

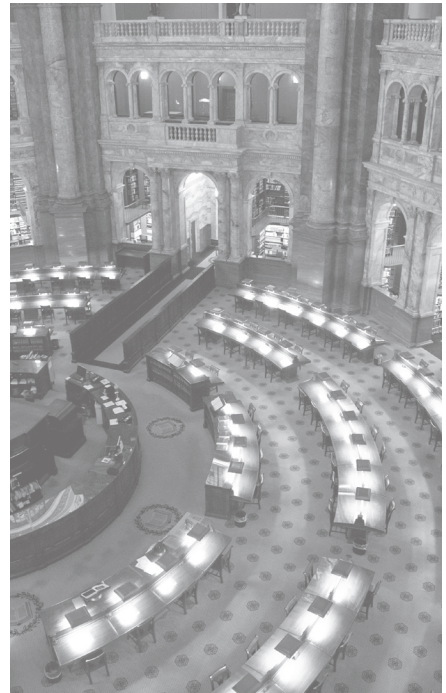
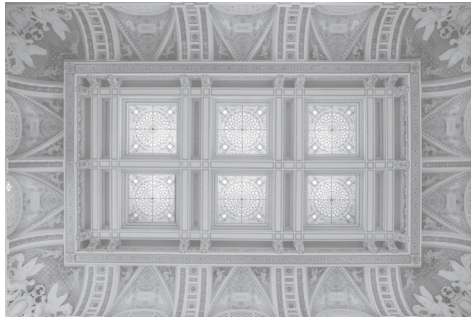
LIBRARY
LIBRARY
OF CONGRESS



Statutory Licensing Fiduciary Assets Financial Statements and Independent Auditors' Report

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

LIBRARY
LIBRARY
OF CONGRESS



Statutory Licensing Fiduciary Assets Financial Statements and Independent Auditors' Report

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

Statutory Licensing Fiduciary Assets Financial Statements and Independent Auditors' Report

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019


Table of Contents

| | |
|--|-----------|
| Results of the Library of Congress' FY 2019 Fiduciary Fund Financial Statements Audit | 1 |
| Financial Statements | 5 |
| Notes to the Financial Statements | 7 |
| Independent Auditor's Report | 17 |

Results of the Library of Congress' FY 2019 Fiduciary Fund Financial Statements Audit



MEMO

Date June 23, 2020
To Dr. Carla Hayden
Librarian of Congress
From Kurt W. Hyde 
Inspector General
Subject Results of the Library of Congress' FY 2019 Fiduciary Fund Financial
Statement Audit, Report No. 2019-FN-103

The attached report present the results of the audit of the fiscal year (FY) 2019 statement of fiduciary net assets and statement of fiduciary activity of the Library of Congress (Library).

We contracted with the independent public accounting firm of Cotton & Company, LLP (Cotton) to audit the financial statements of the Library's fiduciary fund as of and for the FYs ended September 30, 2019, and 2018, and to provide a report on internal control over financial reporting and compliance with laws and other matters. The contract required that the audit be performed in accordance with *Government Auditing Standards*, Office of Management and Budget audit guidance, and the GAO/CIGIE *Financial Audit Manual*.

Results of Independent Audit

In its audit of the Library's fiduciary fund, Cotton reported:

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material or significant weaknesses in internal control over financial reporting;¹ and

¹ A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control 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 and correct misstatements on a timely basis.

- no reportable noncompliance with provisions of laws and regulations tested or other matters.

Office of the Inspector General Oversight of Cotton

In connection with the contract, we reviewed Cotton's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on the Library's financial statements, conclusions about the effectiveness of internal controls over financial reporting, or on compliance with laws and other matters. Cotton is responsible for the attached auditor's report dated June 17, 2020, and the conclusions expressed therein. However, our review disclosed no instances where Cotton did not comply, in all material respects, with *Government Auditing Standards*.

cc: Principal Deputy Librarian
Acting Register of Copyrights
Chief Operating Officer
Chief Financial Officer
General Counsel

Attachment

101 Independence Ave S.E., Washington, DC 20540



Office of the Librarian

MEMORANDUM

DATE June 10, 2020
TO Kurt Hyde, Inspector General
FROM Carla Hayden, Librarian of Congress *Carla Hayden*
SUBJECT Management Response to Independent Auditor's Report on the Library of Congress' FY 2019 Fiduciary Fund Financial Statement

The Library of Congress (Library) has reviewed the draft Independent Auditor's Report from Cotton & Company, LLP, which includes the auditor's opinion on the Library's fiduciary net assets and statement of fiduciary activity, consideration of the Library's internal control over financial reporting, and report on compliance with laws and regulations.

