

PART 3 FINANCIAL SECTION

A Message from the Chief Financial Officer



I am pleased to present the National Archives and Records Administration's (NARA) financial statements for fiscal year 2004.

This is the first year that NARA has been required to issue audited financial statements in accordance with the Chief Financial Officer's Act of 1990, as mandated by the Accountability of Tax Dollars Act of 2002. To meet this challenge NARA has had to redefine its work processes and develop a framework for preparing auditable financial statements in conformity with Office of Management and Budget (OMB) and other applicable guidance. The process of pulling together financial records to prepare the audited financial statements has already resulted in improvements in financial management processes and internal controls. The longer term goal is to further develop and institutionalize these improvements.

To meet the new stringent reporting requirements, NARA took action to contract with a new accounting service provider. Deficiencies of the current provider's financial system became a major obstacle to obtaining timely, accurate financial information. It is anticipated that this decision will result in significant improvements to NARA's accounting processes, financial reporting, and internal controls. The conversion process will begin in fiscal year 2005, with implementation planned for the start of fiscal year 2006.

Despite the implied promise of significant improvement resulting from this major change, further challenges remain as NARA works to implement the new financial system, improve financial management processes and internal controls, and, ultimately, address the spirit of the President's Management Agenda. This will be a longer-term process, if the experience of the agencies initially subject to the Chief Financial Officer's Act can be used as a measure. Nevertheless, NARA has made a good start.

A handwritten signature in black ink that reads "Adrienne C. Thomas". The signature is written in a cursive, flowing style.

Adrienne C. Thomas
Assistant Archivist for Administrative Services
Chief Financial Officer

Auditor's Reports

Inspector General's Summary

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2004

OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY

This report presents the results of the audit of the National Archives and Records Administration's (NARA) financial statements as of September 30, 2004 and for the year then ended. We contracted with the independent certified public accounting firm of Clifton Gunderson, LLP (CG) to perform the audit. The contract required the audit be done in accordance with U.S. generally accepted auditing standards and OMB's bulletin, *Audit Requirements for Federal Financial Statements*, and GAO/PCIE *Financial Audit Manual*.

In its audit of the NARA's financial statements, CG issued a qualified opinion. CG was unable to apply adequate audit procedures on property, plant and equipment (PPE), recoveries of prior year obligations, direct obligation incurred and undelivered orders.

In the Report on Internal Controls, CG reported four material weaknesses¹ in the following areas, financial reporting, PPE, investments in non-Federal securities, and information technology. CG also reported three reportable conditions² in the following areas, payroll, cost allocation methodology and Federal Managers' Financial Integrity Act Compliance and Reporting.

In the Compliance with Laws and Regulations report, CG reported NARA's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA) requirements, applicable Federal accounting standards and the United States Standard General Ledger at the transaction level.

In connection with the contract, we reviewed CG'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 use to express, as we do not express, an opinion on NARA's financial statements or conclusions about the effectiveness of internal control or on whether NARA's financial management system substantially complied with FFMIA; or conclusions with laws and regulations. CG is responsible for the attached auditor's report dated November 1, 2004 and the conclusions expressed in the report. However, our review disclosed no instances where CG did not comply, in all material respects, with generally accepted government auditing standards.

¹ A material weakness is a condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

² Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.



Independent Auditor's Report

To the Inspector General of the
National Archives and Records Administration

We have audited the consolidated balance sheet of National Archives and Records Administration (NARA) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, financing, and combined statement of budgetary resources for the year then ended (collectively the financial statements). These financial statements are the responsibility of NARA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. 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 principal statements' presentation. We believe our audit provides a reasonable basis for our opinion.

NARA uses an accounting service provider that converted to a new general ledger system in fiscal year 2003. The new general ledger system setup and posting model definitions do not fully comply with the transactions posting models consistent with the United States Standard General Ledger guidance and policies when recording and classifying obligations related accounts. Due to time constraints, NARA was not able to complete the review of all budgetary accounts impacted by the system deficiency and we were not able to apply adequate auditing procedures to satisfy ourselves with the recoveries of prior year obligations, direct obligations incurred, and undelivered orders in the combined statement of budgetary resources and consolidated statement of financing.

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NARA did not always account for its property, plant and equipment (PPE) in accordance with generally accepted accounting principles. Capitalizable acquisitions were expensed during the year and in the past. NARA expended significant resources to reclassify past capitalizable expenses into assets for financial statement reporting purposes. However, we were not able to apply adequate auditing procedures due to inadequate supporting documentation to approximately \$53 million of PPE related to internal-use software, software in development, and equipment included in the consolidated balance sheet.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to perform adequate audit procedures on property, plant and equipment, recoveries of prior year obligations, direct obligations incurred, and undelivered orders referred to in the two preceding paragraphs, the 2004 financial statements present fairly, in all material respects, the financial position of NARA as of September 30, 2004, and its net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 1, 2004 on our consideration of NARA's internal control over financial reporting, and on our tests of NARA's compliance with certain provisions of laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis, Required Supplementary Information (RSI), and Required Supplementary Stewardship Information are not a required part of the basic financial statements, but are supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures to such information, which consisted principally of inquiries of NARA management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The deferred maintenance on page 148 is required supplementary information. We have applied certain limited procedures prescribed by professional standards that raised doubts that we were unable to resolve regarding whether material modifications should be made to the information for it to conform with guidelines established by generally accepted accounting principles in the United States of America.

The deferred maintenance reported in the required supplementary information was based on budget requests resulting from the facility manager's judgment of the repairs and maintenance needs. The budget requests received were prioritized and scheduled based on funding

availability. Those that were prioritized and scheduled but for which funding was not sufficient, were determined to be deferred maintenance for fiscal year 2004. However, budget requests received, but not prioritized, nor scheduled, were not included in the determination of the amount of deferred maintenance reported on the RSI.

Clifton Gundersen LLP

Calverton, Maryland
November 1, 2004

Independent Auditor's Report on Internal Control

To the Inspector General of the
National Archives and Records Administration

We have audited the financial statements of the National Archives and Records Administration (NARA) as of and for the year ended September 30, 2004, and have issued our report dated November 1, 2004. In our report, our opinion was qualified for the effects of adjustments, if any, as might have been necessary had we been able to perform adequate audit procedures on property, plant and equipment, recoveries of prior year obligations, direct obligations incurred, and undeliverable orders. Except as described above, 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. 01-02, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered NARA's internal control over financial reporting by obtaining an understanding of NARA's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on 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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions 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 caused by error or fraud 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.

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions and material weaknesses.

