



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 2008 financial statements and the accompanying opinion of the independent auditors, Kearney and Company, P.C. For the thirteenth consecutive year, the independent auditors have issued an unqualified "clean" opinion of the Library's consolidated financial statements.

The net cost of the Library's six major programs totals \$663.5 million, including \$81.3 million in costs incurred by three other agencies—Architect of the Capitol, Government Printing Office and the Office of Personnel Management—in support of the Library's programs. The net cost also includes \$115.9 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 continue to improve controls over property and equipment accountability and classification, along with improved computer and collections controls as documented in the accountability reports.

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

Sincerely,

A handwritten signature in cursive script that reads "James H. Billington".

James H. Billington
The Librarian of Congress

Enclosure

THE LIBRARY OF CONGRESS
Financial Statements for Fiscal Year 2008

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THE LIBRARY OF CONGRESS

Management's Discussion and Analysis

Fiscal Year Ended September 30, 2008

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 2008.

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 91 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

With the leadership and avid engagement of the Librarian of Congress, the Library developed its current Strategic Plan through a coordinated and collaborative, institution-wide effort, including Library executives, senior managers, and key subject matter experts. This effort narrowed the focus of the institution's goals from 18 organization-based goals in the previous Strategic Plan, to five discrete institution-wide strategic goals: *Content, Customers, Outreach, Organization and Workforce*. Through its strategic plan, the Library of Congress charted a course for achieving measurable results and codified its accountability to the American public and their elected representatives.

The strategic plan's goals not only set broad outcomes that each of the ten major organizations relate to, but also establish broad strategies to be followed and define performance indicators to determine progress toward achieving the goals and outcomes. Supported by a rigorous annual program performance planning process, and regular program performance assessment reviews, the strategic plan ensures Library organizations are all working toward common ends and provides the background guidance for the Library's annual Congressional Budget Justification requests.

Brief History

At the dawn of the 19th 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)

Of these programs, the NDIIPP was the most ambitious, as Congress tasked the Library with developing a plan and leading an effort to ensure that important digital materials can be preserved for our national information reserve. The NDIIPP program 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 20th 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."

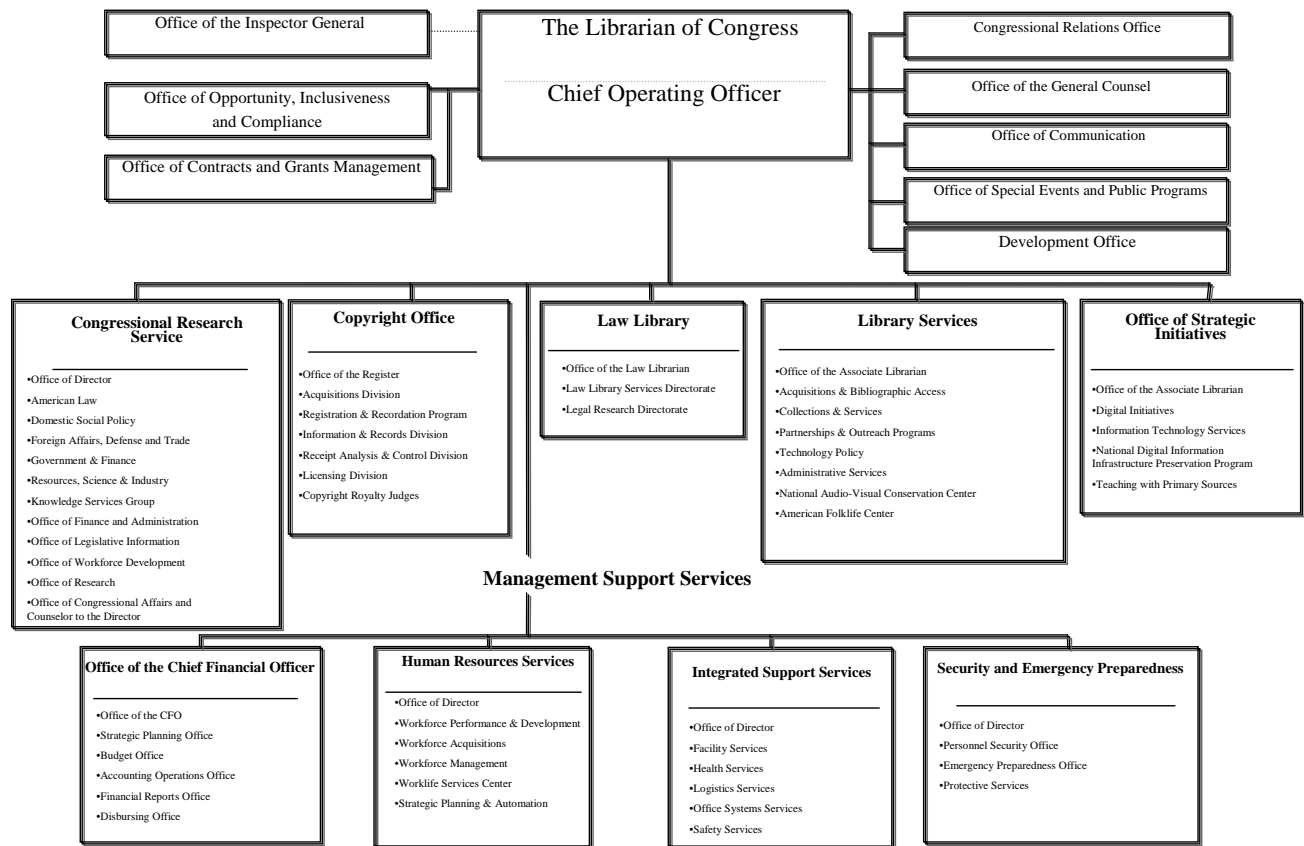
Those words hearken back to the Library's early days and Thomas Jefferson's vision of a society wherein the widest variety of information was readily available to the greatest possible number of people. "I feel ... an ardent desire," Jefferson said, "to see knowledge so disseminated through the mass 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 primarily funded by four salaries and expenses (S&E) appropriations (the National and Law Library Services, Copyright administration, Congressional Research Service, and Books for the Blind and Physically Handicapped), receipts from offsetting collections (Copyright registrations, Cataloging Distribution Service fees and Law Library Global Legal Information Network (GLIN) receipts), revolving fund (business-like) income, donations and investment income.



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 2008 and 2007, 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, 2008 and 2007. 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 2008	FY 2007	Liabilities and Net Position		FY 2008	FY 2007
Entity Assets	\$ 544.7	\$ 537.1	Liabilities Covered by Budgetary Resources	\$ 1,304.6	\$ 1,227.9	
Non-Entity Assets	1,193.8	1,125.3	Liabilities Not Covered by Budgetary Resources	32.7	31.6	
			Total Liabilities	\$ 1,337.3	\$ 1,259.5	
			Net Position	401.2	402.9	
Total Assets	\$ 1,738.5	\$ 1,662.4	Total Liabilities and Net Position	\$ 1,738.5	\$ 1,662.4	

The Library's assets total over \$1.7 billion for fiscal year 2008 and just under \$1.7 billion for fiscal year 2007. Entity assets increased by \$7.6 million during fiscal year 2008. Significant changes include an increase of \$19.3 million of property and equipment (predominately software), an increase of \$12 million of fund balance with treasury (predominately more appropriated funds unexpended than in fiscal year 2007) and a decrease of \$25.5 million due to unrealized losses in the Library's non-Treasury investment. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 68.7 percent and 67.7 percent of all assets and total \$1,193.8 million and \$1,125.3 million for fiscal years 2008 and 2007, respectively. Non-entity (custodial) assets increased because current year royalty and interest receipts exceeded 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.

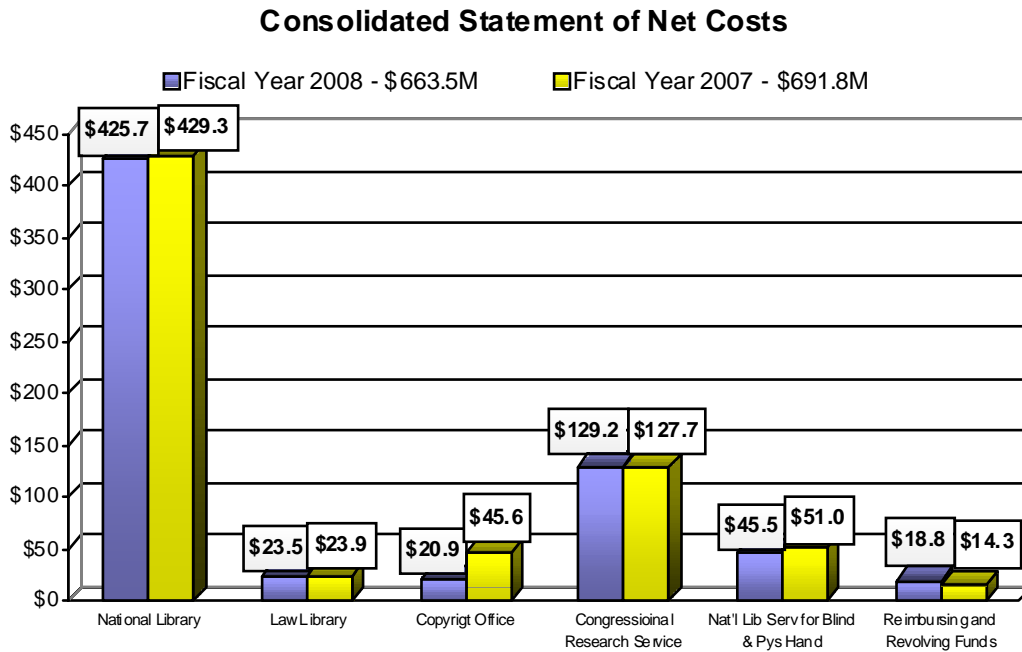
The Library's liabilities total \$1,337.3 million and \$1,259.5 million for fiscal years 2008 and 2007, respectively, with custodial and deposit account activities (i.e., funds held for future distribution to copyright owners) as the major item. The custodial liability during fiscal year 2008, following 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, 2008 and 2007. In other words, the statements present the net costs of our programs – \$663.5 million and \$691.8 million for the fiscal years 2008 and 2007, respectively. Net costs include allocated management support costs (e.g., human resources, financial services, facility services).

The net costs for each of the Library's six programs are:



National Library - With net program costs of \$425.7million and \$429.3 million for fiscal years 2008 and 2007, 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 information requests a year from across the nation, including nearly in person in the reading rooms open to the public in Washington. In addition, the Library responds to free interlibrary loan requests from across the nation and requests for book loans from the Congress each year.

