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National Digital Library Program

The United States Congress
$15 million five-year appropriation

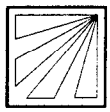
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Clifton Gunderson L.L.C.
Certified Public Accountants & Consultants

The Steering Committee
National Digital Library Trust Fund

We have audited the accompanying statement of financial position of the National Digital Library Trust Fund (NDLTF) as of September 30, 1997, and the related statement of operations and changes in net position for the year then ended.

In our opinion, the NDLTF's financial statements are presented fairly, in all material respects, in conformity with the comprehensive basis of accounting described in Note 1 to the financial statements.

We noted:

- No material weaknesses in internal control
- No instances of noncompliance with selected provisions of applicable laws and regulations tested

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NDLTF as of September 30, 1997, and the results of its operations for the year then ended, in conformity with the comprehensive basis of accounting described in Note 1 to the financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

INTERNAL CONTROL

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements.*

RESPONSIBILITIES

Management's Responsibility

Management is responsible for:

- preparing the financial statements in conformity with the comprehensive basis of accounting described in Note 1 to the financial statements;
- establishing and maintaining an effective internal control structure; and
- complying with applicable laws and regulations.

In fulfilling these responsibilities, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

(1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
(2) funds, property, and other assets are safeguarded from unauthorized use or disposition; and
(3) transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. Accordingly, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are presented in accordance with the comprehensive basis of accounting as described in Note 1 to the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered NDLTF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

As part of obtaining reasonable assurance about whether NDLTF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall financial statement presentation;
- obtained an understanding of the design of significant internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of the internal controls;
- tested compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements; and
- performed other procedures as we considered necessary in the circumstances.

Our audits were conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements.*

This report is intended solely for the use of the NDLTF Steering Committee. However, this report is a matter of public record and its distribution is not limited.

Clifton Gunderson L.L.C.

Greenbelt, Maryland
March 27, 1998

Statement of Financial Position

National Digital Library Trust Fund

September 30, 1997

ASSETS	
Entity assets:	
Intergovernmental assets	
Fund balance with U.S. Treasury	$711,641
Investment with U.S. Treasury (Note 2)	11,243,684
Governmental assets	
Accounts receivable	785
Pledges receivable (Note 3)	8,086,988
Total assets	**$20,043,098**
LIABILITIES	
Liabilities covered by budgetary resources:	
Accounts payable	$122,566
Accrued payroll and benefits	86,411
Total liabilities	**208,977**
NET POSITION	
Cumulative results of operations (Note 4)	19,834,121
Total liabilities and net position	**$20,043,098**

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

Statement of Operations and Changes in Net Position

National Digital Library Trust Fund

September 30, 1997

REVENUES AND FINANCING SOURCES	
Donations (Note 5)	$5,521,390
Interest	583,604
Imputed financing sources (Note 6)	64,077
Total revenues and financing sources	**$6,169,071**
EXPENSES	
Personnel costs	$1,954,302
Services of other agencies	975,000
Professional and consultant services	552,804
Awards to other archival institutions (Ameritech)	410,473
Other services	257,340
Non-capitalized equipment	135,870
Printing, publishing and photoduplicating	88,102
Travel and transportation	52,795
Computer software	35,445
Office supplies	34,858
Tuition and training	12,554
Entertainment	6,213
Postage	5,045
Subsistence/support services	3,170
Training contracts	2,989
Books and library materials	1,985
Security investigations	198
Total expenses	**$4,529,143**
Excess revenues & financing sources over expenses	**$1,639,928**
CHANGES IN NET POSITION	
Net Position, Beginning Balance, as Previously Reported	$18,043,209
Adjustment to Net Position (Note 7)	161,460
Net Position, Beginning Balance, as Restated	18,204,669
Excess of Revenues and Financing Sources Over Total Expenses	1,639,928
Less: Non-Operating Changes	(10,476)
Net position, ending balance	**$19,834,121**

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

Notes_to://Financial_Statements

National Digital Library Trust Fund

September 30, 1997

Note 1. Reporting Entity

A. DESCRIPTION OF FUND

The National Digital Library Trust Fund (NDLTF) supports the mission and strategic objectives of the National Digital Library Program (NDLP). The program is a public-private partnership created to digitize American history and cultural materials, to build a broad-based national coalition of digital archives and libraries, to provide access to electronic materials, to develop a catalog for electronic materials, to promote standards and best practices for exchange and the use of digital materials, and to provide other related future services. The NDLP, when completed, will be an unsurpassed on-line resource for the study of American history and culture. Making priceless treasures of American history accessible to all Americans in their own local communities is central to the Library of Congress' (Library) goal of enriching education in America and widening access to the documentary record of America's knowledge and creativity.