In addition, we considered NARA's internal control over Required Supplementary Stewardship Information by obtaining an understanding of NARA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls required by OMB Bulletin No. 01-02 and not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

Finally, with respect to internal control related to performance measures reported in NARA's Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02, as amended. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

MATERIAL WEAKNESSES

I. Financial Reporting

The Accountability of Tax Dollars Act of 2002 extends to NARA a requirement to prepare and submit to the Congress and the Director of the OMB audited financial statements. Fiscal year 2004 is the first year NARA is preparing and submitting audited financial statements.

NARA has attained a major achievement by having its first set of financial statements audited and submitted by the November 15, 2004 OMB deadline. NARA, however, had to expend a tremendous amount of effort to "cleanup" its accounting records in order to prepare auditable financial statements at September 30, 2004.

The weaknesses identified below collectively resulted in a material weakness in NARA's financial reporting process.

A. Financial Statement Preparation

NARA prepared its first complete set of consolidated financial statements (FSs) for June 30, 2004. Due to the limitations of the general ledger (GL) system, NARA hired consultants to design a spreadsheet-based system to automate the financial statement compilation process. The data for the financial statements is gathered and analyzed in these elaborate, complex, and manually intensive spreadsheets.

Although NARA applied certain review process on the financial statements generated by these spreadsheets, the review could only be made on selected accounts or limited basis due to the timing constraints especially in an accelerated reporting timeline. Since the trial balances generated from the GL system and downloaded into the spreadsheets were not periodically and timely reviewed, reconciled, recorded, and analyzed during the year, limited review is not adequate. See more detailed explanation on section I.B.

Moreover, there are inherent risks and limitations associated with spreadsheet-based applications such as the following that would require additional effort and resources to ensure that these risks and limitations are compensated for.

- Substantial manual intervention,
- Formulas can be changed easily, affecting the flow through the rest of spreadsheets;
- Difficulty in tracking changes made to the spreadsheets, including formula changes;
- Difficulty in verifying change controls and that correct changes were made;
- Need for periodic updates to core spreadsheet elements for changes such as changes to the United States Standard General Ledger (USSGL) and/or to the USSGL crosswalks.

Although NARA prepared interim financial statements at June 30, 2004, the interim statements reflected deficiencies in certain balances such as:

- Software in development was not reported in the interim financial statements because NARA was still compiling the data;
- Intra-entity elimination entries were not made;
- Accounts receivable were not established for services rendered; and
- Certain liabilities were not accrued.

In addition, “catch up” journal vouchers and significant past activities detected during this “clean up” process were recorded for the first time as “on-top” financial statement adjustments.

Moreover, OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, states that preparation of the annual financial statements is the responsibility of the agency’s management. In carrying out this responsibility, each agency chief financial officer (CFO) should prepare a policy bulletin or guidance memorandum that guides the agency’s fiscal and management personnel in the preparation of the annual financial statements. NARA does not have a comprehensive policy bulletin or guidance memorandum to this effect.

B. Timely Recording, Reconciliation and Analysis

A major objective of internal control is to ensure the integrity of the underlying accounting data supporting the financial statements. An important control in this regard is the reconciliation of accounting records. An adequate reconciliation provides the assurance that processed transactions are properly and timely recorded in the accounting records and financial statements, which then allows management the ability to analyze its financial condition and results of operations on a routine basis.

Although NARA uses an accounting service provider (service provider) that performs the accounting, reconciling and reporting of NARA's financial information, NARA has the ultimate responsibility for ensuring the timely recording, reconciliation, analysis, and review of its financial data.

Many account reconciliations, such as budgetary accounts, intra-governmental activities, and general property and equipment, were either not performed during the year, were not consistently or periodically performed, or were only performed in preparation for the audit. One example of reconciliation weaknesses relates to the reconciliation of the statement of differences received from Treasury as part of fund balance with treasury verification. The reconciliations performed by the service provider were inadequate for NARA's purposes because they were performed at the service provider's accounting location code level, which included transactions of the service provider and all of its customers. NARA could not identify nor review the reconciling items reported on the reconciliation. Moreover, a generic explanation of timing differences was provided as the reason for all the reconciling items. Also, we noted long outstanding reconciling items being carried over each month.

Not recording or delays in recording transactions make data on the interim financial statements unreliable and unusable by management for decision-making purposes. *GAO Standards for Internal Control in the Federal Government* states that "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."

C. General Ledger System Setup and Posting Model Definitions

The general ledger (GL) system setup and posting model definitions do not fully comply with the transactions posting models consistent with the United States Standard General Ledger (USSGL) guidance and policies when recording and classifying obligations related accounts.

NARA's service provider converted to a new system in fiscal year 2003. The conversion resulted in the system not posting certain accounts, specifically obligations related accounts, from the general ledger to the subsidiary ledger or vice-versa correctly. In addition, the GL system is not properly closing cancelled funds, which remained in the trial balance.

Moreover, Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements* requires that a “Federal vs. Non-Federal indicator for FACTS reporting” be maintained for vendor information in the financial system to support obligation, accounts payable, and disbursement [and collection] processes. Due to deficiencies in the GL system configuration, conversion, and problems with the vendors’ files, NARA manually identified federal or non-federal activities for financial statements presentation. However, NARA did not maintain adequate references and audit trails for the manual identification made. Furthermore, there was no supervisory review of the manual identification process.

D. Integrated Financial Management System

A single, integrated financial management system is a unified set of financial systems linked together electronically in an efficient and effective manner to provide agency-wide financial system support. Integration means that the user is able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain needed information efficiently and effectively through electronic means. It does not necessarily mean having only one software application covering all financial management system needs within an agency. Interfaces are acceptable as long as the supporting details are maintained and are accessible to managers. Interface linkages must be electronic unless the number of transactions is so small that it is not cost beneficial to automate the interface. Easy reconciliation between systems, where interface linkages are appropriate, must be maintained to ensure data accuracy.

NARA does not have an integrated financial management system. Significant financial management systems such as the billings and related sub-systems, the cost system, the property management system and the financial reporting system are not interfaced with the GL system.

Recommendations:

1. Ensure that adequate controls such as protecting cells on spreadsheets, limiting access to spreadsheets to prevent inadvertent changes, and control of the changes made to the spreadsheets are implemented while a spreadsheet-based system is used in gathering and analyzing financial statements data.
2. Establish written policies and procedures to formalize plans, methods and procedures to guide the financial statement preparation and reporting process.
3. Prepare and analyze monthly reconciliations of subsidiary and summary account balances and external reports. Consider a “formal closing” of all accounts at an interim date(s), which will reduce the level of accounting activity and analysis required at year-end. This “formal closing” entails ensuring that all transactions are recorded in the proper period through the month-end.

4. Ensure that upgrades to the financial management systems comply with the posting model definitions in the USSGL.
5. Develop standard procedures to identify federal and non-federal transactions if the GL system does not have this capability. Also, correcting the vendor files may enable NARA to automate this process. Lastly, if NARA continues to perform the identification manually, an adequate audit trail needs to be maintained and a supervisory review will need to be performed.
6. Evaluate the functional requirements to integrate the financial reporting, billing systems, property and equipment and a cost system with the GL system and assess the degree of integration necessary to have a single, unified financial management system.