We are pleased the Library's U.S. Copyright Office (USCO) again received a clean audit opinion. We appreciate the professionalism and dedication by all parties during this audit process. As this opinion demonstrates, the USCO remains committed to strong financial governance and management in the execution of its fiduciary duties.

Attachment

cc: Maria Strong, Acting Register of Copyrights
Mary Klutts, Chief Financial Officer
Jody Harry, USCO Chief Financial Officer

This page is intentionally left blank.

Financial Statements

STATEMENTS OF FIDUCIARY NET ASSETS

AS OF SEPTEMBER 30, 2019 AND 2018

(in thousands)

| | FY 2019 | FY 2018 |
|---|---------------------|---------------------|
| Investments in U.S. Treasury securities, net (Note 2) | \$ 1,450,811 | \$ 1,313,237 |
| Fund Balance with Treasury | 218 | 397 |
| Interest receivable | 132 | 102 |
| TOTAL FIDUCIARY NET ASSETS (Note 3) | \$ 1,451,161 | \$ 1,313,736 |

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

STATEMENTS OF FIDUCIARY ACTIVITY

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

(in thousands)

| | FY 2019 | FY 2018 |
|---|---------------------|---------------------|
| Beginning Fiduciary Net Assets | \$ 1,313,736 | \$ 1,177,759 |
| Royalty fees received (Note 4) | 242,349 | 221,669 |
| Investment earnings (Note 5) | 30,524 | 18,559 |
| Total Inflows to Fiduciary Net Assets | 272,873 | 240,228 |
| Distributions to copyright owners (Note 6) | (130,697) | (102,007) |
| Refunds of royalty fees | (506) | (127) |
| Net royalty fees retained for administrative costs (Note 8) | (4,245) | (2,117) |
| Total Outflows from Fiduciary Net Assets | (135,448) | (104,251) |
| Increase in Fiduciary Net Assets | 137,425 | 135,977 |
| ENDING FIDUCIARY NET ASSETS | \$ 1,451,161 | \$ 1,313,736 |

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

This page is intentionally left blank.

Notes to the Financial Statements

(1) SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Reporting Entity

The Library of Congress (“the Library”) is responsible for the fiduciary activities related to the collection or receipt, and the subsequent management, protection, accounting, investment and disposition of certain statutory royalty fees to which copyright owners have an ownership interest under the Copyright Act (Title 17 of the U.S. Code, “the Act”). As a department within the Library, and under the direction of the Register of Copyrights, the U.S. Copyright Office (USCO) administers the Nation’s copyright laws and provides expert advice and guidance to Congress, Executive Branch agencies, and the courts, on matters of copyright law and policy. The USCO provides for a centralized system of copyright registration and deposit, and works to expand and protect the role of copyright in the advancement of the public good and in support of vital segments of the U.S. economy.

Through the administration of the statutory licensing provisions of the Act, the USCO collects royalty fees due to copyright owners from cable operators for the retransmission of over-the-air television and radio broadcast stations to subscribers (17 U.S.C. §111), from satellite carriers for the retransmission of distant over-the-air television broadcast stations for private home viewing (17 U.S.C. §119), and from importers or manufacturers for distributing products that employ Digital Audio Recording Technologies (DART) (17 U.S.C. §1003).

In addition to royalty fees collected, the Act provides that the Copyright Office’s Licensing Division may charge cable operators and satellite carriers fees for the filing of statements of account (SOA) under sections 111, 119, and 122. In addition to the SOA filing fees, the Copyright Royalty Judges (CRJs), <https://www.crb.gov>, also charge a filing fee for participation in a CRJ proceeding. See (e) Amounts Collected and Offset for Administrative Costs, below.

The USCO deducts certain reasonable costs of the Licensing Division and of the CRJs from the SOA filing, CRJ filing, and royalty fees collected for administering the statutory licensing provisions. The amount deducted is limited to the appropriated authority provided by Congress. The remaining royalty fees for each license type and filing year are then invested on behalf of copyright owners until they are disbursed to qualifying copyright owners based on orders issued by the CRJs, who are appointed by the Librarian of Congress. Controversies regarding the distribution of the royalties are resolved by the CRJs, who have jurisdiction over setting royalty rates and terms and determining distributions. Determinations of the CRJs may be appealed to the United States Court of Appeals for the District of Columbia Circuit.