Online Access Services – The Library provides free online access via the Internet to its automated information files, which contain records – to Congressional offices, Federal agencies, libraries, schools, and the public. Internet-based systems include three World Wide Web (WWW) services (e.g., THOMAS, www.loc.gov), the Library of Congress Online Public Access Catalog (<http://catalog.loc.gov>), and various file transfer options. These Internet-based systems now record nearly.

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 surplus books annually to qualified libraries and nonprofit educational institutions through its nationwide donation program. Finally, the eighth National Book Festival was held on September 27, 2008, on the National Mall and had more than 120,000 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 \$23.5 and \$23.9 million for fiscal years 2008 and 2007, 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 (including the Copyright Royalty Board) – The Copyright Office (COP), with net program costs of \$20.9 and \$45.6 million for fiscal years 2008 and 2007, 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. Between 2007 and 2008, COP implemented its reengineered operations including :a new information technology operation; staff realignment and redesigned facilities, with a resulting decrease in net operating costs. In addition to implementing a reengineered operation, in fiscal year 2008, the COP registered nearly 233,000 claims to copyright: transferred more than half a million works to the Library; recorded 11,341 documents containing more than 333,000 titles, logged more than 19 million page views on its web site, and responded to more than 323,000 in-person, telephone and e-mail requests for information. The Copyright Royalty Board (CRB), composed of three Copyright Royalty Judges and their staff under the aegis of the Librarian of Congress distributes hundreds of millions of dollars in royalties that are collected under various compulsory license provisions of the copyright law, and adjusts 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 \$129.2 and \$127.7 million for fiscal years 2008 and 2007, respectively, provides non-partisan analytical research and information services to all Members and committees of the Congress. CRS assists the 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, and formal seminars. In 2008, CRS delivered more than 871,000 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 nearly 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 2008 and 2007 net program costs for this segment were \$45.5 and \$51.0 million, respectively.
2. A cooperating network of 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 822 thousand 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 four 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 \$78.8 and \$76.6 million in fiscal years 2008 and 2007, respectively, reimbursable and revolving fund net program costs totaled \$18.8 and \$14.3 million, respectively. The net program costs were the result of the elimination of \$7.6 and \$6.7 million of intra-Library net revenues, \$9.1 and \$7.0 million in allocated administrative overhead, and \$1.8 million for both fiscal years in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds for fiscal years 2008 and 2007, 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 \$3.1 million for fiscal year 2008 and \$3.0 million for fiscal year 2007.

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 2008 and 2007 were \$0.3 million and \$0.4 million, respectively, of which \$0.1 million and \$0.2 million were for intra-Library transactions, which were eliminated for both years in the consolidated statements.

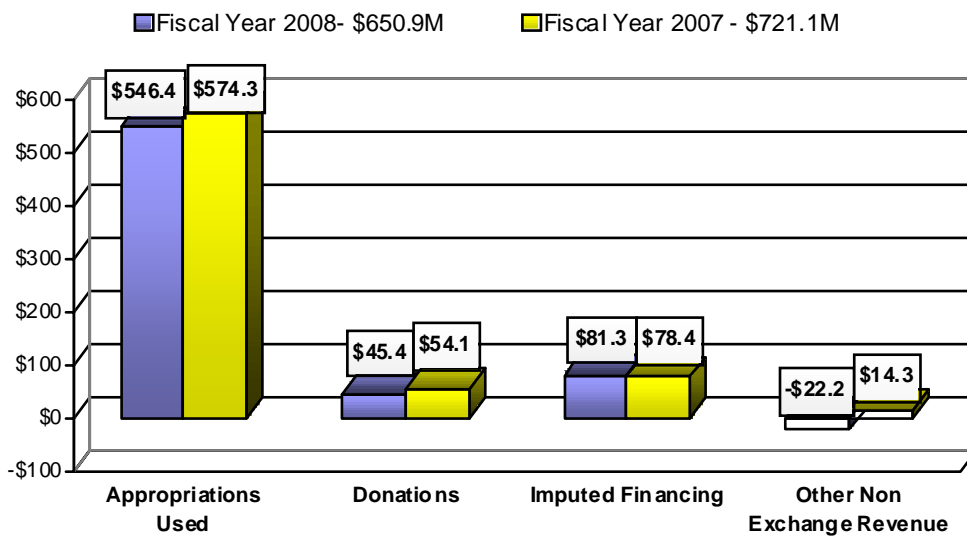
Gift Shop, Decimal Classification, Document Reproduction and Microfilm Services, Special Events and Programs and related services – This revolving fund provides for the operation of a gift shop or other sales of items associated with collections, exhibits, performances, and special events of the Library 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 \$6.9 million and \$6.1 million in fiscal years 2008 and 2007, respectively, and intra-Library transactions of \$2.4 million and \$1.1 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 Federal offices participating in the program, saving the offices an in cost avoidance benefits and 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 2008 and 2007, earned revenues were \$71.4 and \$68.9 million, respectively, and intra-Library transactions of \$1.3 million and \$1.1 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 \$650.9 million and \$721.1million for the fiscal years ended September 30, 2008 and 2007, 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, 2008 and 2007 totaled \$546.4 and \$574.3 million or 84 and 80 percent for fiscal years 2008 and 2007, 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 \$81.3 and \$78.4 million (imputed financing) for fiscal years 2008 and 2007, respectively. The support provided included structural care and maintenance of the Library's buildings and grounds (\$51.6 million and \$40.6 million), employee benefits (\$28.6 million and \$31.6 million), acquisitions exchange services (\$1.1 million and \$0.6 million) and legal claims (\$0.1 million for fiscal year 2007). Other non-exchange revenues are negative and positive for fiscal years 2008 and 2007 primarily due to the unrealized loss or gains on non-treasury investments, respectively.

The Library's net position decreased by \$1.7 million during fiscal year 2008, primarily due to the aforementioned unrealized loss on non-Treasury investments.

Combined Statements of Budgetary Resources

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

The Library's budgetary resources were \$2.2 billion for fiscal years 2008 and 2007, of which \$0.6 billion were from appropriated funds and \$1.6 billion were from non-appropriated funds for both fiscal years. Total outlays of \$744.9 and \$823.1 million were incurred with the outlays of appropriated funds (\$542.1 million and \$575.5 million) combined with outlays of the non-appropriated funds (\$202.8 million and \$247.6 million) in fiscal years 2008 and 2007. The decrease in outlays is largely a result aforementioned increase in unexpended appropriations and net increase in royalty receipts during fiscal year 2008.

Key Performance Measures

Since 2004, the Library's Internet transactions have grown dramatically from 3.4 billion to 5.2 billion in fiscal year 2008. 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 items of American history as the core of a National Digital Library and operates an educational Web site for families called "America's Library." (2008 will be the last year for the Internet count, due to page views replacing "hits." Page views has been determined to be a more accurate and practical way of measuring Web content usage.)

Other noteworthy workloads include the following:

- The number of Congressional requests and services provided by CRS decreased during fiscal year 2007 due to the introduction of the new Product Search capability on the CRS web site, which allowed clients to find the desired research products without returning to the Home Page. However, during fiscal year 2008 data reflects increasing use of the web site.
- Copyright office registrations were 293,471 less in fiscal year 2008 than in fiscal year 2007. Fiscal year 2008 was the first year of the new electronic Copyright system and required complete retraining of all staff members. Of the 560,000 claims received, 232,907 were registered. In fiscal year 2009, there should be an improvement in production as more staff members complete their training. The number of copyright direct inquiries (in-person, phone, and correspondence) was 58,376 less in 2008 than in 2004. 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 10.73 percent from 682 thousand in 2004 to 609 thousand in 2008, while the number of Internet transactions increased from 3.4 billion to 5.2 billion. In addition, 1.1 million non-digital items circulated, compared to 1.389 million in 2004. This trend reflects greater use of the Library's online resources.
- The number of items preserved, treated, and deacidified increased by 3.6 million from 2004 to 2008 primarily due to an increase in the number of pages reformatted or deacidified.

THE LIBRARY OF CONGRESS

COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS

For the Fiscal years 2004, 2005, 2006, 2007, and 2008

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	CHANGE 2004 – 2008	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	\$559,299,548	\$584,870,304	\$603,622,800	\$600,417,000	\$613,496,414	\$54,196,866	9.69%
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	4,056	3,937	4,302	3,679	4,191	135	3.32%
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	19,313,015	15,983,986	15,901,826	16,786,643	17,401,490	(1,911,525)	-9.90%
CRS - Requests & Services Provided Congress	899,284	906,445	933,430	822,697	871,287	(27,997)	-3.11%
Loans of Collections to Congress	29,067	29,646	29,275	26,003	25,119	(3,948)	-13.58
Copyright Claims Registered	661,469	531,720	520,906	526,378	232,907	(428,562)	-64.80%
Copyright Direct inquires (in person, phone, correspondence)	381,845	362,263	338,831	304,688	323,469	(58,376)	-15.29%
Services to the Blind & Physically Handicapped (BPH) – Readership	799,718	793,891	811,015	822,596	822,596	22,878	2.86%
BPH - Books & Magazines; Total Circulated	23,833,430	24,677,023	26,296,198	25,557,931	25,553,931	1,720,501	7.22%
BPH - New Braille & Audio Books & Magazines Titles	4,994	4,275	4,605	4,594	3,325	(1,669)-33.42%
Print Materials Cataloged	294,510	312,818	346,182	363,064	350,631	56,121	19.06%
National Coordinated Cataloging Operation (NACO) - LC Contribution	101,081	101,829	127,672	116,371	91,414	(9,667)	9.56%
National Coordinated Cataloging Operation - Outside Contribution	156,098	161,230	185,184	194,565	213,394	57,296	36.71%
Exhibits, Displays, & Publications (Funded by Appropriations)	23	27	32	29	12	(11)	-47.83%
Regular Tours (Participants)	109,252	140,847	159,604	163,467	202,904	93,652	85.72%
Reference Service	682,264	685,408	686,923	682,672	609,086	(73,178)	-10.73%
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65	0	0%
Items Circulated	1,389,161	1,226,067	1,049,230	1,312,489	1,131,411	(257,750)	-18.55%
Preservation Treatment - Original Format	2,648,334	2,754,425	4,058,707	7,489,491	6,294,000	3,645,666	137.66%
Mainframe Computer Transactions	103,463,022	50,730,911	600,000	300,000	-		0%
Integrated Library System Input/Update Transactions	98,312,132	103,644,698	104,087,835	117,329,910	117,329,910	19,017,778	19.34%
Machine Readable Cataloging (MARC) Records	35,360,828	36,873,893	38,527,975	40,141,678	40,141,678	4,780,850	13.52%
Internet Transactions (i.e., LOCIS, MARVEL, World Wide Web, and THOMAS public transactions)	3,360,481,609	3,845,481,430	4,594,485,103	4,931,310,401	5,177,875,900	1,817,394,291	54.08%

Major Goals and Accomplishments

The following section presents the significant annual strategies and accomplishments for fiscal 2008 as they relate to the goals of the Library of Congress Strategic Plan 2008-2013. The organizational annual strategies and accomplishments that follow are cited with the strategic plan goal that is most applicable. For each annual strategy, the responsible organization is named followed by the text of the annual strategy and its related accomplishment(s).