II. Property, Plant and Equipment (PPE)

A. Accounting for PPE

NARA did not always account for its property, plant and equipment in accordance with generally accepted accounting principles. Capital acquisitions such as building and software were expensed instead of capitalized.

To prepare for the financial statement audit, NARA expended a significant amount of resources reviewing current and prior years' expenses and relied on the physical inventory performed. This process was made more difficult for the following reasons:

- The property management system did not have a record of all capitalized assets;
- There was inadequate supporting documentation;
- The costs of assets such as internally developed software were not properly or adequately tracked;
- Construction in progress was not completely accounted for in accordance with GAAP; and
- There was a lack of reconciliation between the property management system and the general ledger.

As already noted, the property management system was not integrated with the GL system.

One of the five standards for internal controls in *GAO Standards for Internal Control in the Federal Government* is control activities. Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records, which provide evidence of execution of these activities as well as appropriate documentation.

B. Deferred Maintenance

NARA's heritage assets include the Archives buildings and the Presidential Libraries. Standards for Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, states, "amounts reported for deferred maintenance may be measured using the condition assessment surveys or the life-cycle forecasts." The Building Condition Report (BCR) is a type of condition assessment survey used by NARA to assess building conditions. However, NARA is not required to periodically schedule BCRs. There were two buildings that did not have a BCR and the rest of the buildings' BCRs were dated from 1997 to 2001, excluding those buildings with recent major renovations. Furthermore, the deferred maintenance reported in the required supplementary information (RSI) at September 30, 2004 was based on budget requests resulting from the facility managers' judgment of the repairs and maintenance needs. The budget requests received were prioritized and scheduled based on funding availability. Those that were prioritized and scheduled but for which funding was not sufficient were determined to be deferred maintenance for fiscal year 2004. However, budget requests received but were not prioritized nor scheduled were not included in the determination of the amount of deferred maintenance reported on the RSI.

Recommendations:

7. Continue to identify assets that need to be capitalized rather than expensed.
8. Develop standard report formats for all project managers of software development projects and construction projects that track monthly payments, monitor progress and report completion.
9. Ensure adequate supporting documentation is maintained for acquisitions and dispositions.
10. Develop and implement monthly reconciliation procedures for all assets including heritage assets.
11. Record all assets in the property management system.

III. Investment in Non-Federal Securities

NARA had two types of investments in non-federal securities. The trust and gift funds' investments were determined to be investments that were bought and held principally for the purpose of sale, based on our review of the activities and maturities of the securities. The appropriated fund's investments were determined to be investments held-to-maturity.

Statement of Financial Accounting Standards (SFAS) No. 115 states that:

- a) Debt and equity securities that the enterprise has positive intent and ability to hold to maturity security are to be reported at amortized cost (net of premium or discount).
- b) Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair market value, with the unrealized gains and losses included in the earning [revenue].

NARA did not record its investments in accordance with SFAS No. 115. The trust and gift funds' investments were not recorded at fair market value and the appropriated fund's investments were not recorded net of amortization.

In addition, *Federal Trust Fund Accounting Guide*, Section IV, Trust Fund Investments, issued by the Department of the Treasury states that "Investments in non-Federal securities are treated as a purchase of an asset, rather than as an exchange of an asset. An obligation and an outlay must be recorded for the purchase." NARA does not record the budgetary entries (obligation and outlay) related to investment in non-Federal securities. We could not determine the impact of not-recording these transactions to the statement of budgetary resources because NARA has not provided the information.

Recommendations:

- 12. Record investments that are held to maturity at amortized costs and investments that are for sale at fair market value.
- 13. Record the budgetary entry related to the purchase of investments in non-Federal securities.

IV. Information Technology (IT)

The reportable conditions below, when evaluated together, make the lack of effective controls in the IT area a material weakness.

A. Software Development and Change Controls

Establishing controls over the modification of application software programs helps to ensure that only authorized programs and authorized modifications are implemented. This is accomplished by instituting policies, procedures, and techniques that help make sure all programs and program modifications are properly authorized, tested, and approved and that access to and distribution of programs is carefully controlled. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned off", or that processing irregularities or malicious code could be introduced.

Modifications and maintenance changes to NARANet do not conform to NARA's *Systems Develop Life Cycle Handbook and Guide* and the NARA-Wide Configuration Management Template. Weaknesses that currently exist in NARA's controls over system modifications include the following:

- The "Project/Task Validation and Approval" forms used to track system modifications and maintenance changes were incomplete for 212 of the 251 change requests made during fiscal year 2004. Furthermore, proper approvals were not obtained prior to the movement of NARANet changes into the production environment; and
- 29 of the 39 changes to NARANet in fiscal year 2004 did not follow NARA's required "Rollout Processes and Procedures", prior to movement to production.

Recommendations:

14. Implement controls to ensure that the "Project/Task Validation and Approval" is completed for modifications and maintenance changes according to the NARA-Wide Configuration Management Template.
15. Obtain proper approvals before moving NARANet into the production environment.
16. Follow required NARANet rollout processes and procedures prior to movement to production.

B. Entity-Wide Security Program

Effective information security management is critical to NARA's ability to ensure the reliability, availability, and confidentiality of its information assets, and thus its ability to perform its mission. If effective information security practices are not in place, NARA's data and systems are at risk of inadvertent or deliberate misuse, fraud, improper disclosure, or destruction—possibly without detection.

GAO's research of public and private sector organizations recognized as having strong information security programs shows that their programs include (1) establishing a central focal point with appropriate resources, (2) continually assessing business risks, (3) implementing and maintaining policies and controls, (4) promoting awareness, and (5) monitoring and evaluating policy and control effectiveness. (U.S. Government Accountability Office, *Executive Guide: Information Security Management, Learning From Leading Organizations*, GAO/AIMD-98-68 (Washington, D.C.: May 1998), and *Information Security Risk Assessment: Practices of Leading Organizations, A Supplement to GAO's May 1998 Executive Guide on Information Security Management*, GAO/AIMD-00-33 (Washington, D.C.: November 1999).

NARA has taken important steps to establish an effective information security program, but much remains to be done. During fiscal year 2002, the NARA Information Systems Security Officer documented and disseminated the NARA Directive 804, *IT Security Handbook*, and the NARA Directive 805, *Systems Development Life Cycle Handbook and Guide*, as well as templates to assist NARA departments with developing system security plans and the tracking system and application maintenance and changes. However, we noted weaknesses in the implementation of the program and instances of noncompliance with *IT Security Handbook*, *Systems Development Lifecycle*, and Federal regulations (i.e., OMB Circular A-130 and NIST Publications), as well as other IT directives, policies, procedures, and templates.