(b) Basis of Accounting and Presentation

The accompanying financial statements report the fiduciary net assets and changes in the fiduciary net assets for fiscal years 2019 and 2018. The statements were prepared from the Library’s financial management system in accordance with Generally Accepted Accounting Principles (GAAP).

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). Nor is the Library required to prepare general purpose financial statements or follow FASAB GAAP. Nevertheless, pursuant to 2 U.S.C. 136, the Library has issued Library of Congress Regulation (LCR) 6-110, Financial Management, which adopts FASAB standards for financial reporting and internal controls in a manner consistent with a legislative agency, and insofar as practical, conforms to GAAP for federal agencies.

The Library has not adopted the Federal Financial Management Improvement Act of 1996, the Federal Managers' Financial Integrity Act, the Government Performance and Results Act (GPRA), and the GPRA Modernization Act, as these authorities are not applicable to the Library. However, the Library uses these sources as guidance and reference in its operations.

Fiduciary assets are not assets of the Library of Congress and are not recognized on the balance sheet of the Library of Congress.

(c) Fund Balance with Treasury

The amount shown as Fund Balance with Treasury represents the balance of uninvested royalty fees on deposit with the U.S. Treasury, and filing fees on deposit with the U.S. Treasury that are not part of the net fiduciary assets, but are pending offset against administrative costs of the Licensing Division and of the CRJs.

(d) Investments in U.S. Treasury securities, net

Treasury securities are intended to be held to maturity, are valued at cost and are adjusted for the amortization of discounts and premiums. Discounts and premiums are amortized over the term of the security using the effective interest method for all long term securities and the straight line method for short term securities. Interest earned is computed using the straight-line method, which approximates the effective interest method.

In accordance with the statutory licensing provisions of the Act, royalty fees collected for each license type and filing year are invested on behalf of copyright owners, net of reasonable costs incurred by the USCO, in U.S. Treasury securities. Interest income accrues to the copyright owners. The Treasury notes and bills are issued to governmental accounts and are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

To ensure liquidity for distributions, royalty fees collected are generally first invested in U.S. Treasury notes with maturities of approximately one year. If funds are not immediately needed to fulfill a distribution order issued by the CRJs, funds from maturing securities are generally reinvested in U.S. Treasury bills with maturities of six to eight weeks. Maturity dates for fiduciary investments held at September 30, 2019 and 2018 range from November 21, 2019 to August 31, 2020 and October 04, 2018 to August 31, 2019, respectively. The yields on investments that matured in fiscal years 2019 and 2018 ranged between 1.917% and 2.603% and 0.964% (updated) and 2.010% (updated), respectively. In fiscal year 2019, the Copyright Office revised the formula used to calculate investment yields.

(e) Amounts Collected and Offset for Administrative Costs

The USCO's Licensing Division and the CRJs receive annual, appropriated authority to expend for certain costs related to their respective duties regarding the statutory licensing provisions of the Act, including costs of collection and administration of licensee SOAs and administration and distribution of any royalty fees deposited with such statements.

Under the appropriation acts, authority is provided for funding administrative costs through fees collected (offsetting collections), and the Library of Congress retains filing, royalty, and CRJ participation fees collected in amounts necessary to fund the costs as stipulated under the authority. In accordance with Library procedures, fees are initially retained in amounts to provide for the full fiscal year authority for the offsetting collections of the Licensing Division and of the CRJs. The offsetting collection authority under the relevant appropriations expires at the end of the associated fiscal year, but remains available for adjustments of obligations for a five-year period, after which the authority is cancelled. Until the cancellation of the appropriation, it is the policy of the USCO to retain one percent of the unobligated offsetting authority remaining for each fiscal year plus any amounts necessary for known contingencies as a reserve for these adjustments.

Filing fees collected by the USCO from licensees required to file SOAs under the statutory licensing provisions of the Act or to participate in proceedings of the CRJs are not part of the fiduciary balances administered by the USCO. Filing fees collected reduce the amount of royalty fees retained for administrative costs of the Licensing Division and of the CRJs.

