program Cost</b>	<b>98</b>	<b>(466)</b>
<b>Decimal Classification:</b>	Program Cost	348	285
	Less: Earned Revenue	(293)	(280)
	<b>Net Program Cost</b>	<b>55</b>	<b>5</b>
<b>Document Reproduction and Microfilm Services:</b>	Program Cost	2,618	3,401
	Less: Earned Revenue	(1,649)	(2,149)
	<b>Net Program Cost</b>	<b>969</b>	<b>1,252</b>
<b>Gift Shop Operations:</b>	Program Cost	1,527	1,420
	Less: Earned Revenue	(1,423)	(1,335)
	<b>Net Program Cost</b>	<b>104</b>	<b>85</b>
<b>Federal Research Division:</b>	Program Cost	2,722	2,626
	Less: Earned Revenue	(4,121)	(1,159)
	<b>Net Program Cost</b>	<b>(1,399)</b>	<b>1,467</b>
<b>FEDLINK:</b>	Program Cost	63,409	57,822
	Less: Earned Revenue	(63,675)	(58,147)
	<b>Net Program Cost</b>	<b>(266)</b>	<b>(325)</b>
<b>Special Events:</b>	Program Cost	2,594	2,054
	Less: Earned Revenue	(1,675)	(1,176)
	<b>Net Program Cost</b>	<b>919</b>	<b>878</b>
<b>Total Program Cost</b>		<b>76,822</b>	<b>70,603</b>
<b>Less: Total Earned Revenue</b>		<b>(75,933)</b>	<b>(67,275)</b>
<b>TOTAL PROGRAM COSTS</b>		<b>\$ 889</b>	<b>\$ 3,328</b>

These programs are discussed further in Note 1.D.

<b>NOTE 16</b>
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<b>EXCHANGE REVENUES</b>
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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.

<b>NOTE 17</b>	<b>CLASSIFICATION OF PROGRAM COSTS</b>
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(in thousands)

<b>FY 2007</b>	<b>Intragovernmental</b>		<b>Public</b>		<b>Total</b>
	<b>Production</b>	<b>Non-Production</b>	<b>Production</b>	<b>Non-Production</b>	
National Library	\$ 117,045	\$ 38	\$ 316,646	\$ 103	\$ 433,832
Law Library	8,216	2	15,707	0	23,925
Copyright Office	27,742	23	51,206	2	78,973
Congressional Research Service	31,216	13	96,459	0	127,688
National Library Service for the Blind and Physically Handicapped	10,394	6	40,640	0	51,040
Revolving and Reimbursable Funds	6,461	25	84,454	0	90,940
<b>TOTAL</b>	<b>\$ 201,074</b>	<b>\$ 107</b>	<b>\$ 605,112</b>	<b>\$ 105</b>	<b>\$ 806,398</b>

(in thousands)

<b>FY 2006</b>	<b>Intragovernmental</b>		<b>Public</b>		<b>Total</b>
	<b>Production</b>	<b>Non-Production</b>	<b>Production</b>	<b>Non-Production</b>	
National Library	\$ 112,282	\$ 31	\$ 278,787	\$ 39	\$ 391,139
Law Library	6,866	2	14,802	0	21,670
Copyright Office	24,067	25	45,730	0	69,822
Congressional Research Service	32,910	38	94,563	0	127,511
National Library Service for the Blind and Physically Handicapped	9,396	3	49,925	0	59,324
Revolving and Reimbursable Funds	6,873	21	78,590	0	85,484
<b>TOTAL</b>	<b>\$ 192,394</b>	<b>\$ 120</b>	<b>\$ 562,397</b>	<b>\$ 39</b>	<b>\$ 754,950</b>

**NOTE 18****EARMARKED FUNDS**

SFFAS No. 27, "Identifying and Reporting Earmarked Funds", effective October 1, 2005, defines "earmarked funds" as those being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. The Library's consolidated financial statements include the results of operations and financial position of its funds identified as "earmarked funds." The Library's earmarked funds are presented among the following classifications:

- Collections of fees authorized annually for use by appropriations act for:
  - The Cataloging Distribution Service (CDS), which is the distribution arm for the Library of Congress bibliographic data and related technical publications. Pursuant to 2 U.S.C. 150, CDS sells its products to libraries throughout the United States and around the world and charges "...a price which will cover their costs plus ten per centum added." CDS earned revenues were \$4,564,512 and \$3,913,805 for fiscal year 2007 and 2006, respectively.
  - The Law Library, pursuant to Public Law 105-275, Section 208, is authorized to receive funds from participants in and sponsors of an international legal information database (known as the Global Legal Information Network (GLIN)) led by the Law Library of Congress. Fees for the development and maintenance of GLIN were \$7,500 and \$10,000 for fiscal year 2007 and 2006, respectively; and
  - The Copyright Office, pursuant to 17 U.S.C. 708(d), is authorized to collect fees for the registration of a copyright claim and other copyright recordation and filing activities. Fees collected for these services were \$29,499,515 and \$24,312,946 for fiscal 2007 and 2006, respectively.
  - The Recycling Program, pursuant to Public Law 108-199, Section 607, is authorized to collect funds resulting from the sale of materials recovered through the recycling program. Fees collected for the program were \$21,691 and \$34,694 for the fiscal years 2007 and 2006.
- Public Revolving Funds authorized by 2 U.S.C. 182 for the Cooperative Acquisitions, Audio and Video Duplication, Gift Shop Operations, Decimal Classification, Photo Duplication and Special Events (these programs are discussed further in Note 1.D. and 15);
- Gift and TFB Funds authorized by 2 U.S.C. 154-163 (and discussed further in Note 1. E.). Gift and TFB Fund cash donations and other realized revenues were \$18,077,496 and \$13,500,975 for fiscal year 2007 and 2006, respectively; and
- Other earmarked funds not outlined above (combined revenues of \$7,678 and \$3,784 for fiscal year 2007 and 2006, respectively), including: The Oliver Wendell Holmes Devise Fund, which is authorized to fund lectures known as the "Oliver Wendell Holmes Lectures" and other projects pertaining to Justice Holmes or the Supreme Court (Pursuant to Public Law 84-247); The Gertrude M. Hubbard Bequest, which benefits the Gardiner Greene Hubbard Collection (Pursuant to 37 Stat. 319-20); and the Foreign Service National Separation Liability Trust Fund, which is authorized to provide the separation pay for foreign national employees (Pursuant to Section 151 of Public Law 102-138).

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited into the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Library as evidence of its receipts. Treasury securities are an asset to the Library and a liability to the U.S. Treasury. Because the Library and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury Securities provide the Library with authority to draw upon the U.S. Treasury to make future expenditures. When the Library requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way the Government finances all other expenditures.



Fiscal data as of, and for the year ended September 30, 2007 is summarized below. Intra-agency transactions have not been eliminated in the amounts presented below.

(in thousands)

FY 2007	Offsetting Collections Funds	Public Revolving Funds	Gift and TFB Funds	Other Earmarked Funds	Total Earmarked Funds
<b>Balance Sheet:</b>					
Fund Balance with Treasury	\$ 22,102	\$ 7,308	\$ 13,301	\$ 909	\$ 43,620
Investments in U.S. Treasury Securities	0	0	43,780	67	43,847
Other Assets	2,671	1,190	112,872	0	116,733
<b>Total Assets</b>	<b>\$ 24,773</b>	<b>\$ 8,498</b>	<b>\$ 169,953</b>	<b>\$ 976</b>	<b>\$ 204,200</b>
<b>Liabilities</b>					
Cumulative Results of Operations	19,891	3,304	167,552	966	191,713
<b>Total Liabilities and Net Position</b>	<b>\$ 24,773</b>	<b>\$ 8,498</b>	<b>\$ 169,953</b>	<b>\$ 976</b>	<b>\$ 204,200</b>
<b>Statement of Net Cost:</b>					
Program Costs	\$ 34,691	\$ 11,670	17,237	\$ 78	\$ 63,676
Less: Earned Revenue	(34,062)	(9,404)	(621)	(4)	(44,091)
<b>Net Cost of Operations</b>	<b>\$ 629</b>	<b>\$ 2,266</b>	<b>\$ 16,616</b>	<b>\$ 74</b>	<b>\$ 19,585</b>
<b>Statement of Changes in Net Position:</b>					
Net Position, Beginning	\$ 21,258	\$ 4,659	\$ 153,475	\$ 881	\$ 180,273
Net Cost	(629)	(2,266)	(16,616)	(74)	(19,585)
Non-Exchange Revenues	0	0	3,079	4	3,083
Other Financing Sources	(738)	911	27,614	155	27,942
<b>Change in Net Position</b>	<b>(1,367)</b>	<b>(1,355)</b>	<b>14,077</b>	<b>85</b>	<b>11,440</b>
<b>Net Position, Ending</b>	<b>\$ 19,891</b>	<b>\$ 3,304</b>	<b>\$ 167,552</b>	<b>\$ 966</b>	<b>\$ 191,713</b>

Fiscal data as of, and for the year ended September 30, 2006 is summarized below.