Weaknesses that currently exist in the NARA's information security program include the following:

- NARA has not initiated the C&A process for those major applications that have been outsourced to various service providers;
- NARA has not formally defined, communicated, and documented data ownership responsibilities and procedures for all major business and general support systems, including its financial data hosted at a service provider;
- NARA does not have a consolidated Plan of Actions and Milestones (POA&M) to capture all findings from internal and external audit reports. However, NARA has a system for tracking POA&Ms and a separate system for tracking internal and external audit reports; and
- NARA has not documented and signed a System Interconnection Agreement with the service provider for its financial systems.

Recommendations:

17. Conduct certification evaluations on all IT resources owned or operated on behalf of NARA, in accordance with NARA policy, including externally hosted applications.
18. Formally define, communicate, and document data ownership responsibilities and procedures for all major business and general support systems, including its financial data hosted at service provider.
19. Revise POA&M process to comply with OMB guidance, including the incorporation of all IT findings from all sources.
20. Develop inter-connection security agreements with all external vendors (including Federal agencies) hosting financial systems utilized by NARA.

C. Controls to Protect Its Information

For a computerized organization like NARA, achieving an adequate level of information protection is highly dependent upon maintaining consistently effective

access controls and system software controls. Access controls should limit and monitor access to computer resources (i.e., data files, application programs, and computer-related facilities and equipment) to the extent necessary to provide reasonable assurance that these resources are protected against waste, loss, unauthorized modification, disclosure, or misappropriation. Such controls include logical/technical controls, for example, security software programs designed to prevent or detect unauthorized access to sensitive data. Similarly, system software controls should limit and monitor access to powerful programs and sensitive files that control computer processing and secure the application and data supported by the system.

Our limited internal controls testing identified information protection-related weaknesses in NARA's information systems environment. Impacted areas included NARA's distributed computer system as well as its midrange computer systems. These vulnerabilities expose NARA and its computer systems to risks of external and internal intrusion, subject sensitive NARA information related to its major applications to potential unauthorized access, modification, and/or disclosure, and increase the risks of fraud, waste and abuse.

NARA has not assessed the risk of inadequate protection for its sensitive and mission critical files. No written criteria has been established to guide security personnel in monitoring and restricting access to production data and program files.

Weaknesses that currently exist in the NARA's access controls include the following:

- New NARANet users were not automatically forced to change passwords upon initial logon, and were provided the same password;
- The NARANet user account listing contained several generic accounts, not associated with specific users. Furthermore, several NARANet accounts are dormant and have not been accessed for over one year;
- Management has not enforced Directive 804, which requires the re-certification of users. In addition, NARA has not complied with its standard operating procedures, which require the disabling of NARANet user accounts after 24 hours of the user's separation and deletion after 10 days of the disabling;
- NARA uses an improper network-addressing schema (interchanging internal and external IP addresses) that can negatively impact network efficiency, effectiveness and network security;
- NARA does not have an up-to-date comprehensive network architecture diagram (topology), hindering efforts to define and secure the perimeter of NARA's network;
- Keyed access to the computer room, accompanied by the lack of a closed circuit television monitor (CCTV) inhibits the ability to effectively monitor access to sensitive NARA computer equipment and data;
- An excessive number (219) of individuals have access to the computer room; many who do not need access to perform their daily job responsibilities;

- A number of high vulnerabilities were identified in vulnerability assessments of NARANet. These vulnerabilities weaken the overall effectiveness of the NARA information assurance program. Overall, the findings point to inconsistent procedures or ineffective enforcement of NARA policies regarding the installation, configuration control, and maintenance of Internet connected servers at NARA. A detailed report on these vulnerabilities was provided to NARA under separate cover; and
- Several individuals were identified with CHRIS application access permissions beyond what is required to perform their position responsibilities, and in some cases, this represents a "segregation of duties" issue.

Recommendations:

21. Review password configurations on all servers used for network authentication and ensure that temporary passwords cannot be used more than once, and only issue unique temporary passwords to users. Ensure that NARA has implemented specifications for password usage established by NIST in Federal Information Processing Standards Publication 112, PASSWORD USAGE.
22. Review all NARANet user accounts to identify all inactive or unused accounts and remove as necessary. This procedure should also be incorporated within the user re-certification process. Also, all active NARANet user accounts should be supported by documented approved access requests.
23. Enforce Directive 804 and ensure that users are re-certified. In addition, NARA should comply with its standard operating procedures, and ensure that NARANet user accounts are disabled after 24 hours of the user's separation and are deleted after 10 days of the disabling.
24. Utilize network address translation (NAT) to hide all internal IP addresses and to filter traffic entering NARA's internal network for improved security. Written justifications should be provided for the exclusion of those machines from the requirement of NAT. Ensure all internal IP addresses pass through internal DNS servers.
25. Update the NARA network topology to include all external connections and network devices. Ensure that all access points are securely configured to prevent unauthorized network access.
26. Install cameras outside of the computer room to monitor access to and from all entry points. Security guards should investigate all unusual access activity. The use of a key to override badge reader access should result in alarms at the guard station and be immediately investigated.
27. Review all individuals with access to the computer room, determine if access is needed to perform their job responsibilities, and remove any unnecessary access.

Also, management should develop policies and procedures to re-certify access granted.

28. Establish and enforce policies and procedures regarding server configuration, operation and maintenance. Develop and compare server baseline configurations (for each operating system platform). These policies and procedures allow administrators to have a strict set of requirements to follow in place no matter who administers the servers. NARA Internet connected server's systems logs should be reviewed to determine if unauthorized access has occurred as a result of the weaknesses in the server configurations.
29. On a regular basis, as part of the user re-certification process, management should review all CHRIS users to ensure that they still require access to CHRIS, their permissions are reasonable based upon their position responsibilities, and potentially conflicting roles within other applications (i.e. ETAMS) are removed.

D. Contingency Plan

Losing the capability to process, and protect information maintained on NARA's computer systems can significantly impact NARA's ability to accomplish its mission to serve the public. The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without significant interruption or are promptly resumed.

To achieve this objective, NARA should have procedures in place to protect information resources and minimize the risk of unplanned interruptions and a plan to recover critical operations should interruptions occur. These plans should consider activities performed at NARA's general support facilities (e.g. NARA's LAN, WAN, and telecommunications facilities), as well as the activities performed by users of specific applications. To determine whether the disaster recovery plans will work as intended, NARA should establish and periodically test the capability to perform its functions in disaster simulation exercises.