Strategic Plan Goal: Content – Expand and preserve in accessible form a unified and universal body of knowledge and creativity.

Annual Strategy: Copyright Office (COP) – Sustain the highest standards of copyright regulatory and administrative stewardship on the nation's behalf.

Accomplishments: COP advised Congress and government agencies, participated in copyright-related litigation where the government has an interest, kept regulations up to date, and carried out the requirements of the law regarding registration, recordation, and providing information on the Copyright Office and its services.

COP kept regulations up-to-date, most of which involved various statutory licenses, with notices of proposed rulemaking on recording notices of termination, group registration, and other topics. These regulations clarified a number of issues related to licenses so that the appropriate royalties were collected for distribution to copyright owners.

The Register also issued two reviews of Copyright Royalty Judges' determinations. In one she found the judges should have established separate values for section 114 and 112 licenses. In the second review, she clarified the division of authority between the Judges and the Register of Copyrights under the Section 115 statutory license.

Annual Strategy: COP – Increase other countries' adherence to international copyright treaties and agreements with intellectual property provisions.

Accomplishment: COP successfully assisted U.S. government agencies in their international and bilateral negotiations to hold foreign governments accountable for enforcement of international intellectual property treaties and national copyright laws.

Annual Strategy: COP – Lead in the provision of expert assistance on digital technology and other issues in light of fundamental copyright principles and the requirements of the law.

Accomplishment: COP completed work on various issues related to cable, satellite, and music licensing; technology for identifying orphan works, and web casting.

Annual Strategy: COP – Improve the Library's ability to rely upon the Copyright Office for copyrighted works the Library wants for its collections.

Accomplishment: COP focused resources on developing, testing, and implementing “Acquire Deposit” functions in the electronic Copyright Office (eCO) system. Service to Library as a customer is not yet at an optimum level, primarily because of a large number of unprocessed Library requests.

Annual Strategy: COP – Ensure knowledge and creativity are sustained for future generations through active encouragement of deposit of completed works

Accomplishment: In accordance with provisions of 17 U.S.C. sec. 407, COP received demanded materials worth nearly \$540,000. Total transfer of demanded and voluntary deposit copies was over 362,000 pieces valued at \$9.4 million. COP granted special relief to one publisher by replacing the depository requirement with online access to the publisher's 115 scholarly journals.

Annual Strategy: COP – Broaden publishers' understanding of mandatory deposit provisions and their obligations under those provisions.

Accomplishments: COP staff completed 18 publisher reviews, 50% more than targeted for the entire year. COP also educated four publishers and closed two cases referred to the Department of Justice after those publishers complied with the deposit demands.

Annual Strategy: COP – Increase the acquisition, through registration and mandatory deposit, of works created and disseminated digitally or online in a variety of formats.

Accomplishment: Library working groups met regularly with COP. Legislative and regulatory changes will be needed, but specific requirements are pending determination of the Library's needs and how the current law affects them.

Annual Strategy: COP – Improve the acquisition, through registration and mandatory deposit, of works created and disseminated in analog formats.

Accomplishment: COP transferred over half a million copies of registered works and mandatory deposit copies valued at more than \$23.7 million to the Library. However, this number is down significantly compared to fiscal 2007 because of registration processing issues attendant on the implementation of reengineered processes and a new IT system.

Annual Strategy: Congressional Research Service (CRS) – Use multi-disciplinary issue teams to articulate issues and create research agenda.

Accomplishment: CRS used multi-disciplinary teams to articulate policy issues for its research agenda. In fiscal 2008, 55% of issue teams included experts from at least four of CRS's six research divisions. This diversity helped CRS bring the full range of expertise to issues addressed by Congress.

Annual Strategy: Law Library of Congress (LAW) – Expand the amount of digital content in the Global Legal Information Network (GLIN) through the addition of new countries and additional legal materials for existing member countries.

Accomplishment: LAW expanded the GLIN database by incorporating three new countries: Dominican Republic, Indonesia, and United Kingdom. LAW entered approximately 7,800 foreign laws into the database during fiscal 2008. Another 882 publications were summarized and entered. LAW developed metadata for the special hearings collection and began adding congressional hearings to GLIN. LAW also analyzed treaties in order to develop a template and pilot project to begin adding them to the database.

Annual Strategy: LAW – Lead development of standards and best practices for shared content stewardship

Accomplishment: LAW promoted GLIN as an international standard for digital legal information systems at two international meetings including a presentation at the National Assembly of Costa Rica in February and a presentation at the meeting of the International Federation of Library Associations in Canada in August.

Annual Strategy: LAW – Increase number of digitized legal collections

Accomplishment: LAW digitized six titles about John Adams and nineteen titles on Abraham Lincoln were identified to be digitized. LAW's annual collections acquisition budget was not sufficiently funded to procure all the required items; however, available funds were fully spent.

Annual Strategy: LAW – Preserve all primary source materials for all jurisdictions in the Law Library collection.

Accomplishment: The Congressional and Supreme Court documents collection was well-maintained and bound on a regular schedule. LAW received 25,715 government documents during the year, 20,700 were retained for the collections, including 14,790 congressional bills, reports and hearings, 490 executive branch publications, and 5,420 Supreme Court filings and transcripts. More than 1.8 million pages of official gazettes were sent for microfilming, 242 thousand pages of gazettes were sent for digitizing; and 13,828 volumes were sent for binding.

Annual Strategy: LAW – Sustain and increase the effectiveness of 5 primary traditional acquisition channels in order to obtain a universal, multinational and multi-formatted collection of legal materials of worldwide research significance.

Accomplishment: LAW's efforts to improve the universal collection concentrated on collecting core primary legal sources. Among the more than 50,000 volumes added to the collections, receipt highlights included the first consolidated code from Bangladesh, as well as new/consolidated codes from Trinidad and Tobago and from Saint Lucia.

Annual Strategy: LAW – Secure the collections during all phases of the collections Life-cycle using bibliographic inventory physical and preservation controls in accordance with the Library's collection security plan.

Accomplishment: Preparations to move rare legal materials to a physically secured and environmentally controlled environment could not be undertaken as planned due to unavailability of appropriated funds to construct the Madison Building third floor vault. As a result, the protection of almost half of LAW's rare items did not meet the requirements of the Library's security plan. However, LAW was able to identify, prioritize, and make preliminary preparations for moving special material to the space allocated it in Ft. Meade modules III and IV. Additionally, LAW transferred 187,209 volumes to Ft. Meade module II.

Annual Strategy: Library Services (LS) – Mitigate risks to the Library's collections through continuous preservation and security. Activities planned will ensure preservation and security of collection items.

Accomplishment: Renovation of the Library's Top Treasures Vault was successfully completed. New and updated HVAC and security systems will guarantee the preservation and security of the Library's Top Treasures. LS completed the evaluation and maintenance of all top treasure anoxic encasements and completed the design, construction, and installation of the Waldseemüller 1507 World Map, now on permanent public display. The climate control program (Climate Notebook) continues to monitor the Library's storage environments, while the web-based collection storage information system (Myclimatedata) completed beta testing.

Annual Strategy: LS – Collect and preserve the record of America's creativity and the world's knowledge. Activities planned will enhance both the breadth and relevance of the collections.

Accomplishment: LS divisions collected materials within the parameters of the Collections Policy Statements and Collection Overview Statements, adding to the national cultural patrimony, by purchase, gift, or transfer. This year the Library purchased 1,172,822 pieces published in 205 countries or jurisdictions for the collections, using the LAW and GENPAC (Books for the General Collections) appropriations. The transfer of the motion picture and recorded sound collections to the National Audio-Visual Conservation Center (NAVCC) and the development and implementation of the audiovisual materials preservation laboratory, place the Library at the forefront in collecting and preserving the nation's audiovisual materials.

Annual Strategy: Office of Security and Emergency Preparedness (OSEP) – Reduce vulnerabilities to the loss and damage of library collections and other assets.

Accomplishment: OSEP completed several major projects, including: (1) lobby screening equipment and video coverage of the Great Hall's first floor in support of the Library of Congress Experience exhibit in the Jefferson Building, (2) security protocols for the exhibit areas during the construction phase to safeguard priceless treasures including the Waldseemüller Map and the Thomas Jefferson Book Collection; (3) safeguarding controls for the European Reading Room, the Rare Books and Special Collections Division's reconfigured space, and the Lincoln exhibit scheduled to open in February 2009; (4) lock upgrades on twenty-two cold storage vaults at the Packard Campus of the NAVCC; (5) a master key system for Fort Meade Modules 3 and 4 and integration of Modules 1 and 2 in the campus-wide project. OSEP also chaired the Library's Collections Security Oversight Committee (CSOC) and collaborated with senior staff members from the Library's service units to execute the security awareness campaign and completed a third round of Site Assistance Visits to all Library divisions. The CSOC also began conducting a series of Focus Group sessions with front-line supervisors, librarians and other professional staff, and technicians and other support staff to explore additional avenues to solicit staff members' ideas and strengthen their commitment to collections security.

Annual Strategy: Office of Strategic Initiatives (OSI) – Enable expansion of the Library's collection while building a national collaborative partnership network for the nation

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

Strategic Plan Goal: Customers – Improve our internal and external customers' experiences in seamlessly finding and using Library resources.

Annual Strategy: COP – Assist congressional and government understanding of domestic issues affecting compliance with copyright law.

Accomplishment: COP assisted Congress to understand and legislate or act upon such domestic issues as: orphan works (copyrighted works for which the owner cannot be located), vessel hull design, webcaster settlement, and to enhance remedies for violations of intellectual property laws.

Annual Strategy: COP – Provide products and services that meet the needs of owners and users of copyrighted and other protected works.

Accomplishment: COP educated the public about its new processes, especially e-Service, through which more than 40% of claims were being submitted at the end of the year.

Annual Strategy: COP – Improve customer satisfaction with Copyright Office services.

Accomplishment: COP made significant progress in decreasing the backlog of uningested claims, tagging, and quality assurance and reached higher weekly closure levels. However, the rest of the registration process shows significantly increased processing times.