The National Digital Library Trust Fund consists of the following sub-accounts:

- NDLP General Trust
- Kellogg Trust
- Ameritech Trust
- McCormick Tribune Trust

The NDLTF is the primary private sector source of funding for the NDLP. The program also receives funding from appropriated funds and a gift fund.

The NDLTF was approved by the Library of Congress Trust Fund Board and the Joint Committee on the Library in September 1994 and operates on a fiscal year beginning October 1 and ending September 30.

Significant accounting policies followed by the NDLTF are presented below:

B. BASIS OF PRESENTATION

The financial statements are prepared from the Library of Congress' financial management system in accordance with the form and content for entity financial statements specified by the Library's Financial Management Regulations and Directives and the accounting policies' summarized herein. The Library provides certain general administrative support (e.g., indirect personnel, space, financial services) to the NDLTF at no cost. Direct personnel costs of Library employees who work on behalf of the NDLTF are reflected in the accompanying financial statements.

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

C. BASIS OF ACCOUNTING

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

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

Using the above hierarchy, transactions are recorded on an accrual method, where revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

D. CAPITAL ASSETS

The financial statements do not include capital assets that are purchased for the Library of Congress and other funds. Capital assets are expensed when purchased and ownership is transferred to the Library of Congress.

E. INCOME TAX

The NDLTF operates for the benefit of the Library of Congress which is an instrument of the United States and, as such, is not subject to income tax.

F. INVESTMENT POLICY

The Library of Congress Trust Fund Board determines the investment policy for the Library's trust funds. NDLTFs are invested in a pool of U.S. Treasury market-based securities.

Investments in U.S. Treasury market-based securities are stated at cost net of any unamortized premium or discount, which approximates market value at September 30, 1997.

Note 2. Investments

NDLTFs are invested in U.S. Treasury short-term securities. Investments consisted of the following:

Investment	Cost	Unamortized Premium	Unrealized Discount	Net Investment
NDL General Trust	$8,786,937	$76,649	$60,358	$8,803,228
Kellogg Trust	1,110,868	10,650	8,386	1,113,132
Ameritech Trust	392,068	4,128	3,251	392,945
McCormick Trust	932,598	8,381	6,600	934,379
Total Trusts	$11,222,471	$99,808	$78,595	$11,243,684

Note 3. Pledges

Contributions of unconditional promises to give (pledges) to the NDLTF are recognized as revenue in the period received. They are recorded at their present value using a market discount rate. Accretion of the discount in subsequent years is also recorded as revenue. Outstanding pledges of $8,960,000 at September 30, 1997, were discounted through fiscal year 2001 at a market discount rate and are included in the statement of financial position at their discounted present value of $8,086,988. The amounts due in future years at their current discounted value are: $3,673,972 in fiscal 1998; $2,841,966 in fiscal 1999; $1,095,250 in fiscal 2000; and $475,800 in fiscal 2001.

Note 4. Cumulative Results of Operations

The cumulative results of operations includes undelivered orders of $587,827, which are funds that have been obligated for goods and services not yet received for NDLTF operations and designated projects.

Note 5. Donations

The NDLTF donations excludes a donation received from the Ford Foundation of $500,000 to support the National Digital Library program.

Note 6. Imputed Financing for Cost Subsidies

The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards Number 5 (SSFAS-5)—"Accounting for Liabilities of the Federal Government." SSFAS-5 requires that employing agencies recognize the full cost of pensions and other health and life insurance benefits during their employees' active years of service. SSFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. As a result of SSFAS-5, an adjustment of $64,077 was recorded as the employee cost subsidized by OPM and the offsetting imputed financing source and a corresponding expense in the accompanying financial statements. This adjustment did not change the NDLTF's net position.

Note 7. Adjustment to Net Position

As recommended by the Library's Inspector General (IG), the NDLP General Trust Fund was adjusted to include the net assets of the American Memory Fund and National Demonstration Laboratory Fund. The IG determined that these two funds could be used for programs involving digitizing the Library's collections. The IG recommended that the Library merge the two funds with the NDLTF and close out these fund accounts.