Our review of NARA service continuity controls identified deficiencies that could affect NARA's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency. The deficiencies were as follows:

- NARA has not formally identified and prioritized all critical data and operations on its major applications and the resources needed to recover them if there is a major interruption or disaster. In addition, we could not determine whether NARA had established emergency processing priorities that will help manage disaster situations more effectively for the network;
- The scope of NARA's disaster recovery plan (DRP) is limited to addressing emergencies at the Archives II location as the national IT operations center. This DRP does not address disasters at other NARA locations;

- NARA does not have a comprehensive disaster recovery plan to incorporate its major applications and general support system. NARA has not completed the testing of its business continuity/disaster recovery plan to provide assurance that it can recover its major applications and general support systems in the event of a disaster or business disruption. Toward the end of fiscal year 2004, NARA began testing its business continuity plan for various applications and general support systems; however, NARA still cannot determine at this time whether its DRP will work as intended;
- The memorandum of understanding (MOU) between NARA and its service provider does not reference disaster recovery procedures that will be followed to re-establish connectivity between the service provider and NARA when Pegasys is in disaster recovery mode, NARA is in disaster recovery mode, or both NARA and Pegasys are in disaster recovery mode. This condition was noted in the “FY 2003 National Archives Trust and Gift Fund Internal Controls Report”; and
- A wet pipe sprinkler system remains in place in the computer room. This system exposes NARA’s data center to serious water damage. Although NARA has had discussions about using alternative means of fire suppression, due to cost considerations, alternatives were not adopted.

Recommendations:

30. Formally identify and prioritize all critical data and operations on its major applications and the resources needed to recover them if there is a major interruption or disaster. Ensure that emergency processing priorities are established to assist in managing disaster situations more effectively for the network. In addition, establish emergency processing priorities that will help manage disaster situations more effectively for the network.
31. Address the disaster recovery plan at other NARA locations.
32. Conduct regular disaster recovery testing of all major applications and general support systems (including interconnectivity with external service providers) that consider varying scenario types. Develop a *lessons learned* document from each test with corrective actions to prevent a re-occurrence in future tests.
33. The MOU should be revised to incorporate measures to be taken by NARA and the service provider to recover any lost connectivity between the two entities.
34. Replace the "wet pipe" sprinkler system with a "dry pipe" sprinkler or single-interlock pre-action sprinkler system that does not store liquids directly above computer equipment.

REPORTABLE CONDITIONS

V. Payroll

We identified the following weaknesses related to payroll:

- Leave and/or credit hour balances reported on many of the time & attendance (T&A) reports did not agree on with the Leave & Earnings Statement (LES);
- Supervisors did not consistently sign and date the “Supervisor Time and Attendance Certification Report”, evidencing a review of the report;
- Credit time earned or used was not recorded in the Electronic Time and Attendance Management System (ETAMS); and
- Time and Attendance Logs did not consistently have the signature or initial of the employee and/or the supervisor to evidence verification of recorded hours.

GAO Standards for Internal Control in the Federal Government states that transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use or commit resources and other events are initiated or entered into.

Recommendations:

35. Perform a monthly reconciliation of leave balances reported on the T&A report and the LES.
36. Enforce the policy of signing and dating the Supervisor Time and Attendance Certification Report.
37. Record credit time earned on ETAMS.
38. Enforce the policy of signing or initialing of the time and attendance log by the employee and the supervisor.

VI. Cost Allocation Methodology

NARA does not have formal policies and procedures for program cost allocation methodology for the Statement of Net Cost (SNC). As of September 30, 2004, certain indirect costs were not allocated to the programs (except for the revolving fund) on the SNC. Although there was a policy relating to the revolving fund semi-automated allocation process, the policy expired on September 30, 2000. In addition, the “allocation rates” in the policy, which were developed for fiscal year 2000, were the same rates used in fiscal year 2004. There was no formal documentation of the analysis made to ensure that allocation rates were still appropriate for fiscal year 2004.

A control activity in the *GAO Standards for Internal Control in the Federal Government* is appropriate documentation of transactions and internal control. Internal control, and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals. All documentation and records should be properly managed and maintained.

Recommendations:

39. Establish a formal and comprehensive cost allocation methodology and ensure that related policies and procedures such as the semi-automated allocation process policy are updated.

VII. Federal Managers' Financial Integrity Act (31 U.S.C. 3512) (FMFIA) Compliance and Reporting

As required by OMB Bulletin No. 01-02, we have compared the material weaknesses and material non-conformances reported by NARA in its FMFIA report dated November 1, 2004 to our report on internal control dated November 1, 2004. We do not believe, however, that failure to report these material weaknesses constitutes a separate reportable condition or material weaknesses because different criteria is used in determining material weaknesses for both reports, and management has reported some of the material weaknesses.

Following is a summary of the material weaknesses identified in this report that were not specifically identified in the FMFIA report:

NARA's FMFIA report for fiscal year 2004, identifies material weaknesses in computer security, however, the report does not address certain weaknesses that collectively have a material impact on NARA's internal controls. Weaknesses were noted in NARA's Entity-wide Security Program, which if not corrected, will materially impact the effectiveness of NARA's information security practices. Weaknesses were also noted in NARA's access controls, exposing NARA and its computer systems to risks of external and internal intrusion, subjects sensitive NARA information related to its major applications to potential unauthorized access, modification, and/or disclosure, and increase the risks of fraud, waste and abuse. Furthermore, NARA does not have a comprehensive disaster recovery plan. The scope of NARA's disaster recovery plan (DRP) is limited to addressing emergencies at the Archives II location as the national IT operations center. This DRP does not address disasters at other NARA locations.

Also, NARA's FMFIA report for fiscal year 2004 did not report the material weaknesses in financial reporting, property, plant and equipment, and investments that we identified in this report.

In addition to the material weaknesses and reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of NARA in a separate letter dated November 1, 2004.

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

Clifton Henderson LLP

Calverton, Maryland
November 1, 2004



Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General of the
National Archives and Records Administration

We have audited the financial statements of the National Archives and Records Administration (NARA) as of and for the year ended September 30, 2004, and have issued our report thereon dated November 1, 2004. In our report, our opinion was qualified for the effects of adjustments, if any, as might have been necessary had we been able to perform adequate audit procedures on property, plant and equipment, recoveries of prior year obligations, direct obligations incurred, and undelivered orders. Except as described above, 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. 01-02, *Audit Requirements for Federal Financial Statements*, as amended.

The management of NARA is responsible for complying with laws and regulations applicable to NARA. As part of obtaining reasonable assurance about whether NARA's financial statements are free of material misstatements, 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, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to NARA.

The results of our tests of compliance with laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance with the laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, as amended.

Federal Financial Management Improvement Act of 1996 (FFMIA)

Under FFMIA, we are required to report whether NARA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed instances described below, where NARA's financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

Federal Financial Management Systems

- Integrated Financial Management System – The general ledger system and critical subsystems (property management system, billing system, reporting system, and various spreadsheets) are not integrated or electronically interfaced. A user is not able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain the information needed efficiently and effectively through electronic means. See Independent Auditor's Report on Internal Control (IC Report), Section I. D. for a more detailed explanation.