Annual Strategy: COP – Establish and expand online services to the public, including improving overall processing times.

Accomplishment: COP's key targets relating to registration and recordation processing times were not met this year. Reengineering implementation and IT system startup challenges resulted in significantly slower processing for fiscal 2008. Increase of online submissions through e-Service is one solution: e-Service submissions increased to over 45% after public introduction in July, averaging 17% across the entire fiscal year. Additional steps to address the problem of slower processing included: establishing performance requirements for specialists, improving the eCO (electronic Copyright Office) system response and usability, and moving specialists to full quality assurance independence.

Annual Strategy: CRS – Meet needs of Congress for objective, nonpartisan research in each active policy area.

Accomplishment: CRS met needs for objective, nonpartisan research in each policy area of active interest to Congress. CRS ensured the relevance of its work by validating its research agenda with congressional leadership; aligning its research products with policy issues on the agenda; supporting all of those policy issues with research products; and by making its experts available to Congress following major, unanticipated events.

Annual Strategy: Integrated Support Services (ISS) – Products and Services: support Library programs by providing ISS services efficiently, cost-effectively, and in accordance with ISS standards of customer service to meet customer needs.

Accomplishment: ISS assisted its customers' day-to-day business operations by completing 28 facility projects, including the Flexible Exhibit Space that will house the Abraham Lincoln Bicentennial Exhibit, decreasing the time needed to close FAST requests for facility-related service, and increasing the index rate of customer satisfaction with FAST service from 4.49 to 4.58 (out of 5). ISS helped improve preservation of (and access to) the Library's motion picture collections by supporting the timely opening of the new NAVCC facility and closure Wright Patterson Air Force Base facility. ISS also provided a clinical

employee health program by providing acute and emergency care to 6,721 staff, contractors, and Library visitors, and responding to 78 medical emergencies, 37 of which were life-threatening. ISS improved the Library's ability to assure positive control and annual reporting of fixed assets (value over \$25K) and accountable assets (value under \$25K) by working with the Office of the Chief Financial Officer to update and re-issue LCR 1615-1 and publishing OCFO Directive 08-10 "Guidelines for Accounting for Capitalized Property and Depreciation"

Annual Strategy: LAW – Create content to meet the evolving expectations of customers: Congress, courts, the private sector and improve existing Law Library products and services including new digital special collections of legal materials

Accomplishments: In response to the HBO mini-series on John Adams, LAW digitized its holdings about the trial commonly referred to as the Boston Massacre. LAW's staff drafted and contributed summaries of U.S. and Bangladesh legal and legislative developments for the web-based World Law Bulletin and Global Legal Monitor. In response to interest in the pending Supreme Court case (Heller v. District of Columbia), LAW initiated a web-based article analyzing Second Amendment "right to bear arms" issues and completed and posted to the web site a report discussing the Second Amendment issues of gun ownership. LAW reviewed OSI's quarterly traffic reports to determine how, and from where, users were accessing LAW's website. LAW also prepared the agreement for implementing the Law Library/Thompson West project to digitize approximately 400 items.

Annual Strategy: LAW – Improve access to the Law Library print collection by completing project to convert it to Class K.

Accomplishment: LAW completed the classification of 17,755 titles (37,643 volumes) during the fiscal year. The revised estimate for completing classification of the entire 800,000 volumes into the K classification is 2029.

Strategic Plan Goal: Outreach – increase awareness of the value and utility of the Library.

Annual Strategy: COP – Promote public respect for copyright principles, compliance with copyright laws, and use of copyright services.

Accomplishment: COP introduced the e-Service system and increased its capacity for registering claims more conveniently and rapidly. COP provided information to thousands of people about the copyright law and its implications, how to register, and how to use various Copyright Office services.

Annual Strategy: COP – Reach more people in selected audiences with a message on the importance of copyright and related laws and principles as a means of promoting creativity.

Accomplishments: COP coordinated the update of many publications and web pages to inform the public about copyright registration procedures using electronic filing via eCO, e-Service, and the use of the new bar-coded form that replaces previous registration forms. COP joined the Library-wide initiative through GovDelivery, a service permitting customers to subscribe to a wide variety of LC websites and updates via email and RSS. These developments specifically reach those customers who want the least expensive way to register and who prefer technology-driven services and interaction.

Annual Strategy: COP – Increase the number of media, and frequency of their use, to convey copyright principles.

Accomplishment: COP improved website content especially for eCO-related activities, and completed 95% of design milestones for graphics display and timeline.

Annual Strategy: LAW – Provide products and services that meet or exceed accepted standards and best practices for authoritativeness and reliability.

Accomplishment: LAW added legal research guides for three countries to the website and completed a Legal Research Guide on the Second Amendment. LAW also examined and initiated guidance on additional standards for its online reports on current legal topics.

Annual Strategy: LAW – Create and deliver timely content, products, services, and experiences that meet the evolving customer expectations and allow them to customize according to their needs.

Accomplishment: LAW converted both the World Law Bulletin (WLB) and the Global Legal Monitor (GLM) to news services using RSS. LAW also implemented a policy to respond immediately to requestors and initiated on-demand delivery of documents in response to congressional inquiries. Additionally, LAW partnered with LS in completing plans to develop online tutorials within the THOMAS website, focusing on the availability of hearings and how to search for bill summary and status.

Annual Strategy: LS – Deepen the general understanding of American cultural, intellectual, and social life and add interpretive and educational value to the Library's collections.

Accomplishment: The American Folklife Center and LS divisions produced more than 125 programs, exhibitions, publications, and products to enhance awareness of the Library to all of the Library's patrons and visitors. Programs included: concerts and film screenings, scholarly lectures and conferences and the popular National Book Festival, held on the National Mall. LS developed and opened three new exhibits showcasing the Library and its collections for tourists and visitors to the Library as part of the Library of Congress Experience.

Annual Strategy: OSI – Enhance access to, and use of, the Library's collections and services.

Accomplishment: In fiscal 2008, OSI staff provided professional development to teachers from 74 Congressional Districts. In addition, Teaching with Primary Resources (TPS) Educational Consortium members, who serve educational communities in 32 states, helped teachers in 79 Congressional Districts. Staff conducted 97 institutes, workshops, and presentations for 3,679 teachers both at the Library and at outside venues. TPS partners conducted 566 professional development events for 4,741 teachers. These events focused on using the Library's digitized primary sources to create instruction that builds student literacy, content knowledge, and critical thinking skills

Strategic Plan Goal: Organization – increase Library-wide synergies and flexibilities to continuously improve quality and efficiency of delivery of products and services.

Annual Strategy: COP – Support business processes with effective information technology systems and infrastructure to deliver public services more effectively and efficiently, extracting records from legacy systems into the new integrated system.

Accomplishment: COP successfully completed efforts in system administration, knowledge transfer from contractor, and plans to upgrade to most recent Siebel version. However, key functionalities, change requests, and usability issues are still in process of being addressed.

Annual Strategy: ISS – Apply information technology to improve access to ISS services and provide data to support Library decision-making.

Accomplishment: ISS completed security testing and production of the Computer-Aided Facility Management System (for space management) and Medical Information Management System for the health services program. ISS also initiated planning, and created the charter for, the Facility & Asset Management Enterprise system (FAME).

Annual Strategy: LAW – Create seamless access to LAW's resources online & onsite.

Accomplishment: LAW's GLIN system usage increased in fiscal 2008 with an 872 percent jump in the number of system visits. LAW's analysis of the existing web site contributed to developing a requirements document for the Multinational Collections Database interface and searching system. Temporary systems programming corrections were implemented pending development and release of the new system.

Annual Strategy: OSI – Redefine the technology infrastructure to include information stewardship.

Accomplishment: During fiscal 2008 OSI completed significant changes to the Library's enterprise architecture and in the design and standardization of documentation of networks and data centers. The efficiency and effectiveness of the digital infrastructure's internal operating processes were improved to ensure a strong foundation for delivery of automated business services, and to maintain a successful support environment with adequate staffing levels, effective procedures, and reliable tools.

Strategic Plan Goal: Workforce Cultivate a talented diverse community of innovators devoted to public service.

Annual Strategy: Human Resources Services (HRS) – Deliver Strategic Training and Development. The Library offers a robust and diverse training curriculum that supports the development of staff, supervisors, and managers.

Accomplishment: HRS continues to meet and make substantial progress in meeting the performance target set forth for improving the understanding of Human Resources processes to better serve and support the Library. The performance targets relate directly to the Workforce and Organization goals of the Library's Strategic Plan and specifically the strategy to foster a learning environment, improve communication/planning/decision making within and among service and support units, and collaborate with forward-thinking human resources networks to incorporate best practices. Among the highlights of these efforts are the continued successful implementation of supervisory training via the Essential Supervisory Skills course and other courses available through the online learning center. Additional efforts continue to focus on the Library's Career Development Program which was successfully piloted in fiscal 2008.

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 2008, Library staff performed vulnerability assessments on all of the 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 24 detailed control reviews in fiscal year 2008 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 implemented the standard one year early and completed full implementation this fiscal year.

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, 2008 and 2007

(in thousands)

	FY 2008	FY 2007
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 326,548	\$ 314,554
Investments (Note 4)	1,246,271	1,174,112
Accounts Receivable, Net (Note 5.A)	8,218	10,191
Other Intragovernmental Assets	723	686
Total Intragovernmental	1,581,760	1,499,543
Cash and Other Monetary Assets (Note 1.G)	278	92
Pledges Receivable – Donations (Note 5.B)	10,724	9,094
Investments (Note 4)	76,688	100,972
Inventory and Operating Supplies and Materials (Note 1.K)	854	1,003
Property and Equipment, Net (Note 6)	67,556	48,217
Other Assets	675	3,495
Library Collections (Note 1.M)		
TOTAL ASSETS	\$ 1,738,535	\$ 1,662,416
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Funded Payroll, Benefits	\$ 4,445	\$ 5,521
Advances from Others	31,411	30,255
Accrued Unfunded Workers' Compensation (Note 9)	1,555	1,634
Other Intragovernmental Liabilities (Note 11)	10	13
Total Intragovernmental	37,421	37,423
Accounts Payable and Accrued Funded Payroll, Benefits	62,370	55,111
Custodial Liability (Note 3)	1,193,780	1,125,291
Deposit Account Liability	7,041	7,327
Accrued Unfunded Annual and Compensatory Leave	23,530	22,431
Actuarial Unfunded Workers' Compensation (Note 9)	7,611	7,478
Other Liabilities (Note 11)	5,526	4,413
TOTAL LIABILITIES	\$ 1,337,279	\$ 1,259,474
Commitments and Contingencies (Note 10)		
NET POSITION		
Unexpended Appropriations – All Other Funds	\$ 195,373	\$ 184,520
Cumulative Results of Operations – Earmarked Funds (Note 18)	177,318	191,713
Cumulative Results of Operations – All Other Funds	28,565	26,709
TOTAL NET POSITION	\$ 401,256	\$ 402,942
TOTAL LIABILITIES AND NET POSITION	\$ 1,738,535	\$ 1,662,416