(in thousands)

<b>FY 2006</b>	<b>Offsetting Collections Funds</b>	<b>Public Revolving Funds</b>	<b>Gift and TFB Funds</b>	<b>Other Earmarked Funds</b>	<b>Total Earmarked Funds</b>
<b>Balance Sheet:</b>					
Fund Balance with Treasury	\$ 26,440	\$ 7,325	\$ 13,925	\$ 815	\$ 48,505
Investments in U.S. Treasury Securities	0	0	49,351	67	49,418
Other Assets	178	1,188	90,963		92,329
<b>Total Assets</b>	<b>\$ 26,618</b>	<b>\$ 8,513</b>	<b>\$ 154,239</b>	<b>\$ 882</b>	<b>\$ 190,252</b>
<b>Liabilities</b>					
Liabilities	\$ 5,360	\$ 3,854	\$ 765	\$ 0	\$ 9,979
Cumulative Results of Operations	21,258	4,659	153,474	882	180,273
<b>Total Liabilities and Net Position</b>	<b>\$ 26,618</b>	<b>\$ 8,513</b>	<b>\$ 154,239</b>	<b>\$ 882</b>	<b>\$ 190,252</b>
<b>Statement of Net Cost:</b>					
Program Costs	\$ 26,354	\$ 11,243	\$ 10,855	\$ 39	\$ 48,491
Less: Earned Revenue	(28,237)	(10,878)	(763)	(0)	(39,878)
<b>Net Cost of Operations</b>	<b>\$ (1,883)</b>	<b>\$ 365</b>	<b>\$ 10,092</b>	<b>\$ 39</b>	<b>\$ 8,613</b>
<b>Statement of Changes in Net Position:</b>					
Net Position, Beginning	\$ 17,793	\$ 4,054	\$ 144,267	\$ 846	\$ 166,960
Net Cost	1,883	(365)	(10,092)	(39)	(8,613)
Non-Exchange Revenues	0	0	2,465	4	2,469
Other Financing Sources	1,582	970	16,834	71	19,457
<b>Change in Net Position</b>	<b>3,465</b>	<b>605</b>	<b>9,207</b>	<b>36</b>	<b>13,313</b>
<b>Net Position, Ending</b>	<b>\$ 21,258</b>	<b>\$ 4,659</b>	<b>\$ 153,474</b>	<b>\$ 882</b>	<b>\$ 180,273</b>

<b>NOTE 19</b>	<b>BUDGETARY RESOURCES</b>
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Budgetary resources are classified as follows:

	(in thousands)					
	FY 2007			FY 2006		
	Appropriated Capital	Non- Appropriated Capital	Combined	Appropriated Capital	Non- Appropriated Capital	Combined
<b>Budgetary Resources:</b>						
Unobligated Balance, Brought Forward, October 1	\$ 104,802	\$ 1,195,391	\$ 1,300,193	\$ 110,432	\$ 1,111,124	\$ 1,221,556
Recoveries of Prior-Year Obligations	5,858	4,892	10,750	3,792	2,277	6,069
<b>Budget Authority:</b>						
Appropriation	558,309	308,501	866,810	567,424	290,476	857,900
<i>Spending Authority from Offsetting Collections:</i>						
<i>Earned:</i>						
Collected	339	132,953	133,292	462	112,280	112,742
Change in Receivables from Federal Sources	69	(1,616)	(1,547)	(10)	(11)	(21)
<i>Change in Unfilled Customer Orders:</i>						
Advances Received	0	3,426	3,426		7,765	7,765
Without Advances from Federal Sources	0	(2,174)	(2,174)		(492)	(492)
Expenditure Transfers from Trust Funds					2	2
<b>Subtotal Budget Authority</b>	<b>558,717</b>	<b>441,090</b>	<b>999,807</b>	<b>567,876</b>	<b>410,020</b>	<b>977,896</b>
Nonexpenditure Transfers, Net	(594)	(2,700)	(3,294)	(594)	49	(545)
Temporarily Not Available Pursuant to Public Law	0	0	0	20	155	175
Permanently Not Available	(53,079)	(45)	(53,124)	(15,056)	(95)	(15,151)
<b>Total Budgetary Resources</b>	<b>\$ 615,704</b>	<b>\$ 1,638,628</b>	<b>\$ 2,254,332</b>	<b>\$ 666,470</b>	<b>\$ 1,523,530</b>	<b>\$ 2,190,000</b>
<b>Status of Budgetary Resources:</b>						
<i>Obligations Incurred:</i>						
Direct	\$ 565,579	\$ 317,543	\$ 883,122	\$ 561,668	\$ 210,088	\$ 771,756
Reimbursable	0	133,046	133,046		118,051	118,051
<b>Total Obligations Incurred</b>	<b>565,579</b>	<b>450,589</b>	<b>1,016,168</b>	<b>561,688</b>	<b>328,139</b>	<b>889,807</b>
Unobligated Balance (Exempt from Apportionment)	38,767	1,187,685	1,226,452	95,649	1,195,340	1,290,989
Unobligated Balance – Not Available	11,358	354	11,712	9,153	51	9,204
<b>Total Status of Budgetary Resources</b>	<b>\$ 615,704</b>	<b>\$ 1,638,628</b>	<b>\$ 2,254,332</b>	<b>\$ 666,470</b>	<b>\$ 1,523,530</b>	<b>\$ 2,190,000</b>

(in thousands)

	FY 2007			FY 2006		
	Appropriated Capital	Non-Appropriated Capital	Combined	Appropriated Capital	Non-Appropriated Capital	Combined
<b>Change in Obligated Balance:</b>						
<i>Unpaid Obligated Balance, Net, Brought Forward, October 1:</i>						
Unpaid Obligations, Brought Forward	\$ 185,146	\$ 67,949	\$ 253,095	\$ 171,707	\$ 59,643	\$ 231,350
Less: Uncollected Customer Payments, Brought Forward	(154)	(14,308)	(14,462)	(164)	(14,811)	(14,975)
<b>Total Unpaid Obligation Balance, Net</b>	<b>184,992</b>	<b>53,641</b>	<b>238,633</b>	<b>171,543</b>	<b>44,832</b>	<b>216,375</b>
Obligations Incurred, net	565,579	450,589	1,016,168	561,668	328,139	889,807
Less: Gross Outlays	(575,879)	(442,219)	(1,018,098)	(544,437)	(317,556)	(861,993)
Less: Recoveries of Prior-Year Unpaid Obligations	(5,858)	(4,892)	(10,750)	(3,792)	(2,277)	(6,069)
Change in Uncollected Customer Payments from Federal Sources	(69)	3,790	3,721	11	503	513
<i>Total Unpaid Obligated Balance, Net:</i>						
Unpaid Obligations	168,988	71,427	240,415	185,146	67,949	253,095
Less: Uncollected Customer Payments from Federal Sources	(223)	(10,518)	(10,741)	(154)	(14,308)	(14,462)
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 168,765</b>	<b>\$ 60,909</b>	<b>\$ 229,674</b>	<b>\$ 184,992</b>	<b>\$ 53,641</b>	<b>\$ 238,633</b>
<b>Net Outlays:</b>						
Gross Outlays	\$ 575,879	\$ 442,219	\$ 1,018,098	\$ 544,437	\$ 317,556	\$ 861,993
Less: Offsetting Collections	(339)	(136,379)	(136,718)	(463)	(120,046)	(120,509)
Less: Distributed Offsetting Receipts	0	(58,253)	(58,253)		(45,942)	(45,942)
<b>Total Net Outlays</b>	<b>\$ 575,540</b>	<b>\$ 247,587</b>	<b>\$ 823,127</b>	<b>\$ 543,974</b>	<b>\$ 151,568</b>	<b>\$ 695,542</b>

For TFB funds, approximately \$11.4 and \$11.0 million of unobligated authority for fiscal years 2007 and 2006, 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 \$77.4 and \$77.4 million of restricted authority has been obligated and expended to invest in non-Treasury securities for the fiscal years 2007 and 2006, respectively.