The primary reason for noncompliance above is that some of NARA's internal software was not developed to interface with the service provider's general ledger system.

- The general ledger system setup and posting model definitions do not fully comply with the transactions posting models consistent with the USSGL guidance and policies when recording and classifying obligations and related accounts. See our IC Report, Section I. C. for a more detailed explanation.

The primary reason for above noncompliance is that NARA uses an accounting service provider who owns the general ledger system.

- Security – We have identified several weaknesses, which collectively are considered a material weakness, and are described in more detail in our IC Report, Section IV. The weaknesses include noncompliance with OMB Circular No. A-130, *Management of Federal Information Resources*, requirement for written management authorization prior to connecting with other systems. NARA has not formally defined, communicated, and documented data ownership responsibilities and procedures for all major applications and general support systems. In addition, there was a lack of an agency-wide contingency plan to address continuity of operations in the event of a disaster.

Impacted areas include NARA's distributed computer system as well as its mainframe computers. These vulnerabilities expose NARA and its computer systems to risks of external and internal intrusion, subject sensitive NARA information related to its major applications to potential unauthorized access, modification, and/or disclosure, and increase the risks of fraud, waste, and abuse.

Federal Accounting Standards

Statement of Federal Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, states that “[general property, plant, and equipment (PP&E)] are used by Federal entity to produce goods or services, or to support the mission of the entity; or are used in business-type activities.” PP&E is defined as “Tangible assets that (1) have an estimated useful

life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.” The acquisition cost of general PP&E shall be recognized as an asset. NARA did not always account for its PP&E in accordance with SFFAS No. 6. Capitalizable acquisitions were expensed during the year and in the past.

U.S. Standard General Ledger at the Transaction Level

Substantial compliance with the USSGL at the transaction level requires the agency’s recording of financial events to be consistent with all applicable account descriptions and posting model attributes reflected in the USSGL issued by the Department of the Treasury, Financial Management Service, effective for the period covered by the audit. As discussed in our IC Report, Section I. C., the setup and posting model definitions do not fully comply with the transaction posting models consistent with the USSGL guidance and policies when recording and classifying transactions.

NARA’s assistant archivist for Administrative Services and the assistant archivist for Human Resources and Information Services have been delegated the responsibility of ensuring the substantial compliance with the FFMIA. A discussion of the actions taken by NARA and our recommendations to strengthen NARA’s financial management systems are outlined in our IC Report.

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.

We noted certain immaterial instances of noncompliance that we have reported to management of NARA in a separate letter dated November 1, 2004.

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

Clifton Gundersen LLP

Calverton, Maryland
November 1, 2004

Management Response to Auditor's Reports



National Archives and Records Administration

8601 Adelphi Road
College Park, Maryland 20740-6001

Date: November 8, 2004

To: Paul Brachfeld
Inspector General

From: John W. Carlin *Jwc*
Archivist of the United States

Subject: Management Response to Draft Independent Auditor's Reports on NARA's Internal Controls and Internal Compliance with Laws and Regulations for Fiscal Year 2004

Thank you for the opportunity to review and comment on the draft reports entitled, *Independent Auditor's Report on Internal Control and Independent Auditor's Report on Compliance with Laws and Regulations*. This is the first year that NARA has prepared consolidated financial statements in compliance with the Chief Financial Officers (CFO) Act. We appreciate your efforts in auditing NARA's FY 2004 financial statements and in providing timely, objective advice on how to improve our financial reporting processes and internal controls.

We are pleased that the auditor's report recognizes that it is a major accomplishment for any agency compiling financial statements for the first time to deliver them within accelerated timelines. Let me assure you that addressing the issues and weaknesses raised in these reports is one of the top priorities of NARA management. We are committed to meeting Congressional mandates and complying with financial accounting and reporting standards to assure completely unqualified opinions on our financial statements in the future.

While we generally agree with the assessments contained in the report, we offer the following comments.

Financial Reporting, page 2 of 17: We recognize and agree that many of our financial management issues stem from the deficiencies of our general ledger system, provided under a cross servicing agreement. Given the service provider's inability to address NARA's concerns and the system's non-compliance with the Federal Financial Management Improvement Act (FFMIA), NARA management made a decision in early 2004 to replace its financial system. We have selected the Bureau of Public Debt as NARA's new accounting services and financial system provider. The conversion process will begin in FY 2005, with the implementation planned for the start of FY 2006.

While our current system may not meet the standards, to the extent possible, NARA has implemented interim solutions to compensate for its limitations and will continue to enhance them.

Financial Statement Preparation, page 2 of 17: The spreadsheet-based application was designed to compensate for the system's deficiencies, due to posting logic errors and poor configuration, which are described in section C of your report. The spreadsheets provide a highly structured tool to:

- Facilitate monthly analysis of general ledger data
- Identify problems with the data, and develop timely corrections
- Standardize financial statement preparation and documentation across all NARA's reporting entities
- Simplify the process of making and tracking adjustments through the complexity of the financial statements

The application was further enhanced to implement additional controls for fourth quarter statements. These enhancements address many of your findings.

Timely Recording, Reconciliation and Analysis, page 3 of 17: We have already begun to make the necessary improvements in our financial management processes. We will develop a detailed plan of action to further address material weaknesses identified in this report.

Integrated Financial Management System, page 5 of 17: While we agree with the finding, NARA management will have to evaluate the economic feasibility of interface linkages and implement them where possible during conversion to the new financial system.

Deferred Maintenance, page 6 of 17: All projects that were identified as critical were funded during the year. In FY 2004, funding requests were received from the program offices (Presidential Libraries, Facilities and Materiel Management Services Division, and the Archives I Renovation Project). Requests were validated and prioritized according to the critical nature of the required maintenance. Other projects had been submitted and remained on the list for eventual consideration, but none were determined to be critical. Or, if determined to be critical, such as the roof leaks at the Hoover Library and the Carter Library, FY 2004 funding was provided to design the roof replacement and prepare a statement of work, which were necessary actions before actual construction could begin. Both projects are on the critical list for FY 2005. NARA will ensure that non-critical submittals are identified as such and included for deferred maintenance computation going forward.

NARA's policy is to require building condition reports be prepared by professional engineering firms every five years, supplemented annually by additional information provided by each facility manager. NARA has not defined when a building condition report must first be done for new facilities. For example, the two buildings that did not have existing building condition reports are the National Archives at College Park and the Bush Library, the newest facilities in NARA's inventory of buildings. The College Park facility is scheduled for a building condition report in FY 2005. After consultation with engineering experts, NARA will establish a timeframe for scheduling the first building condition report on new facilities.