Section 708(a) of the Act provides that filing fees established for the filing of SOAs for the cable or satellite statutory licenses may not exceed one-half of the cost necessary to cover reasonable expenses incurred by the USCO for collection and administration of SOAs and any royalty fees deposited with such statements. The USCO evaluates these fees as part of recurring fee studies conducted for these and other fees established under Section 708.

(f) Refunds and Underpayments

Refunds may arise when a cable, satellite, or DART licensee inadvertently overpays or is otherwise entitled to a refund. Additional royalty fees may also be requested from the licensee to resolve underpayments, including underpayments of interest associated with a late filing.

(2) INVESTMENTS IN U.S. TREASURY SECURITIES, NET

Invested royalty fees by license type as of September 30, 2019 and 2018 are as follows:

(in thousands)

| License Type | FY 2019 | | | FY 2018 | | |
|-------------------------|---------------------|----------------------|---------------------|---------------------|----------------------|---------------------|
| | Face Value | Unamortized Discount | Investments, Net | Face Value | Unamortized Discount | Investments, Net |
| Cable | \$ 1,166,739 | \$ (3,108) | \$ 1,163,631 | \$ 996,381 | \$ (2,006) | \$ 994,375 |
| Satellite | 287,517 | (740) | 286,777 | 318,496 | (116) | 318,380 |
| DART | 404 | (1) | 403 | 482 | – | 482 |
| INVESTMENTS, NET | \$ 1,454,660 | \$ (3,849) | \$ 1,450,811 | \$ 1,315,359 | \$ (2,122) | \$ 1,313,237 |

(3) FIDUCIARY NET ASSETS

Fiduciary net assets are maintained in separate investment “pools” by license type and by the calendar filing year for which the royalty fees were due from licensees subject to the statutory licensing provisions of the Act. Fiduciary net assets by license type and filing year as of September 30, 2019 and 2018 are as follows:

(in thousands)

| Calendar License Filing Year | FY 2019 | | | | FY 2018 | | | |
|-----------------------------------|--------------------|--------------------|-------------------|---------------|--------------------|-------------------|-------------------|---------------|
| | Total | Cable | Satellite | DART | Total | Cable | Satellite | DART |
| 2019 | \$ 118,892 | \$ 114,487 | \$ 4,405 | \$ – | \$ – | \$ – | \$ – | \$ – |
| 2018 | 233,786 | 222,706 | 11,080 | – | 111,696 | 105,879 | 5,817 | – |
| 2017 | 132,670 | 125,060 | 7,604 | 6 | 215,807 | 203,411 | 12,390 | 6 |
| 2016 | 113,143 | 104,962 | 8,180 | 1 | 115,612 | 102,282 | 13,329 | 1 |
| 2015 | 114,466 | 89,123 | 25,291 | 52 | 148,775 | 86,920 | 61,807 | 48 |
| 2014 | 132,498 | 97,820 | 34,604 | 74 | 129,454 | 95,556 | 33,828 | 70 |
| 2013 | 128,253 | 91,818 | 36,424 | 11 | 125,392 | 89,766 | 35,616 | 10 |
| 2012 | 126,186 | 88,581 | 37,577 | 28 | 123,398 | 86,623 | 36,747 | 28 |
| 2011 | 155,118 | 105,672 | 49,408 | 38 | 151,727 | 103,337 | 48,316 | 74 |
| 2010 | 149,748 | 100,726 | 48,847 | 175 | 146,473 | 98,500 | 47,767 | 206 |
| 2009 | 4,475 | 2,414 | 2,050 | 11 | 4,400 | 2,360 | 2,004 | 36 |
| 2008 | 3,904 | 3,313 | 584 | 7 | 3,818 | 3,240 | 571 | 7 |
| 2007 | 5,357 | 3,253 | 2,100 | 4 | 5,239 | 3,181 | 2,054 | 4 |
| 2006 | 5,382 | 3,284 | 2,098 | – | 5,264 | 3,212 | 2,052 | – |
| 2005 | 5,321 | 3,247 | 2,074 | – | 5,204 | 3,176 | 2,028 | – |
| 2004 | 5,255 | 3,213 | 2,042 | – | 5,139 | 3,142 | 1,997 | – |
| 2003 | 3,448 | 644 | 2,804 | – | 3,372 | 630 | 2,742 | – |
| 2002 | 3,711 | 846 | 2,865 | – | 3,630 | 828 | 2,802 | – |
| 2001 | 3,826 | 816 | 3,010 | – | 3,742 | 798 | 2,944 | – |
| 2000 | 5,159 | 1,964 | 3,195 | – | 5,044 | 1,920 | 3,124 | – |
| 1999 | 563 | 1 | 562 | – | 550 | 1 | 549 | – |
| TOTAL FIDUCIARY NET ASSETS | \$1,451,161 | \$1,163,950 | \$ 286,804 | \$ 407 | \$1,313,736 | \$ 994,762 | \$ 318,484 | \$ 490 |