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, 2008 and 2007

(in thousands)

	FY 2008	FY 2007
NET COSTS BY PROGRAM AREA		
National Library:		
Program Costs	\$ 429,916	\$ 433,832
Less: Earned Revenue	(4,227)	(4,546)
Net Program Costs	425,689	429,286
Law Library:		
Program Costs	23,453	23,925
Less: Earned Revenue	(3)	(8)
Net Program Costs	23,450	23,917
Copyright Office:		
Program Costs	53,681	78,973
Less: Earned Revenue	(32,829)	(33,431)
Net Program Costs	20,852	45,542
Congressional Research Service:		
Program Costs	129,199	127,688
Less: Earned Revenue	(3)	(2)
Net Program Costs	129,196	127,686
National Library Service for the Blind and Physically Handicapped:		
Program Costs	45,478	51,040
Less: Earned Revenue	(3)	(1)
Net Program Costs	45,475	51,039
Revolving and Reimbursable Funds:		
Program Costs	97,644	90,940
Less: Earned Revenue	(78,836)	(76,631)
Net Program Costs	18,808	14,309
NET COSTS OF OPERATIONS	\$ 663,470	\$ 691,779

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, 2008 and 2007

	FY 2008			FY 2007		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
<i>CUMULATIVE RESULTS OF OPERATIONS</i>						
Beginning Balances	\$191,713	\$26,709	\$218,422	\$180,273	\$8,767	\$189,040
Budgetary Financing Sources:						
Appropriations Used		546,447	546,447	0	574,291	574,291
Non-exchange Revenue	1,605	(1)	1,604	3,083	0	3,083
Donations of Cash or Securities	19,856	0	19,856	13,276	0	13,276
Transfers In/(Out) Without Reimbursement	(375)	(785)	(1,160)	(2,997)	(488)	(3,485)
Other	1,361		1,361	1,102	0	1,102
Other Financing Sources (Non-exchange):						
Donations of Property and Services	3,806	21,731	25,537	273	40,588	40,861
Transfers – in/out without Reimbursement	(4,283)	4,283	0	0	0	0
Imputed Financing	3,803	77,468	81,271	2,691	75,745	78,436
Other	(23,985)	0	(23,985)	13,597	0	13,597
Total Financing Sources	1,788	649,143	650,931	31,025	690,136	721,161
Net Cost of Operations	(16,183)	(647,287)	(663,470)	(19,585)	(672,194)	(691,779)
Net Change	(14,395)	1,856	(12,539)	11,440	17,942	29,382
CUMULATIVE RESULTS OF OPERATIONS	\$177,318	\$28,565	\$205,883	\$191,713	\$26,709	\$218,422
<i>UNEXPENDED APPROPRIATIONS</i>						
Beginning Balances	\$0	184,520	184,520	\$0	\$254,175	\$254,175
Budgetary Financing Sources:						
Appropriations Received		564,460	564,460		558,309	558,309
Appropriations Transferred In/(Out)		(748)	(748)		(594)	(594)
Other Adjustments		(6,412)	(6,412)		(53,079)	(53,079)
Appropriations Used		(546,447)	(546,447)		(574,291)	(574,291)
Total Budgetary Financing Sources	0	10,853	10,853	0	(69,655)	(69,655)
TOTAL UNEXPENDED APPROPRIATIONS	0	195,373	195,373	0	184,520	184,520
NET POSITION	\$177,318	\$223,938	\$401,256	\$191,713	\$211,229	\$402,942

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, 2008 and 2007

(in thousands)

	FY 2008	FY 2007
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	\$ 1,238,164	\$ 1,300,193
Recoveries of Prior-year Unpaid Obligations	19,330	10,750
Budget Authority:		
Appropriation	860,370	866,810
Spending Authority from Offsetting Collections:		
Earned:		
Collected	129,391	133,292
Change in Receivables from Federal Sources	(814)	(1,547)
Change in Unfilled Customer Orders:		
Advances Received	2,472	3,426
Without Advances from Federal Sources	(1,340)	(2,174)
Expenditure Transfers from Trust Funds		0
Total Budget Authority	990,079	999,807
Nonexpenditure Transfers, Net	(748)	(3,294)
Temporarily Not Available Pursuant to Public Law	0	0
Permanently Not Available	(7,047)	(53,124)
TOTAL BUDGETARY RESOURCES	\$ 2,239,778	\$ 2,254,332

STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 824,395	\$ 883,122
Reimbursable	141,761	133,046
Total Obligations Incurred	966,156	1,016,168
Unobligated Balance – Exempt from Apportionment	1,260,793	1,226,452
Unobligated Balance – Not Available	12,829	11,712
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 2,239,778	\$ 2,254,332

CHANGE IN OBLIGATED BALANCE		
Unpaid Obligated Balance, Net, Brought Forward, October 1:		
Unpaid Obligations, Brought Forward	\$ 240,415	\$ 253,095
Less: Uncollected Customer Payments, Brought Forward	(10,741)	(14,462)
Total Unpaid Obligation Balance, Net	229,674	238,633
Obligations Incurred, net	966,156	1,016,168
Less: Gross Outlays	(905,941)	(1,018,098)
Less: Recoveries of Prior-Year Unpaid Obligations	(19,330)	(10,750)
Change in Uncollected Customer Payments from Federal Sources	2,154	3,721
Unpaid Obligated Balance, Net, End of Period:		
Unpaid Obligations	281,300	240,415
Less: Uncollected Customer Payments from Federal Sources	(8,587)	(10,741)
TOTAL UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	\$ 272,713	\$ 229,674

NET OUTLAYS		
Gross Outlays	\$ 905,941	\$ 1,018,098
Less: Offsetting Collections	(131,864)	(136,718)
Less: Distributed Offsetting Receipts	(29,153)	(58,253)
NET OUTLAYS	\$ 744,924	\$ 823,127

(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, the oldest joint committee of the Congress, 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 TFB, which consists of the Librarian of Congress (who is Chairman and Secretary of the TFB), 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 2008 and 2007. 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; 104 (102) TFB funds; and 134 (120) gift funds for fiscal year 2008 (and 2007, 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 2008 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, Document Reproduction and Microfilm Services, 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 Document Reproduction and Microfilm Services 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 2008 and 2007 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. Additional royalty fees may also be requested from the remitter when necessary. 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 2008 and 2007. 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 \$150.2 million and \$170.4 million during fiscal years 2008 and 2007, respectively. Funds are restricted as to their use, which must be in accordance with the terms of the gift agreement. In general, TFB 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 TFB 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 2008 and 2007:
 - 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 and the acquisition cost is at least \$100,000.

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, 2008 and 2007 the Library has 91 and 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, Document Reproduction and Microfilm Services, 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. Annual leave is accrued as it is earned and the liability is 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 also 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. There were no capital leases in fiscal years 2008 or 2007.

O. Federal Employee Retirement Benefits

Approximately 28 percent and 30 percent of the Library's employees participated in the Civil Service Retirement System (CSRS) during fiscal years 2008 and 2007, respectively, to which the Library makes contributions equal to 7.0 percent of pay. Approximately 3 percent of employees under CSRS during fiscal years 2008 and 2007 are also covered by Social Security (FICA), for which the Library's contribution is slightly less.

Approximately 69 percent and 67 percent of the Library's employees were covered by the Federal Employees Retirement System (FERS) during fiscal years 2008 and 2007, respectively, to which the Library's normal contribution was 11.2 percent of pay during fiscal years 2008 and 2007. 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 4 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 2008 and 2007, 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 2008 and 2007, 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 TFB and the board's only control over its investment activities is through the Librarian of Congress' role as trustee. The trust is defined as a split-interest agreement with a fair value of assets of \$ 4.6M and \$5.7M at September 30, 2008 and 2007, 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 TFB 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 TFB 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.

NOTE 2	FUND BALANCE WITH TREASURY
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A. Fund balance with Treasury at September 30, 2008 and 2007, is summarized as follows:

	(in thousands)	
	FY 2008	FY 2007
Appropriated Funds	\$ 234,078	\$ 218,841
Revolving and Reimbursable Funds	75,713	79,039
Gift and TFB Funds ¹	15,054	14,210
Custodial, Deposit and Other Funds	1,703	2,464
TOTAL	\$ 326,548	\$ 314,554

¹ At September 30, 2008 and 2007, 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 4.1 and 4.7 percent, respectively.

B. Status of Fund Balance with Treasury

	(in thousands)	
	FY 2008	FY 2007
Unobligated Balances – Available	\$ 22,831	\$ 59,403
Unobligated Balances – Unavailable	29,271	23,068
Obligated Balances Not Yet Disbursed	272,854	229,895
Non-budgetary	1,592	2,188
TOTAL	\$ 326,548	\$ 314,554

NOTE 3	CUSTODIAL FUNDS
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Custodial activity consists of the following:

	(in thousands)	
	FY 2008	FY 2007
Beginning Custodial Liability	\$ 1,125,291	\$ 1,122,435
Cash Collections:		
Licensing Fees	\$ 249,864	\$ 233,740
Investment Interest	26,177	54,774
Total Cash Collections	276,041	288,514
Investment Amortization / Accruals	(322)	(1,272)
Total Custodial Revenue	\$ 275,719	\$ 287,242
Disposition of Collections:		
Payments to Copyright Owners	\$ (204,664)	\$ (279,931)
Refunds	(1,128)	(964)
Change in Investment Premium	1,795	439
Retained by Copyright Licensing for Administrative Costs	(3,233)	(3,930)
Total Custodial Expense	\$ (207,230)	\$ (284,386)
Net Custodial Activity	\$ 68,489	\$ 2,856
ENDING CUSTODIAL LIABILITY	\$ 1,193,780	\$ 1,125,291

NOTE 4	INVESTMENTS, NET
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Investments at September 30, 2008 and 2007 are as follows:

FY 2008	(in thousands)		
	Intragovernmental Investments (Non-Marketable, Market-Based)	Other Investments (Private Sector)	Total
Face Value	\$ 1,244,253	\$	\$ 1,244,253
Cost		91,307	91,307
Unamortized Premium	1,938		1,938
Unrealized Discount	(499)		(499)
Interest Receivable	579		579
Investments, Net	\$ 1,246,271	\$ 91,307	\$ 1,337,578
Market Value	\$ 1,245,790	\$ 76,688	\$ 1,322,479

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
Investments, Net	\$ 1,174,112	\$ 90,046	\$ 1,264,158
Market Value	\$ 1,172,913	\$ 100,972	\$ 1,273,885

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 2008 and 2007 range from October 2, 2008 to March 5, 2009 and October 4, 2007 to April 30, 2008, respectively, and interest rates for the same fiscal years range from .11 percent to 1.96 percent and 3.72 percent to 4.91 percent, respectively.