Undelivered orders, end of period:

(in thousands)

	FY 2007	FY 2006
Paid	\$ 1,403	\$ 9,189
Unpaid	179,691	190,846
<b>TOTAL</b>	<b>\$ 181,094</b>	<b>\$ 200,035</b>

NOTE 20	RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET	
	(in thousands)	
	FY 2007	FY 2006
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 1,016,168	\$ 889,807
Less: Spending Authority from Offsetting Collections and Recoveries	(143,747)	(126,064)
Obligations Net of Offsetting Collections and Recoveries	872,421	763,743
Less: Distributed Offsetting Receipts	(58,253)	(45,942)
Net Obligations	814,168	717,801
Other Resources:		
Donations of Property and Services	40,861	16,400
Imputed Financing from Costs Absorbed by Others	78,436	72,873
Exchange Revenue not in the Budget	182	(112)
Non-exchange Revenue not in the Budget	(1,375)	(569)
Trust/Special Fund Exchange Revenue Receipts	(4,541)	(5,830)
Other Resources (+/-)	13,597	6,316
<b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>	<b>941,328</b>	<b>806,879</b>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided (+/-)	16,666	(3,097)
Resources that Finance the Acquisition of Assets	(33,996)	(9,843)
Budgetary Offsetting Receipts that do not Affect Net Cost of Operations	58,253	45,942
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	(284,804)	(192,679)
<b>TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>	<b>(243,881)</b>	<b>(159,677)</b>
<b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>	<b>697,447</b>	<b>647,202</b>
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability and Actuarial Liability	(554)	88
Other	(4)	5
<b>Total Components Requiring or Generating Resources in Future Periods</b>	<b>(558)</b>	<b>93</b>
Components not Requiring or Generating Resources:		
Depreciation and Amortization	6,985	11,483
Revaluation of Assets or Liabilities	(12,104)	(5,751)
Bad Debt from Public Vendor Overpayment Receivables	(0)	(1)
Other Costs not Requiring or Generating Budgetary Resources (+/-)	9	(7)
<b>Total Components not Requiring or Generating Resources</b>	<b>(5,110)</b>	<b>5,724</b>
<b>TOTAL COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>	<b>(5,668)</b>	<b>5,817</b>
<b>NET COST OF OPERATIONS</b>	<b>\$ 691,779</b>	<b>\$ 653,019</b>

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# THE LIBRARY OF CONGRESS

## Management Report

Fiscal Year Ended September 30, 2007

### Assessment of Condition of Heritage Assets

The Library has the world's largest library collection, including research materials in over 450 languages and various media. Providing access to this collection inevitably puts it 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. Therefore, the Library has chosen to balance the usage of the collection with the long-term preservation requirements of the collections.

As of September 30, 2007, the collections were determined to be in a useable condition for fulfilling its service mission. During fiscal 2007, only a very small percentage of materials were removed from the collection because of damage caused by use and/or deterioration of the medium. The ultimate useful life of a library item varies by its medium (e.g., book, film, tape, manuscript, disk), and the manner in which it is used and stored.

The Library employs a variety of methods to prolong the useful life of its deteriorating materials, including:

- The establishment of adequate environmental storage conditions
- The usage of binding or other methods to house items
- The mass deacidification of print materials
- The use of surrogates in serving the collections to the public
- The reformatting of collections to other media

The Library has inadequate temperature and humidity control in some collections storage areas; inadequate space for appropriate storage of collections materials; insufficient space for reformatting the acetate negative collection; and insufficient funds for reformatting. These conditions cannot be fully addressed with current funds and physical plant. The move of collections into the storage facility at Fort Meade, Maryland, is serving to remedy many of these difficulties for books and paper-based materials, and the acquisition of the Packard Campus for Audio-Visual Conservation in Culpeper, Virginia, is a major step in the preservation of film and other media.

### Management Assertion on Controls for the Collections

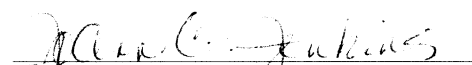
A major mission of the Library of Congress is to acquire, preserve, and make maximally accessible the intellectual and information heritage of the United States and, to the degree desirable, the world. The risks to its collections are: not acquiring and organizing materials that are critical to the continued 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.