(4) ROYALTY FEES RECEIVED

Cable and satellite licensees subject to the statutory licensing provisions of the Act are required to file a statement of account and submit royalty fee payments on a semi-annual basis each calendar year. DART licensees file quarterly and annual statements of account based upon the remitter's fiscal year, and submit royalty fee payments as part of those filings. Royalty fees received for the years ended September 30, 2019 and 2018 are as follows:

(in thousands)

| Calendar License Filing Year | FY 2019 | | | | FY 2018 | | | |
|------------------------------------|-------------------|-------------------|-----------------|-------------|-------------------|-------------------|------------------|-------------|
| | Total | Cable | Satellite | DART | Total | Cable | Satellite | DART |
| 2019 | \$ 122,346 | \$ 117,867 | \$ 4,479 | \$ – | \$ – | \$ – | \$ – | \$ – |
| 2018 | 119,178 | 114,105 | 5,071 | 2 | 114,573 | 108,710 | 5,861 | 2 |
| 2017 | 366 | 366 | – | – | 106,945 | 100,970 | 5,971 | 4 |
| 2016 | 318 | 318 | – | – | 82 | 81 | – | 1 |
| 2015 | 141 | 141 | – | – | 65 | 66 | – | (1) |
| 2014 | – | – | – | – | 4 | 4 | – | – |
| TOTAL ROYALTY FEES RECEIVED | \$ 242,349 | \$ 232,797 | \$ 9,550 | \$ 2 | \$ 221,669 | \$ 209,831 | \$ 11,832 | \$ 6 |

(5) INVESTMENT EARNINGS

Investment earnings by calendar license filing year for the years ended September 30, 2019 and 2018 are as follows:

(in thousands)

| Calendar License Filing Year | FY 2019 | | | FY 2018 | | |
|----------------------------------|------------------|-----------------|------------------|------------------|---------------|------------------|
| | Total | Interest | Premium/Discount | Total | Interest | Premium/Discount |
| 2019 | \$ 190 | \$ 137 | \$ 53 | \$ – | \$ – | \$ – |
| 2018 | 4,368 | 1,105 | 3,263 | 151 | 102 | 49 |
| 2017 | 4,413 | – | 4,413 | 2,516 | 842 | 1,674 |
| 2016 | 2,616 | – | 2,616 | 2,955 | – | 2,955 |
| 2015 | 2,626 | – | 2,626 | 2,210 | – | 2,210 |
| 2014 | 2,926 | – | 2,926 | 1,924 | – | 1,924 |
| 2013 | 2,834 | – | 2,834 | 1,863 | – | 1,863 |
| 2012 | 2,789 | – | 2,789 | 1,834 | – | 1,834 |
| 2011 | 3,428 | – | 3,428 | 2,255 | – | 2,255 |
| 2010 | 3,309 | – | 3,309 | 2,177 | – | 2,177 |
| 2009 | 99 | – | 99 | 65 | – | 65 |
| 2008 | 86 | – | 86 | 57 | – | 57 |
| 2007 | 118 | – | 118 | 78 | – | 78 |
| 2006 | 119 | – | 119 | 78 | – | 78 |
| 2005 | 118 | – | 118 | 77 | – | 77 |
| 2004 | 116 | – | 116 | 76 | – | 76 |
| 2003 | 76 | – | 76 | 50 | – | 50 |
| 2002 | 82 | – | 82 | 54 | – | 54 |
| 2001 | 85 | – | 85 | 56 | – | 56 |
| 2000 | 114 | – | 114 | 75 | – | 75 |
| 1999 | 12 | – | 12 | 8 | – | 8 |
| TOTAL INVESTMENT EARNINGS | \$ 30,524 | \$ 1,242 | \$ 29,282 | \$ 18,559 | \$ 944 | \$ 17,615 |

(6) DISTRIBUTIONS TO COPYRIGHT OWNERS

The CRJs have jurisdiction over determinations concerning adjustments and determinations of copyright royalty rates and terms, the distribution of copyright royalties, and other determinations relating to statutory licensing as set forth in Chapter 8 of the Act. Distributions of fiduciary assets to copyright owners are made by the USCO in accordance with the CRJ distribution orders.