Information Technology (IT), page 8 of 17: NARA concurs with the IT findings detailed in these reports and will incorporate the recommendations into our planning for FY 2005. We

will incorporate the results of the Agency Continuity of Operations Planning project into the IT disaster recovery and contingency planning programs, resulting in an alignment of IT recovery processes with business and mission priorities. In addition, we will continue to implement improvements to the agency computer security program by adjusting policies, developing operating system baselines, and monitoring for compliance. Finally, as part of the agency enterprise risk management process, NARA will reassess physical and environmental controls at all NARA data centers.

I would like to thank the Office of the Inspector General and Clifton Gunderson LLP for working in a professional and dedicated manner with NARA staff to accomplish our accelerated reporting goals. Together, through coordinated planning and the diligence of our staffs, we were able to complete the audit process for the first time under an extremely demanding timeframe. This is an achievement for which we can all be very proud.

Financial Statements and Additional Information

Limitations of the Financial Statements

The principal statements have been prepared to report the financial position and results of operations of NARA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from NARA's books and records in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are additional to the financial reports used to monitor and control budgetary resources, which 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.

NARA's FY 2004 financial statements were audited by Clifton Gunderson LLP under contract to NARA's Office of the Inspector General.

Principal Statements

Consolidated Balance Sheet

As of September 30, 2004

(in dollars)

Assets (note 2)

Intragovernmental

Fund balance with Treasury (note 3)	\$ 185,206,592
Investments (notes 2, 4)	31,204,730
Accounts receivable (note 5)	14,150,707
Other (note 8)	40,169
Total intragovernmental	<u>230,602,198</u>

Cash (note 3)	36,195
Investments (note 4)	4,785,275
Accounts receivable, net (note 5)	881,056
Inventory, net (note 6)	994,847
General property, plant and equipment, net (note 7)	328,326,587
Other (note 8)	1,015,888
	<u>1,015,888</u>

Total assets **\$ 566,642,046**

Liabilities (note 9)

Intragovernmental

Accounts payable	\$ 3,407,235
Other (notes 9, 11, 12)	21,293,722
Total intragovernmental	<u>24,700,957</u>

Accounts payable	24,426,228
Debt held by the public (notes 9, 10)	246,046,049
Other (notes 9, 11)	26,899,167
Total liabilities	<u>322,072,401</u>

Net Position

Unexpended appropriations	139,792,729
Cumulative results of operations	104,776,916
	<u>104,776,916</u>

Total liabilities and net position **\$ 566,642,046**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For the Year Ended September 30, 2004
(in dollars)

Program costs

Records and archives-related services

Intragovernmental gross costs	\$ 54,340,065
Less: Intragovernmental earned revenue	(988,096)
Intragovernmental net costs	53,351,969
Gross costs with the public	187,284,588
Less: Earned revenues from the public	—
Net costs with the public	187,284,588
Total net records and archives-related services program costs	240,636,557

Trust and Gift Funds

Intragovernmental gross costs	2,132,571
Less: Intragovernmental earned revenue	(16,497)
Intragovernmental net costs	2,116,074
Gross costs with the public (excluding heritage asset renovation)	14,190,941
Heritage asset renovation costs (Note 14)	1,237,297
Less: Earned revenues from the public	(14,215,669)
Net costs with the public	1,212,569
Total net trust and gift fund costs	3,328,643

Electronic records archives

Intragovernmental gross costs	4,311,172
Less: Intragovernmental earned revenue	—
Intragovernmental net costs	4,311,172
Gross costs with the public	6,913,429
Less: Earned revenues from the public	—
Net costs with the public	6,913,429
Total net electronic records archives program costs	11,224,601

(continued on next page)

Consolidated Statement of Net Cost, continued
For the Year Ended September 30, 2004
(in dollars)

National Historical Publications and Records Commission grants	
Intragovernmental gross costs	247,827
Less: Intragovernmental earned revenue	—
Intragovernmental net costs	<u>247,827</u>
Gross costs with the public	5,677,323
Less: Earned revenues from the public	—
Net costs with the public	<u>5,677,323</u>
Total net National Historical Publications and Records Commission grants program costs	5,925,150
Archives facilities and Presidential libraries repairs and restoration	
Intragovernmental gross costs	684
Less: Intragovernmental earned revenue	(485,000)
Intragovernmental net costs	<u>(484,316)</u>
Gross costs with the public (excluding heritage asset renovation)	15,464
Heritage asset renovation costs (note 14)	13,488,344
Less: Earned revenues from the public	—
Net costs with the public	<u>13,503,808</u>
Total net archives facilities and Presidential libraries repairs and restoration program costs	13,019,492
Revolving Fund records center storage and services	
Intragovernmental gross costs	64,177,073
Less: Intragovernmental earned revenue	(125,691,002)
Intragovernmental net costs	<u>(61,513,929)</u>
Gross costs with the public	77,268,146
Less: Earned revenues from the public	(3,547,516)
Net costs with the public	<u>73,720,630</u>
Total net Revolving Fund records center storage and services program costs	12,206,701
Costs not assigned to programs	—
Less: Earned revenues not attributed to programs	<u>—</u>
Net cost of operations	<u><u>\$ 286,341,144</u></u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2004
(in dollars)

	<i>Cumulative results of operations</i>	<i>Unexpended appropriations</i>
Beginning balance	\$ 78,777,860	\$ 122,598,948
Budgetary financing sources		
Appropriations received	—	316,322,000
Other adjustments	—	(4,602,033)
Appropriations used	294,526,186	(294,526,186)
Nonexchange revenue	18,831	—
Donations and forfeitures of cash and cash equivalents	3,570,778	—
Other financing sources		
Imputed financing from costs absorbed by others	14,224,405	—
Total financing sources	312,340,200	17,193,781
Net cost of operations	286,341,144	
Ending balance	\$ 104,776,916	\$ 139,792,729

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For the Year Ended September 30, 2004
(in dollars)

Budgetary resources

Budget authority	
Appropriations received	\$ 320,140,868
Unobligated balance, beginning of period	60,523,648
Spending authority from offsetting collections	
Earned	
Collected	160,973,336
Receivable from Federal sources	2,407,968
Change in unfilled customer orders	
Advance received	(88,086)
Without advance from Federal sources	1,836
Subtotal	<u>543,959,570</u>
Recoveries of prior year obligations	21,096,787
Permanently not available	<u>(12,412,322)</u>
Total budgetary resources	<u><u>552,644,035</u></u>

Status of budgetary resources

Obligations incurred	
Direct	349,568,595
Reimbursable	140,503,199
Subtotal	<u>490,071,794</u>
Unobligated balance	
Apportioned	27,128,864
Exempt from apportionment	30,674,319
Unobligated balance not available	<u>4,769,058</u>
Total status of budgetary resources	<u><u>552,644,035</u></u>