Custodial funds investment maturity dates for fiscal years 2008 and 2007 range from October 16, 2008 to August 31, 2009 and October 4, 2007 to August 31, 2008, respectively, and interest rates for the same fiscal years range from .10 percent to 4.625 percent and 3.345 percent to 3.75 percent, respectively.

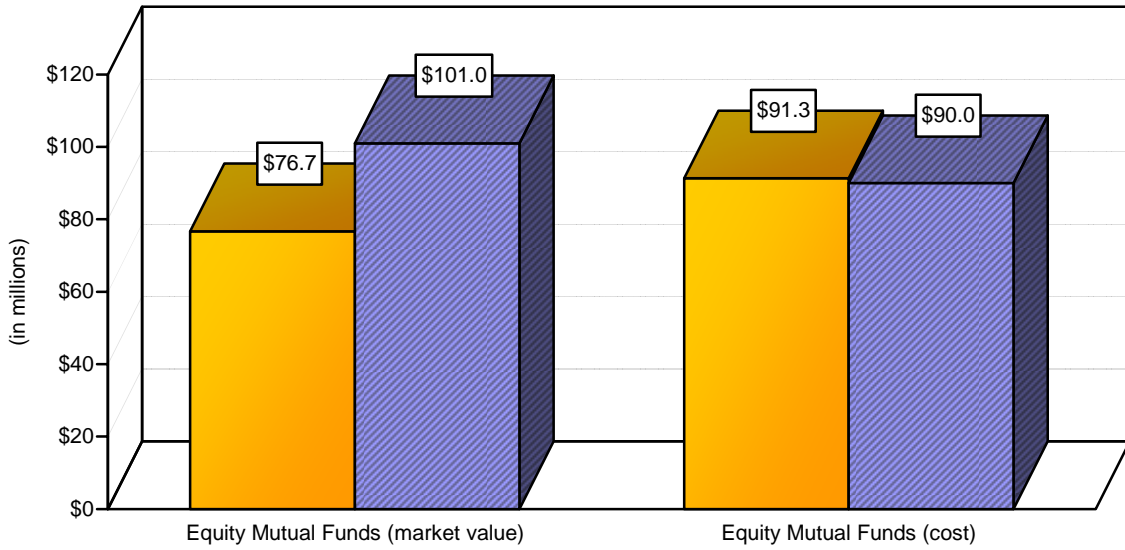
B. Other Investments

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, 2008 and 2007 are as follows:

Non-Treasury Investments

■ Fiscal Year 2008 ■ Fiscal Year 2007



NOTE 5	RECEIVABLES
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The breakdown of consolidated gross and net accounts receivable at September 30, 2008 and 2007 are as follows:

A. Accounts Receivable

(in thousands)		
	FY 2008	FY 2007
Intragovernmental Accounts Receivable, Gross and Net	\$ 8,218	\$ 10,191
With the Public:		
Accounts Receivable, Gross	689	3,505
Less: Allowance for Doubtful Accounts	(30)	(32)
Accounts Receivable, Net	\$ 659	\$ 3,473

B. Pledges Receivable

At September 30, 2008 and 2007, the Library had unconditional pledges of contributions totaling \$11.8 million and \$10.4 million, which were discounted through fiscal years 2034 and 2033 at a market discount rate and included in the statement of financial position at their discounted value of \$10.7 million and \$9.1 million, respectively.

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

(in thousands)		
	FY 2008	FY 2007
2008	\$	\$ 5,535
2009	7,506	1,068
2010	1,137	799
2011	669	234
2012	67	61
2013 and thereafter	1,345	1,397
TOTAL	\$ 10,724	\$ 9,094

NOTE 6	PROPERTY AND EQUIPMENT
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Property and equipment that were capitalized at September 30, 2008 and 2007 are as follows:

(in thousands)

Classes of Property and Equipment	FY 2008			FY 2007		
	Acquisition Value	Accumulated Depreciation / Amortization	Net Book Value	Acquisition Value	Accumulated Depreciation / Amortization	Net Book Value
Operating Equipment	\$ 59,367	\$ 46,667	\$ 12,700	\$ 61,119	\$ 47,839	\$ 13,280
Software	50,677	19,979	30,698	28,617	13,774	14,843
Furniture & Furnishings	2,179	696	1,483	985	613	372
Leasehold Improvements	33,715	11,344	22,371	28,461	12,510	15,951
Leasehold Improvements-in Progress	304	0	304	3,771	0	3,771
TOTAL	\$ 146,242	\$ 78,686	\$ 67,556	\$ 122,953	\$ 74,736	\$ 48,217

NOTE 7	NON-ENTITY ASSETS
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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 2008	FY 2007
Intragovernmental Non-Entity Assets:		
Fund Balance with Treasury	\$ 111	\$ 275
Investments	1,193,669	1,125,063
Accounts Receivable, Net	2	2
Total Intragovernmental Non-Entity Assets	1,193,782	1,125,340
Investments	0	0
Other Assets-with the Public	23	5
Total Non-Entity Assets	\$ 1,193,805	\$ 1,125,345
Total Entity Assets	\$ 544,730	\$ 537,071
Total Assets	\$ 1,738,535	\$ 1,662,416

NOTE 8	LEASES
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A. Capital Leases

The Library did not have assets under capitalized leases for machinery and equipment as of September 30, 2008 and 2007.

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 2008 and 2007 amounted to \$4,510,495 and \$4,985,116 respectively.

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

(in thousands)		
	FY 2008	FY 2007
2008	\$ 0	\$ 4,444
2009	4,395	3,933
2010	4,019	3,895
2011	1,451	1,329
2012	131	14
2013 and thereafter	104	0
TOTAL ESTIMATED FUTURE LEASE PAYMENTS	\$ 10,100	\$ 13,615

NOTE 9	WORKERS' COMPENSATION
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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 FEICA liability. The Library accrued \$1,554,776 and \$1,634,128 of unbilled or unpaid workers' compensation costs as of September 30, 2008 and 2007, 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 \$7,610,625 and \$7,478,118 as of September 30, 2008 and 2007 respectively, and is based on a ten-year projection. This liability is recorded on the Balance Sheet as a liability with the public.

NOTE 10	CONTINGENT LIABILITIES
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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.

NOTE 11	OTHER LIABILITIES
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Other Liabilities as of September 30, 2008 and 2007 are comprised of the following:

	(in thousands)	
	FY 2008	FY 2007
Other Liabilities-Intragovernmental:		
Deferred Credits	\$ (20)	\$ (11)
Liability for Clearing Accounts	30	24
Total Intragovernmental	10	13
Other Liabilities-With the Public		
Deferred Credits and Pledges	1,968	1,047
Advances from the Public	3,558	3,366
Total with the Public	5,526	4,413
TOTAL	\$ 5,536	\$ 4,426

NOTE 12	LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES
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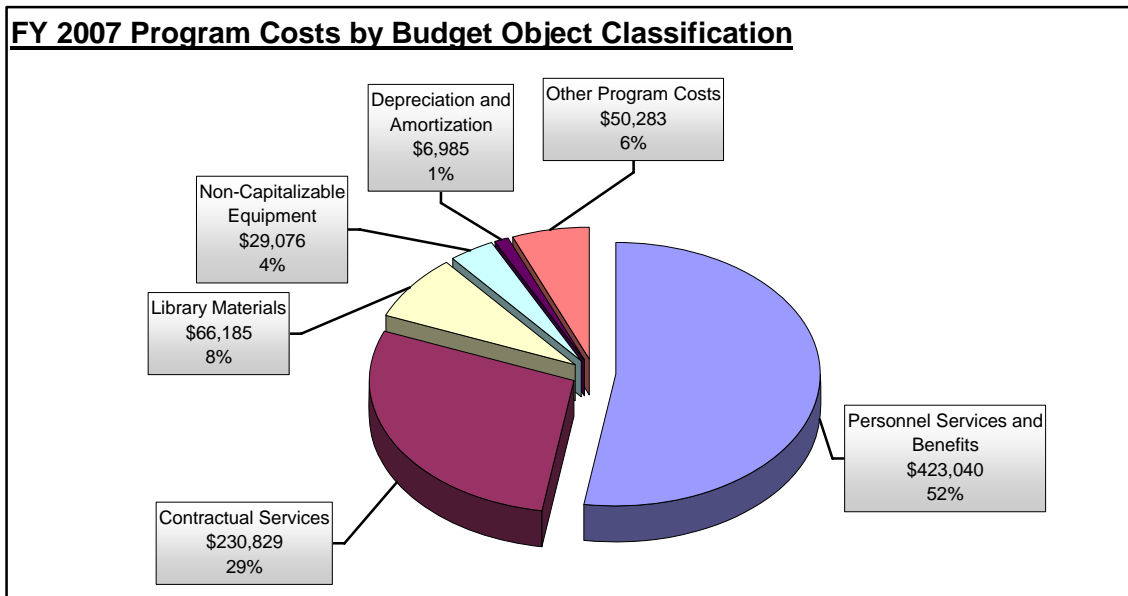
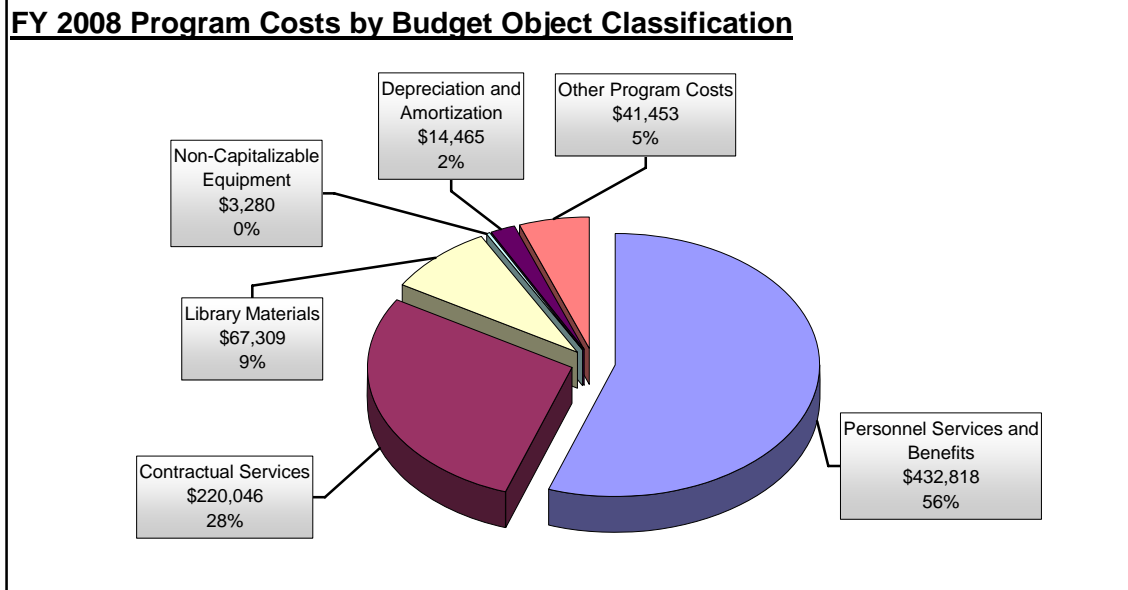
	(in thousands)	
	FY 2008	FY 2007
Liabilities Covered by Budgetary Resources	\$ 1,304,584	\$ 1,227,931
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental	1,555	1,634
With the Public	31,140	29,909
TOTAL	\$ 1,337,279	\$ 1,259,474