Library management is responsible for establishing and maintaining the internal control structure for the collections. We have assessed the effectiveness of the internal control structure over safeguarding of these Heritage 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.

Providing access to our collections inevitably puts them at risk. 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, 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, 2007, for all of the Library's collections.

With the implementation of the Library's Integrated Library System 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.

  
JoAnn C. Jenkins  
Chief Operating Officer



TO: James H. Billington  
Librarian of Congress

April 16, 2008

FROM: Karl W. Schornagel  
Inspector General

SUBJECT: Results of the Library of Congress FY 2007 Financial Statements Audit

The attached reports present the results of the annual audits of the Library of Congress financial statements for fiscal years (FY) 2007 and 2006.

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) for these audits. The contract required that the audits be performed in accordance with U.S. generally accepted government auditing standards, the Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*.

### **Results of Independent Audit**

#### *Financial Statements*

For the twelfth consecutive year, we are pleased to report that the auditors issued an unqualified opinion on the Library's financial statements. In its audit, Kearney found that the Library's financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

#### *Report on Internal Controls*

Kearney's consideration of internal controls over financial reporting (including the safeguarding of assets) resulted in the identification of one material weakness.<sup>1</sup> Kearney determined that the Library had inadequate internal controls over property and equipment accountability and classification. The Library's system of internal controls over property and equipment had deficiencies in the areas of: 1) tracking and accounting for assets, 2) segregation of duties between the receiving, custody, and original recording of assets, 3) capitalizing expenditures, and 4) disposing of assets.

<sup>1</sup> A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal controls. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal controls. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.



*Compliance with Laws and Regulations*

Kearney found no instances of noncompliance with laws and regulations tested.

*Management Assertion on Controls for the Collections*

Kearney concluded that management's assertion fairly stated that internal controls over collections were not fully effective.

**Office of the Inspector General Oversight of Kearney & Company**

In connection with the audit, the Office of the Inspector General reviewed Kearney & Company's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Library's financial statements, internal controls, compliance with laws and regulations, or management's assertions on internal controls over the collections. Kearney & Company is responsible for the attached auditor's report and the conclusions expressed therein. Our review detected no instances where Kearney & Company did not comply in all material respects with generally accepted government auditing standards.

cc: Chief Operating Officer  
Chief Financial Officer

## Independent Auditor's Report

Office of Inspector General  
Library of Congress

We have audited the accompanying Consolidated Balance Sheet of the Library of Congress (the Library) as of September 30, 2007, and the related consolidated Statement of Net Cost, Statement of Changes in Net Position, and combined Statement of Budgetary Resources (hereinafter referred to as the 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, 2007, 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 (including the safeguarding of assets) resulted in the identification of one material weakness:

- Inadequate Control over Property and Equipment Accountability and Classification.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

As a result of our examination of management's assertion, which is presented in Section 3, 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, 2007, for all of the Library's collections
- The Library and management cannot assert that inventory controls were fully implemented during the in-processing and in-storage life cycles for all of the Special Collections, as of September 30, 2007.



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 for the Library as of September 30, 2007 and 2006, and the related consolidated Statement of Net Cost, Statement of Changes in Net Position, and combined Statement of Budgetary Resources for the years 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, standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. 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 as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources 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 contained in the Management's Discussion and Analysis and Stewardship Report is not a required part of the Library's financial statements, but is considered supplementary information required by OMB Circular No. A-136, *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 design effectiveness of the Library's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of the Library's controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion

on the internal controls. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

We limited our control testing to those controls necessary to achieve the following OMB control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; (2) transactions are executed in compliance with laws governing the use of budget authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, and other laws and regulations that could have a direct and material effect on the financial statements; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control. Our consideration of internal control was for the limited purpose described in the second paragraph of this report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted one matter, discussed below, involving the internal control and its operation that we consider to be a material weakness.

## **MATERIAL WEAKNESS**

### **1. Property and Equipment Accountability and Classification**

The Library could not locate capitalized Property and Equipment (P&E) with an original purchase cost of approximately \$31 million during its annual inventory, and the Library incorrectly classified approximately \$20 million of P&E expenditures. Our procedures identified deficiencies in the Library's current procedures for:

- Property accountability
- Segregation of duties
- Classification of expenditures

- Disposal management and cost recovery.