For the years ended September 30, 2019 and 2018, the USCO distributed the following amounts to copyright owners:

(in thousands)

| Calendar License Filing Year | FY 2019 | | | | FY 2018 | | | |
|--|-------------------|------------------|------------------|--------------|-------------------|-------------------|-------------|-------------|
| | Total | Cable | Satellite | DART | Total | Cable | Satellite | DART |
| 2017 | \$ 87,970 | \$ 82,902 | \$ 5,068 | \$ – | \$ – | \$ – | \$ – | \$ – |
| 2016 | 5,453 | – | 5,453 | – | 102,002 | 102,002 | – | – |
| 2015 | 37,184 | – | 37,184 | – | – | – | – | – |
| 2014 | – | – | – | – | 1 | – | – | 1 |
| 2013 | – | – | – | – | – | – | – | – |
| 2012 | – | – | – | – | 3 | – | – | 3 |
| 2011 | 35 | – | – | 35 | 1 | – | – | 1 |
| 2010 | 31 | – | – | 31 | – | – | – | – |
| 2009 | 24 | – | – | 24 | – | – | – | – |
| TOTAL DISTRIBUTIONS TO COPYRIGHT OWNERS | \$ 130,697 | \$ 82,902 | \$ 47,705 | \$ 90 | \$ 102,007 | \$ 102,002 | \$ – | \$ 5 |

(7) AMOUNTS COLLECTED AND OFFSET FOR ADMINISTRATIVE COSTS

For fiscal year 2019, offsetting collection authority for the Licensing Division and the CRJ totaled \$5.755 million and \$.517 million, respectively, for a combined total of \$6.272 million. For fiscal year 2018, offsetting collection authority for the Licensing Division and the CRJ totaled \$5.680 million and \$.406 million, respectively, for a combined total of \$6.086 million.

For the years ended September 30, 2019 and 2018, filing and royalty fees available for offset of fiscal year administrative costs (offsetting collections) are as follows:

FY 2019 *(in thousands)*

| Description | Total | USCO Licensing Division | CRJs |
|--|-----------------|-------------------------|---------------|
| Filing fees | \$ 1,400 | \$ 1,392 | \$ 8 |
| License filing year 2019 royalty fees | \$ 3,654 | \$ 3,272 | \$ 382 |
| License filing year 2018 royalty fees | 1,218 | 1,091 | 127 |
| FEES COLLECTED TO OFFSET ADMINISTRATIVE COSTS | \$ 6,272 | \$ 5,755 | \$ 517 |

FY 2018 *(in thousands)*

| Description | Total | USCO Licensing Division | CRJs |
|--|-----------------|-------------------------|---------------|
| Filing fees | \$ 1,609 | \$ 1,609 | \$ – |
| License filing year 2018 royalty fees | \$ 3,070 | \$ 2,764 | \$ 306 |
| License filing year 2017 royalty fees | 1,407 | 1,307 | 100 |
| FEES COLLECTED TO OFFSET ADMINISTRATIVE COSTS | \$ 6,086 | \$ 5,680 | \$ 406 |

(8) NET ROYALTY FEES RETAINED FOR ADMINISTRATIVE COSTS

Royalty fees are collected on a calendar year basis, so amounts retained for any given fiscal year are deducted from royalties collected for periods that span two calendar years (the current and previous calendar year). In subsequent fiscal years, the Library's upward and downward adjustments of obligated balances may cause adjustments in the balances of royalties retained. Upon the cancellation of the authority for offsetting collections, all residual balances are refunded to the royalty accounts affected.