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.” \$22.1 million and \$19.6 million of the amount designated as “Library Materials” above represents the fiscal years 2008 and 2007 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 2008	FY 2007
Commerce and Housing Credit	\$ 37,778	\$ 61,453
Education, Training, Employment, and Social Services	631,326	638,143
General Government	110,267	106,802
TOTAL	\$ 779,371	\$ 806,398

B. Earned Revenue by Functional Classification

(in thousands)

	FY 2008	FY 2007
Commerce and Housing Credit	\$ 32,828	\$ 33,423
Education, Training, Employment, and Social Services	83,050	81,180
General Government	23	16
TOTAL	\$ 115,901	\$ 114,619

NOTE 15**EXCHANGE REVENUES**

In accordance with Library of Congress Regulation (LCR) 1510, Financial Services, the Library must comply with any OMB circular or bulletin if it is specifically prescribed in (1) a LCR, (2) a FSD Directive, or (3) if required by law. OMB Circular No. A-25, User Charges, does not fall into any of these three categories, but may be used by the Library as a useful point of reference. Circular No. A-25 requires that user charges be sufficient to recover the full costs to the federal government. Full costs include all direct and indirect costs to any part of the federal government of providing the good or service, including unreimbursed inter-entity costs.

The Copyright Office's registration operations have legislatively mandated fees, which do not require the recovery of the full costs of operations. The Register is authorized to fix fees at a level not more than necessary to recover reasonable costs incurred for services plus a reasonable adjustment for inflation. Fees should also be fair and equitable and give due consideration to the objectives of the copyright system.

If the Library were to increase fees and prices to recover full costs to the government for providing these goods and services, this would in some cases reduce the quantity of goods and services demanded. It is not practicable to provide reasonable estimates regarding (1) revenue foregone from charging fees that do not recover full costs to the government and (2) to what extent the quantity of goods and services demanded would change as a result of changes in prices and fees.

NOTE 16	PROGRAM COSTS AND EARNED REVENUE FOR REVOLVING FUNDS
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		(in thousands)	
		FY 2008	FY 2007
Audio Visual Services:	Program Cost	\$ 252	\$ 557
	Less: Earned Revenue	(165)	(148)
	Net Program Cost	87	409
Cooperative Acquisitions Program:	Program Cost	2,734	3,047
	Less: Earned Revenue	(3,095)	(2,949)
	Net Program Cost	(361)	98
Decimal Classification:	Program Cost	327	348
	Less: Earned Revenue	(249)	(293)
	Net Program Cost	78	55
Document Reproduction and Microfilm Services:	Program Cost	2,728	2,618
	Less: Earned Revenue	(1,425)	(1,649)
	Net Program Cost	1,303	969
Gift Shop Operations:	Program Cost	1,675	1,527
	Less: Earned Revenue	(1,492)	(1,423)
	Net Program Cost	183	104
Federal Research Division:	Program Cost	2,870	2,722
	Less: Earned Revenue	(2,477)	(4,121)
	Net Program Cost	393	(1,399)
FEDLINK:	Program Cost	67,856	63,409
	Less: Earned Revenue	(67,694)	(63,675)
	Net Program Cost	162	(266)
Special Events:	Program Cost	2,784	2,594
	Less: Earned Revenue	(1,349)	(1,675)
	Net Program Cost	1,435	919
Total Program Cost		81,226	76,822
Less: Total Earned Revenue		(77,946)	(75,933)
TOTAL PROGRAM COSTS		\$ 3,280	\$ 889

These programs are discussed further in Note 1.D.

NOTE 17 CLASSIFICATION OF PROGRAM COSTS

(in thousands)

FY 2008	Intragovernmental		Public		Total
	Production	Non-Production	Production	Non-Production	
National Library	\$ 119,437	\$ 29	\$ 310,328	\$ 122	\$ 429,916
Law Library	8,261	1	15,191		23,453
Copyright Office	20,612	(1)	33,071	(1)	53,681
Congressional Research Service	29,288	14	99,897		129,199
National Library Service for the Blind and Physically Handicapped	7,796	10	37,672		45,478
Revolving and Reimbursable Funds	6,846	25	90,773		97,644
TOTAL	\$ 192,240	\$ 78	\$ 586,932	\$ 121	\$ 779,371

(in thousands)

FY 2007	Intragovernmental		Public		Total
	Production	Non-Production	Production	Non-Production	
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
TOTAL	\$ 201,074	\$ 107	\$ 605,112	\$ 105	\$ 806,398

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 \$4,050,383 and \$4,564,512 for fiscal year 2008 and 2007, 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 \$2,500 and \$7,500 for fiscal year 2008 and 2007, 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 \$29,592,084 and \$29,499,515 for fiscal 2008 and 2007, 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 \$25,408 and \$21,691 for the fiscal years 2008 and 2007.
- Public Revolving Funds authorized by 2 U.S.C. 182 for the Cooperative Acquisitions, Audio and Video Duplication, Gift Shop Operations, Decimal Classification, Document Reproduction and Microfilm Services, and Special Events (these programs are discussed further in Note 1.D. and 16);
- 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 \$23,566,677 and \$18,077,496 for fiscal year 2008 and 2007, respectively; and
- Other earmarked funds not outlined above (combined revenues of \$2,634 and \$7,678 for fiscal year 2008 and 2007, 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, 2008 is summarized below. Intra-agency transactions have not been eliminated in the amounts presented below.

(in thousands)

FY 2008	Offsetting Collections Funds	Public Revolving Funds	Gift and TFB Funds	Other Earmarked Funds	Total Earmarked Funds
Balance Sheet:					
Fund Balance with Treasury	\$ 14,314	\$ 7,556	\$ 14,065	\$ 989	\$ 36,924
Investments in U.S. Treasury Securities			47,235	67	47,302
Other Assets	16,753	1,072	88,021		105,846
Total Assets	\$ 31,067	\$ 8,628	\$ 149,321	\$ 1,056	\$ 190,072
Liabilities					
Liabilities	\$ 4,911	\$ 5,380	\$ 2,443	\$ 20	\$ 12,754
Cumulative Results of Operations	26,156	3,248	146,878	1,036	177,318
Total Liabilities and Net Position	\$ 31,067	\$ 8,628	\$ 149,321	\$ 1,056	\$ 190,072
Statement of Net Cost:					
Program Costs	\$ 30,037	\$ 11,406	\$ 19,355	\$ 82	\$ 60,880
Less: Earned Revenue	(33,670)	(10,280)	(747)		(44,697)
Net Cost of Operations	\$ (3,633)	\$ 1,126	\$ 18,608	\$ 82	\$ 16,183
Statement of Changes in Net Position:					
Net Position, Beginning	\$ 19,891	\$ 3,304	\$ 167,552	\$ 966	\$ 191,713
Net Cost	\$ 3,633	\$ (1,126)	\$ (18,608)	\$ (82)	\$ (16,183)
Non-Exchange Revenues			1,602	3	1,605
Other Financing Sources	2,632	1,070	(3,668)	149	183
Change in Net Position	6,265	(56)	(20,674)	70	(14,395)
Net Position, Ending	\$ 26,156	\$ 3,248	\$ 146,878	\$ 1,036	\$ 177,318

Fiscal data as of, and for the year ended September 30, 2007 is summarized below.

(in thousands)

FY 2007	Offsetting Collections Funds	Public Revolving Funds	Gift and TFB Funds	Other Earmarked Funds	Total Earmarked Funds
Balance Sheet:					
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
Total Assets	\$ 24,773	\$ 8,498	\$ 169,953	\$ 976	\$ 204,200
Liabilities					
Liabilities	\$ 4,882	\$ 5,194	\$ 2,401	\$ 10	\$ 12,487
Cumulative Results of Operations	19,891	3,304	167,552	966	191,713
Total Liabilities and Net Position	\$ 24,773	\$ 8,498	\$ 169,953	\$ 976	\$ 204,200
Statement of Net Cost:					
Program Costs	\$ 34,691	\$ 11,670	17,237	\$ 78	\$ 63,676
Less: Earned Revenue	(34,062)	(9,404)	(621)	(4)	(44,091)
Net Cost of Operations	\$ 629	\$ 2,266	\$ 16,616	\$ 74	\$ 19,585
Statement of Changes in Net Position:					
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
Change in Net Position	(1,367)	(1,355)	14,077	85	11,440
Net Position, Ending	\$ 19,891	\$ 3,304	\$ 167,552	\$ 966	\$ 191,713

NOTE 19	BUDGETARY RESOURCES
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Budgetary resources are classified as follows:

(in thousands)