The current procedures did not enable the Library to accurately classify and record expenditures which qualify for capitalization and accurately track P&E. We considered these deficiencies individually and collectively in assessing them as a material weakness. This material weakness is further explained in the following paragraphs.

### ***Accountability over Property and Equipment***

At September 30, 2007, the Library recorded capitalized P&E with an original acquisition cost of approximately \$71 million. During the annual inventory of P&E, the Library could not locate P&E with an original cost of approximately \$31 million and a book value of \$118,000. Subsequently, the Library performed additional inventory reviews in December 2007 and January 2008 to either locate the missing assets or document their disposal. The Library located assets with an original cost of \$6 million and found records supporting \$7 million of disposed assets. The Library could neither locate, nor support, the disposition of \$18 million of assets that had a book value of \$77,000. Subsequently, the Library reflected these dispositions in the financial statements.

Even after the Library's additional review procedures, Kearney identified errors and inaccuracies in approximately 30% of the P&E tested. Errors included the following:

- Four items, with an original acquisition cost of \$3 million, could not be located
- The physical locations of eight items, with an acquisition cost of \$7 million, were inaccurately listed in the P&E records. All of these items were subsequently located in a different building.

In the current control structure, asset custodians do not have access to the P&E master inventory. While custodians maintain custody of their paper receipt, transfer, and disposition slips, they have no access to the master inventory to ensure that transactions are timely and accurately recorded. Since custodians cannot access and easily compare physical items to the master inventory, the Library's process cannot implement a critical detect control, i.e., custodian comparison of recorded items to physical items. This lack of a critical control contributes to missing and incorrectly located items in the master inventory.

Despite the additional review procedures, the Library cannot maintain accurate P&E records. The Library's current P&E tracking system and procedures do not have the critical inherent control points to ensure accurate financial reporting and fulfillment of fiduciary responsibilities. The current system is manual and based on paperwork, which contributes to delays and/or omissions in recording inventory movement. The Library does not utilize any generally accepted, real-time tracking devices that would facilitate immediate recording of inventory movements.

### ***Segregation of Duties***

The Library's P&E inventory system is not integrated with its financial system; it is a standalone system. Asset capitalization and entry into the P&E inventory system is performed by Integrated Support Services (ISS). The Office of the Chief Financial Officer (OCFO) adjusts the financial records to match the master inventory records. Because ISS receives and has custody of the assets, the Library's current process lacks segregation of duties since the asset custodian also performs the original financial records entry. This lack of segregation of duties may contribute to errors and/or irregularities.

### ***Proper Classification of Capitalized Assets***

ISS is determining whether an expenditure should be capitalized for financial reporting, a function which is typically performed within the accounting function. ISS may not have the requisite accounting training to ensure that expenditures are appropriately capitalized. This would result in inaccurate financial statements.

The Library incorrectly recorded \$20 million of expenditures, which should have been capitalized for financial reporting. For fiscal year 2007, the Library initially recorded \$49 million of non-capitalized equipment expenditures. Kearney's initial testing identified errors in expenditure classifications. The Library then performed an additional review of the entire \$49 million of non-capitalized expenditures, as well as a review of additional expenditures that should be classified as Construction While in Progress (CWIP) or Leasehold Improvements. These errors occurred because ISS made the capitalization decision for equipment purchases without the necessary understanding of appropriate accounting requirements, a lack of coordination between ISS and OCFO, and an inadequate review by OCFO of expenditures for CWIP and Leasehold Improvements.

### ***Disposal Management and Cost Recovery***

The Library's current P&E disposal and surplus procedures require Service Units to notify ISS via email or memorandum when assets must be disposed. ISS holds the property at the Landover warehouse until disposal. ISS procedures for property held at the Landover warehouse do not incorporate searching for another Federal user or transferring goods to the General Services Administration. Instead, the Library transfers the surplus or disposal assets to a commercial third party. The Library recoups none of the assets' salvage value under the current method.

Additionally, Kearney identified at least one instance of property disposal where a Service Unit disposed of property itself, which is a violation of ISS disposal policy. This violation may have contributed to the unaccounted property identified by ISS during its annual inventory. Kearney could not verify that fair value for the disposal was received by the Library in this instance.