For the years ended September 30, 2019 and 2018, the net royalty fees retained for administrative costs consisted of the following:

(in thousands)

| Description | FY 2019 | | | FY 2018 | | |
|---|-----------------------------|-------------------------|---------------|-----------------------------|-------------------------|---------------|
| | Total Royalty Fees Retained | USCO Licensing Division | CRJs | Total Royalty Fees Retained | USCO Licensing Division | CRJs |
| 2019 royalty fees retained | \$ 3,654 | \$ 3,272 | \$ 382 | \$ – | \$ – | \$ – |
| 2018 royalty fees retained | 1,218 | 1,091 | 127 | 3,070 | 2,764 | 306 |
| 2018 royalty fees refunded | (207) | (168) | (39) | – | – | – |
| 2017 royalty fees retained | – | – | – | 1,407 | 1,307 | 100 |
| 2017 royalty fees refunded | (112) | (93) | (19) | (2,285) | (2,245) | (40) |
| 2016 royalty fees refunded | (52) | (42) | (10) | (50) | (50) | – |
| 2015 royalty fees refunded | (109) | (95) | (14) | – | – | – |
| 2014 royalty fees refunded | (120) | (98) | (22) | – | – | – |
| 2013 royalty fees refunded | (27) | (20) | (7) | (25) | (25) | – |
| NET ROYALTY FEES RETAINED FOR ADMINISTRATIVE COSTS | \$ 4,245 | \$ 3,847 | \$ 398 | \$ 2,117 | \$ 1,751 | \$ 366 |

This page is intentionally left blank.

Independent Auditor's Report



Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT

To the Inspector General
Library of Congress

In our audits of the fiscal years 2019 and 2018 statements of fiduciary net assets and statements of fiduciary activity (the fiduciary financial statements) of the Library of Congress we found:

- The fiduciary financial statements as of and for the fiscal years ended September 30, 2019 and 2018, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting as of September 30, 2019; and
- No reportable noncompliance in fiscal year 2019 with the provisions of applicable laws; regulations; contracts; and grant agreements that we tested.

The following sections contain:

1. Our report on the fiduciary financial statements referred to above; and
2. Other reporting required by *Government Auditing Standards*, which is our report on the Library of Congress' (a) internal control over financial reporting, and (b) compliance with laws; regulations; contracts; and grant agreements.

REPORT ON THE FIDUCIARY FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Library of Congress, which comprise the statements of fiduciary net assets as of September 30, 2019 and 2018, the related statements of fiduciary activity for the years then ended, and the related notes to the fiduciary financial statements.

Management's Responsibility for the Fiduciary Financial Statements

Management is responsible for the preparation and fair presentation of these fiduciary financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of fiduciary financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these fiduciary financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued in 2011 by the Comptroller General of the United States. Those standards require that we plan

and perform the audit to obtain reasonable assurance about whether the fiduciary financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the fiduciary financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the fiduciary financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the fiduciary financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the fiduciary financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the fiduciary financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Library of Congress as of September 30, 2019 and 2018, and its fiduciary activity for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(b) to the fiduciary financial statements, fiduciary assets are not assets of the Library of Congress and are not recognized on the balance sheet of the Library of Congress. Our opinion is not modified with respect to this matter.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

Report on Internal Control over Financial Reporting and on Compliance with Laws; Regulations; Contracts; and Grant Agreements

Internal Control over Financial Reporting

In planning and performing our audit of the fiscal year 2019 fiduciary financial statements, we considered the Library of Congress' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the fiduciary financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library of Congress' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library of Congress' internal control over financial reporting.

A *deficiency in internal control over financial reporting* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We will issue a separate letter to management, which will describe certain other deficiencies that are less important than material weaknesses or significant deficiencies.

Inherent Limitations of Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Compliance with Laws; Regulations; Contracts; and Grant Agreements

As part of obtaining reasonable assurance about whether the Library of Congress' fiduciary financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws; regulations; contracts; and grant agreements, noncompliance with which could have a direct and material effect on the determination of fiduciary 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.

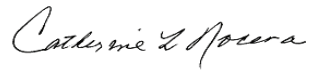
We did not test compliance with all laws; regulations; contracts; and grant agreements applicable to the Library of Congress. We limited our tests of compliance to those provisions of laws; regulations; contracts; and grant agreements that we deemed applicable to the fiduciary financial statements for the fiscal year ended September 30, 2019. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the "Other Reporting Required by *Government Auditing Standards*" is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This other reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* in

considering the entity's internal control and compliance. Accordingly, this other reporting is not suitable for any other purpose.

COTTON & COMPANY LLP



Catherine L. Nocera, CPA, CISA
Partner
Alexandria, VA
June 17, 2020



LIBRARY

**LIBRARY
OF CONGRESS**

101 Independence Avenue, SE
Washington, DC 20540
loc.gov