	FY 2008			FY 2007		
	Appropriated Capital	Non- Appropriated Capital	Combined	Appropriated Capital	Non- Appropriated Capital	Combined
<i>Budgetary Resources:</i>						
Unobligated Balance, Brought Forward, October 1	\$ 50,125	\$ 1,188,039	\$ 1,238,164	\$ 104,802	\$ 1,195,391	\$ 1,300,193
Recoveries of Prior-Year Obligations	8,572	10,758	19,330	5,858	4,892	10,750
<i>Budget Authority:</i>						
Appropriation	564,460	295,910	860,370	558,309	308,501	866,810
<i>Spending Authority from Offsetting Collections:</i>						
<i>Earned:</i>						
Collected	273	129,118	129,391	339	132,953	133,292
Change in Receivables from Federal Sources	(82)	(732)	(814)	69	(1,616)	(1,547)
<i>Change in Unfilled Customer Orders:</i>						
Advances Received	0	2,472	2,472	0	3,426	3,426
Without Advances from Federal Sources	0	(1,340)	(1,340)	0	(2,174)	(2,174)
Expenditure Transfers from Trust Funds						
Subtotal Budget Authority	564,651	425,428	990,079	558,717	441,090	999,807
Nonexpenditure Transfers, Net	(748)		(748)	(594)	(2,700)	(3,294)
Temporarily Not Available Pursuant to Public Law	0	0	0	0	0	0
Permanently Not Available	(6,412)	(635)	(7,047)	(53,079)	(45)	(53,124)
Total Budgetary Resources	\$ 616,188	\$ 1,623,590	\$ 2,239,778	\$ 615,704	\$ 1,638,628	\$ 2,254,332
<i>Status of Budgetary Resources:</i>						
<i>Obligations Incurred:</i>						
Direct	\$ 594,506	\$ 229,889	\$ 824,395	\$ 565,579	\$ 317,543	\$ 883,122
Reimbursable	0	141,761	141,761	0	133,046	133,046
Total Obligations Incurred	594,506	371,650	966,156	565,579	450,589	1,016,168
Unobligated Balance (Exempt from Apportionment)	9,422	1,251,371	1,260,793	38,767	1,187,685	1,226,452
Unobligated Balance – Not Available	12,260	569	12,829	11,358	354	11,712
Total Status of Budgetary Resources	\$ 616,188	\$ 1,623,590	\$ 2,239,778	\$ 615,704	\$ 1,638,628	\$ 2,254,332

(in thousands)

	FY 2008			FY 2007		
	Appropriated Capital	Non-Appropriated Capital	Combined	Appropriated Capital	Non-Appropriated Capital	Combined
Change in Obligated Balance:						
<i>Unpaid Obligated Balance, Net, Brought Forward, October 1:</i>						
Unpaid Obligations, Brought Forward	\$ 168,988	\$ 71,427	\$ 240,415	\$ 185,146	\$ 67,949	\$ 253,095
Less: Uncollected Customer Payments, Brought Forward	(223)	(10,518)	(10,741)	(154)	(14,308)	(14,462)
Total Unpaid Obligation Balance, Net	168,765	60,909	229,674	184,992	53,641	238,633
Obligations Incurred, net	594,506	371,650	966,156	565,579	450,589	1,016,168
Less: Gross Outlays	(542,344)	(363,597)	(905,941)	(575,879)	(442,219)	(1,018,098)
Less: Recoveries of Prior-Year Unpaid Obligations	(8,572)	(10,758)	(19,330)	(5,858)	(4,892)	(10,750)
Change in Uncollected Customer Payments from Federal Sources	82	2,072	2,154	(69)	3,790	3,721
<i>Total Unpaid Obligated Balance, Net:</i>						
Unpaid Obligations	212,578	68,722	281,300	168,988	71,427	240,415
Less: Uncollected Customer Payments from Federal Sources	(141)	(8,446)	(8,587)	(223)	(10,518)	(10,741)
Total Unpaid Obligated Balance, Net, End of Period	\$ 212,437	\$ 60,276	\$ 272,713	\$ 168,765	\$ 60,909	\$ 229,674
Net Outlays:						
Gross Outlays	\$ 542,344	\$ 363,597	\$ 905,941	\$ 575,879	\$ 442,219	\$ 1,018,098
Less: Offsetting Collections	(273)	(131,591)	(131,864)	(339)	(136,379)	(136,718)
Less: Distributed Offsetting Receipts	0	(29,153)	(29,153)	0	(58,253)	(58,253)
Total Net Outlays	\$ 542,071	\$ 202,853	\$ 744,924	\$ 575,540	\$ 247,587	\$ 823,127

For TFB funds, approximately \$16.7 and \$11.4 million of unobligated authority for fiscal years 2008 and 2007, 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 \$76.0 and \$77.4 million of restricted authority has been obligated and expended to invest in non-Treasury securities for the fiscal years 2008 and 2007, respectively.

Undelivered orders, end of period:

(in thousands)

	FY 2008	FY 2007
Paid	\$ 1,305	\$ 1,403
Unpaid	214,359	179,691
TOTAL	\$ 215,664	\$ 181,094

NOTE 20**RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET**

	(in thousands)	
	FY 2008	FY 2007
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 966,156	\$ 1,016,168
Less: Spending Authority from Offsetting Collections and Recoveries	(149,040)	(143,747)
Obligations Net of Offsetting Collections and Recoveries	871,116	872,421
Less: Distributed Offsetting Receipts	(29,153)	(58,253)
Net Obligations	787,963	814,168
Other Resources:		
Donations of Property and Services	25,537	40,861
Imputed Financing from Costs Absorbed by Others	81,271	78,436
Exchange Revenue not in the Budget	84	182
Non-exchange Revenue not in the Budget	(1,560)	(1,375)
Trust/Special Fund Exchange Revenue Receipts	(3,976)	(4,541)
Other Resources (+/-)	(23,985)	13,597
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	865,334	941,328
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided (+/-)	(32,459)	16,666
Resources that Finance the Acquisition of Assets	(33,717)	(33,996)
Budgetary Offsetting Receipts that do not Affect Net Cost of Operations	29,153	58,253
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	(207,528)	(284,804)
TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS	(244,551)	(243,881)
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	620,783	697,447
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability and Actuarial Liability	1,152	(554)
Other	0	(4)
Total Components Requiring or Generating Resources in Future Periods	1,152	(558)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	14,465	6,985
Revaluation of Assets or Liabilities	27,129	(12,104)
Other Costs not Requiring or Generating Budgetary Resources (+/-)	(59)	9
Total Components not Requiring or Generating Resources	41,535	(5,110)
TOTAL COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD	42,687	(5,668)
NET COST OF OPERATIONS	\$ 663,470	\$ 691,779

THE LIBRARY OF CONGRESS

Management Report

Fiscal Year Ended September 30, 2008

Assessment of Condition of Heritage Assets

The Library has the world's largest library collection, including research materials in over 470 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, 2008, the collections were determined to be in a useable condition for fulfilling its service mission. During fiscal 2008, 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 Ft. 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

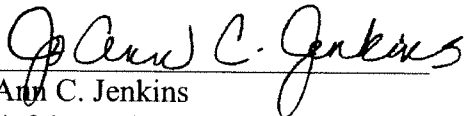
A major mission of the Library of Congress is to acquire, preserve, and make maximally accessible the intellectual and information heritage of the United States and, to the degree desirable, the world. The risks to its collections are: not acquiring and organizing materials that are critical to the continued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

March 13, 2009

FROM: Karl W. Schornagel
Inspector General

SUBJECT: Results of the Library of Congress FY 2008 Financial Statement Audit

The attached reports present the results of the annual audits of the Library of Congress financial statements for fiscal years (FY) 2008 and 2007.

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 thirteenth consecutive year, we are pleased to report that the auditors issued an unqualified (clean) opinion on the Library's financial statements. In its audit, Kearney found that the 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 significant deficiency.¹ Kearney determined that the Library did not conduct a qualitative assessment of the underlying cause(s) for adjustments to property and equipment submitted to the Office of the Chief Financial Officer by Integrated Support Services (ISS). This created a segregation of duties weakness because ISS had responsibility for receiving, recording, and tracking property and equipment.

Compliance with Laws and Regulations

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

¹ 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 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.

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 contract, the Office of the Inspector General reviewed Kearney'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 control, compliance with laws and regulations, and management's assertions on internal controls over the collections. Kearney is responsible for the attached auditor's report dated February 10, 2009 and the conclusions expressed in the report. However, our review disclosed no instances where Kearney 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 the Inspector General
Library of Congress

We have audited the accompanying consolidated balance sheets of the Library of Congress (the Library) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, statements of changes in net position, and combined statements 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, 2008, 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 significant deficiency:

- Property and Equipment Accountability and Internal Control Procedures.

However, we do not consider this significant deficiency to be a material weakness.

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 Heritage Asset control weaknesses:

- The Library's management cannot provide reasonable assurance that the internal control structure over the safeguarding of Heritage Assets against unauthorized acquisition, use, or disposition was completely effective as of September 30, 2008, for all of the Library's collections
- The Library's 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, 2008.

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 THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the Library as of September 30, 2008 and 2007, and the related consolidated statements of net cost, statements 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 audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the 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, 2008 and 2007, and its net cost of operations, 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, *Financial Reporting Requirements*. 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 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 significant deficiency.

SIGNIFICANT DEFICIENCY

1. Property and Equipment Accountability and Internal Control Procedures

Office of the Chief Financial Officer (OCFO) Directive 08-10, *Guidelines for Accounting for Capitalized Property and Depreciation*, and Library of Congress Regulation (LCR) 1615-1, *Asset Control*, governs the process related to fixed assets. Integrated Support Services (ISS) records and monitors fixed assets in IBCFACS, a standalone property management system. ISS is responsible for receiving property deliveries, recording the items in IBCFACS, and delivering the assets to the service units. Additionally, ISS is responsible for the custody of assets, reconciliation of assets between IBCFACS and Momentum, and completing physical inventory. The OCFO is responsible for fixed asset accounting and transaction processing in the Fixed Asset Module sub-ledger in Momentum, which is the financial reporting system of record. The OCFO reviews purchase requisitions for capitalization treatment and creates shells in Momentum. These shells are recorded as assets in IBCFACS and Momentum when the assets are received.

The OCFO implemented the Momentum Fixed Asset Module late in fiscal year (FY) 2008, and considered FY 2008 to be a transition year as it related to the internal control design. The reconciliation between the two ledgers was performed in the fourth quarter of FY 2008. The OCFO reviewed the IBCFACS report provided by ISS and compared it to the Fixed Asset Module. Any differences identified were sent to ISS for an explanation. However, the OCFO recorded subsequent adjustments without a qualitative assessment of the underlying cause. This resulted in a segregation of duties issue, because ISS was responsible for the receiving, recording, and tracking of assets, and the OCFO recorded its adjustments in the financial records without vetting and analysis.

We 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 10, 2009.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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 described in the preceding paragraph disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the Library's Office of Inspector General, Library management, OMB, Government Accountability Office, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.



February 10, 2009
Alexandria, Virginia

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 its internal control structure over the safeguarding of assets (collections) against unauthorized acquisition, use, or disposition, was effective as of September 30, 2008. 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, the unauthorized acquisition, use, 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 of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion, which is presented in Section 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, 2008, is fairly stated based upon the criteria described above.



February 10, 2009
Alexandria, Virginia