**Recommendation** – Kearney recommends that ISS and the OCFO jointly evaluate the current P&E policies and procedures in place over property control. The Library should develop and implement new policies and procedures that will allow the Library to:

- Properly account for P&E
- Safeguard P&E from loss or theft
- Ensure adequate segregation of duties
- Promote operational efficiency
- Fulfill fiduciary responsibility and obtain maximum value for the Federal Government.

The Library should implement new procedures that ensure adequate segregation of duties between asset and recording. Additionally, individuals trained in financial accounting should make the expense versus capitalization decision. The Library should consider a fixed asset module that interfaces with the general ledger and is capable of real-time item transfers to increase the accuracy, accountability, and efficiency of the process.

Kearney recommends that each Service Unit head be involved in the property control procedures. Service Unit heads should maintain or have access to a real-time, accurate listing of capitalized property currently in their offices. When Service Units mark property for surplus, disposal, traded-in, or relocation, they must notify ISS with a signed memorandum prior to removal of the asset. ISS must update the master inventory record timely and accurately. The Library should ensure that assets' residual values are received upon disposal, versus giving all items to a commercial salvage house.

The new property control procedures must also extend to each Library facility. Each capitalized piece of property should be maintained in an inventory system with exact locations and descriptions. When property changes hands, offices, or facilities, the inventory subsidiary ledger must be updated to maintain accurate inventory records. An official property control position should be established at each of the Library's locations in which capitalized property is held. This position should have access to the Library's inventory subsidiary system in order to make the appropriate changes as they occur.

Kearney also recommends that, in the absence of an integrated, real-time, fixed asset system, the OCFO needs to perform more frequent checks of the inventories and capitalization amounts provided by ISS. If the OCFO were to perform quarterly reviews of capitalized and non-capitalized expenditures, it would be better prepared to identify errors and misclassifications in expenses before the final preparation of the financial statements. If ISS retains responsibility for determining capitalization treatment, the OCFO should ensure that ISS staff are appropriately trained to effectively execute that responsibility.

Kearney noted other matters involving internal control and its operations over financial reporting, which have been reported to the Library's management in a separate letter, dated February 28, 2008.

## **COMPLIANCE AND OTHER MATTERS**

The management of the Library is responsible for compliance with laws and regulations. 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 laws and regulations, including



laws governing the use of budgetary authority, laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin No. 07-04, and other laws, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the Library. However, 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.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

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This report is intended solely for the information and use of the Library's 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.

A handwritten signature in cursive script that reads "Kearney &amp; Company".

February 28, 2008  
Alexandria, Virginia





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### **Independent Auditor's Report**

We have examined management's assertion, which is presented in Section 3, that the Library of Congress (the Library) cannot provide reasonable assurance that the Library's internal control structure over the safeguarding of assets (collections) against unauthorized acquisition, use, or disposition, was effective as of September 30, 2007. The control criteria included 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, uses, or disposition of collection assets may occur and not be detected. Also, projections of any evaluation of internal controls over the safeguarding of assets to future periods are subject to the risk that internal controls may become inadequate because 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 3, is fairly stated, in all material respects, based upon control criteria, bibliographical, inventory, preservation, and physical security controls. In addition, management's assertion that the Library's collection inventory controls were not fully implemented during the in-processing and in-storage life cycles, as of September 30, 2007, is fairly stated based upon the criteria described above.

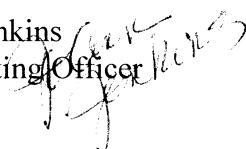
February 28, 2008  
Alexandria, Virginia

UNITED STATES GOVERNMENT

# Memorandum

**Library of Congress**  
**Office of the Librarian**  
*Chief Operating Officer*

TO : Karl Schornagel  
Inspector General

FROM : JoAnn C. Jenkins  
Chief Operating Officer 

SUBJECT : Comments on the Audit of the Library of Congress

Thank you for the opportunity to review and comment on our audit report of the Library of Congress' consolidated financial statements for fiscal years 2007 and 2006.

For the twelfth consecutive year, the Library has received an unqualified audit opinion on the consolidated financial statements. With that said, we recognize that there is much work to be done to improve the controls over property and equipment accountability and classification that was identified in this year's report. In addition, we continue to make improvements in the areas that we have identified related to collections security.

We look forward to the challenge and to working cooperatively with your office and the Congress in continuing to improve the accountability of the Library's resources.