Subsequent correspondence, memo dated August 7, 1997, from the Director of the National Digital Library to the Assistant IG authorized the transfer of the funds.

Note 8. Subsequent Events

At the James Madison National Council Business Meeting on February 20, 1998, Chairman John W. Kluge announced that he will pledge up to $5 million for the NDLP in the form of a 2:1 matching gift, to help complete the overall funding goal.

Supplemental_Information://

Consolidating Schedule of Financial Position

National Digital Library Trust Fund

September 30, 1997

	NDL General Trust	Kellogg Trust	Ameritech Trust	McCormick Tribune Trust	Consolidated
ASSETS					
Entity assets:					
Intergovernmental assets					
Fund balance with U.S. Treasury	$546,451	$75,963	$29,445	$59,782	$711,641
Investments with U.S. Treasury	8,803,228	1,113,131	392,946	934,379	11,243,684
Governmental assets					
Accounts receivable	501	284	—	—	785
Pledges receivable	7,166,688	—	920,300	—	8,086,988
Total assets	**$16,516,868**	**$1,189,378**	**$1,342,691**	**$994,161**	**$20,043,098**
LIABILITIES					
Liabilities covered by budgetary resources:					
Accounts payable	$83,979	$36,607	$1,980	—	$122,566
Accrued payroll and benefits	65,731	17,024	3,656	—	86,411
Total liabilities	**149,710**	**53,631**	**5,636**	**—**	**208,977**
NET POSITION					
Cumulative results of operations	16,367,158	1,135,747	1,337,055	994,161	19,834,121
Total liabilities and net position	**$16,516,868**	**$1,189,378**	**$1,342,691**	**$994,161**	**$20,043,098**

Consolidating Schedule of Operations and Changes in Net Position

National Digital Library Trust Fund

For the fiscal year ended September 30, 1997

	NDL General Trust	Kellogg Trust	Ameritech Trust	McCormick Tribune Trust	Consolidated
REVENUES AND FINANCING SOURCES					
Donations	$5,392,580	$42,120	$86,300	$390	$5,521,390
Interest	457,460	57,927	20,446	47,771	583,604
Imputed financing sources	40,789	23,288	—	—	64,077
Total revenues and financing sources	5,890,829	123,335	106,746	48,161	6,169,071
EXPENSES					
Personnel costs	1,443,629	393,175	117,498	—	1,954,302
Services of other agencies	950,000	—	25,000	—	975,000
Professional and consultant services	80,094	465,369	7,341	—	552,804
Awards to other archival institutions (Ameritech)	—	—	410,473	—	410,473
Other services	177,266	58,415	21,659	—	257,340
Non-capitalized equipment	124,689	5,879	5,302	—	135,870
Printing, publishing and photoduplicating	24,818	54,341	8,943	—	88,102
Travel and transportation	20,653	25,207	6,935	—	52,795
Computer software	33,512	1,505	428	—	35,445
Office supplies	23,994	6,442	4,422	—	34,858
Tuition and training	11,110	1,444	—	—	12,554
Entertainment	66	5,468	679	—	6,213
Postage	4,175	—	870	—	5,045
Subsistence/support persons	—	—	3,170	—	3,170
Training contracts	—	2,989	—	—	2,989
Books and library materials	1,985	—	—	—	1,985
Security investigations	198	—	—	—	198
Total expenses	2,896,189	1,020,234	612,720	—	4,529,143
Excess revenues over financing expenses	$2,994,640	($896,899)	($505,974)	$48,161	$1,639,928
CHANGES IN NET POSITION					
Net Position, Beginning Balance, as Previously Reported	$14,186,686	$2,018,258	$1,838,265	—	$18,043,209
Adjustment to Net Position (Note 7)	161,460	—	—	—	161,460
Net Position, Beginning Balance, as Restated	14,348,146	2,018,258	1,838,265	—	18,204,669
Excess (shortage) of Revenues and Financing Sources over Total Expenses	2,994,640	(896,899)	(505,974)	48,161	1,639,928
Less: Non-Operating Changes	(975,628)	14,388	4,764	946,000	(10,476)
Net position, ending balance	$16,367,158	$1,135,747	$1,337,055	$994,161	$19,834,121