Relationship of obligations to outlays

Obligated balance, net, beginning of period	142,166,175
Obligated balance, net, end of period	
Accounts receivable	(15,344,704)
Unfilled customer orders from Federal sources	(769,672)
Undelivered orders	119,478,806
Accounts payable	37,797,207
Outlays	
Disbursements	467,569,741
Collections	<u>(160,885,250)</u>
Total outlays	<u><u>\$ 306,684,491</u></u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Financing
For the Year Ended September 30, 2004
(in dollars)

Resources used to finance activities	
Budgetary resources obligated	
Obligations incurred	\$490,071,794
Less: Spending authority from offsetting collections and recoveries	<u>(184,391,841)</u>
Obligations net of offsetting collections and recoveries	305,679,953
Other resources	
Imputed financing from costs absorbed by others	<u>14,224,405</u>
Total resources used to finance activities	<u>319,904,358</u>
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	(15,641,916)
Budgetary offsetting collections and receipts that do not affect net cost of operations	18,831
Resources that finance the acquisition of assets	<u>(34,698,120)</u>
Total resources used to finance items not part of net cost of operations	<u>(50,321,205)</u>
Total resources used to finance the net cost of operations	269,583,153
Components of the net cost of operations that will not require or generate resources in current period	
Components requiring or generating resources in future periods	
Increase in annual leave liability	831,603
Other	<u>(5,965,485)</u>
Total components of net cost of operations that will require or generate resources in future periods	(5,133,882)
Components not requiring or generating resources	
Depreciation and amortization	20,739,351
Other	<u>1,152,522</u>
Total components of net cost of operations that will not require or generate resources	21,891,873
Total components of net cost of operations that will not require or generate resources in current period	<u>16,757,991</u>
Net cost of operations	<u><u>\$286,341,144</u></u>

The accompanying notes are an integral part of these statements.

Notes to Principal Statements

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The National Archives was created by statute as an independent agency in 1934. On June 30, 1949, the Federal Property and Administrative Services Act transferred the National Archives to the General Services Administration (GSA), and its name was changed to the National Archives and Records Service. It attained independence again as an agency in October 1984 (effective April 1, 1985) and became known as the National Archives and Records Administration (NARA).

NARA is our national record keeper. NARA safeguards records of all three branches of the Federal Government. NARA's mission is to ensure that Federal officials and the American public have ready access to essential evidence—records that document the rights of citizens, the actions of Government officials, and the national experience.

NARA is administered under the supervision of the Archivist of the United States. It comprises various Operating Administrations, each having its own management and organizational structure, which collectively provide services and ready access to essential evidence. NARA's accompanying financial statements include accounts of all funds under NARA's control.

General Fund

- Records Services—Provides for selecting, preserving, describing, and making available to the general public, scholars, and Federal agencies the permanently valuable historical records of the Federal Government and the historical materials and Presidential records in Presidential Libraries; for preparing related publications and exhibit programs; and for conducting the appraisal of all Federal records.
- Archives-Related Services—Provides for the publication of the *Federal Register*, the *Code of Federal Regulations*, the *U.S. Statutes at Large*, and Presidential documents and for a program to improve the quality of regulations and the public's access to them. This activity also includes the administration and reference service portions for the National Historical Publications and Records Commission.
- The National Archives at College Park—Provides for construction and related services of the archival facility in Maryland that was opened to the public in 1993.
- Electronic Records Archives—Provides for research, analysis, design, development and program management to build an Electronic Records Archive (ERA) that will ensure the preservation of and access to Government electronic records.
- Repairs and Restoration—Provides for the repair, alteration, and improvement of archives facilities and Presidential libraries nationwide and provides adequate storage for holdings. It will better enable the National Archives to maintain its facilities in proper condition for public visitors, researchers, and employees in NARA facilities and also maintain the structural integrity of the buildings.
- National Historical Publications and Records Commission Grants—Provides for grants funding that the Commission makes to local, state, and private institutions nationwide to preserve and publish records that document American history.

Intragovernmental Fund

- Records Center Revolving Fund—Utilizes customer funding effectively to provide services on a standard price basis to Federal agency customers. The fund maintains low cost, quality storage and transfers, reference, refile, and disposal services for records stored in regional records services facilities.

Trust Funds

- National Archives Gift Fund – The National Archives Trust Board solicits and accepts gifts or bequests of money, securities, or other personal property for the benefit of or in connection with the national archival and records activities administered by the National Archives and Records Administration (44 U.S.C. 2305).
- National Archives Trust Fund – The Archivist of the United States furnishes, for a fee, copies of unrestricted records in the custody of the National Archives (44 U.S.C. 2116). Proceeds from the sale of copies of microfilm publications, reproductions, special works and other publications, and admission fees to Presidential library museums are deposited in this fund.

B. Basis of Presentation

NARA's agency-wide financial statements are prepared for the first time for the year ended September 30, 2004; these statements are not presented on a comparative basis. The consolidated balance sheet reports NARA's financial position as of September 30, 2004. The consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, and the consolidated statement of financing reflect activity for the year ended September 30, 2004.

These statements were prepared from NARA's accounting records in conformity with generally accepted accounting principles (GAAP) for Federal entities and the Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official body for setting the accounting standards of the U.S. Government.

C. Basis of Accounting

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, exchange revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of Federal funds.

D. Funds with the U.S. Treasury

Funds with NARA primarily represent appropriated, revolving, and trust funds. These funds may be used by NARA to finance expenditures. NARA's cash receipts and disbursements are processed by the U.S. Treasury.

E. Accounts Receivable

Accounts receivable consist of amounts due from the public and other Federal agencies. The allowance for uncollectible accounts from the public is estimated based on an analysis of the aged receivables. Accounts receivable from Federal agencies are expected to be collected; therefore, there is no allowance for uncollectible accounts.

F. Investments in Securities

Investments in securities are reported at cost, net of amortized premiums and discounts. Premiums and discounts are amortized into interest expense and interest revenue, respectively, over the term of the investment. Except for money market funds, NARA's intent is to hold investments to maturity unless they are needed to sustain operations. NARA's investments consist largely of short-term, highly liquid investments, i.e., Treasury bills and money market funds, which are treated as investments rather than cash equivalents.

NARA also employs the use of a third-party capital management firm to monitor and manage an endowment received pursuant to Title 44 U.S.C., section 2112. The purpose of the endowment is to provide income to offset the operations and maintenance costs of the George Bush Library. The endowment has been reflected as a separate individual investment in an intermediate bond fund. The intent of the initial investment is to provide long-run preservation of principal, low volatility of market value, and stable interest income. The initial investment has been recorded at lower of cost or market. NARA does not recognize gains or losses on individual purchases and sales within the intermediate bond fund portfolio.

NARA also holds investments outside of Treasury. These investments were funded by accumulated interest on long-term debt financing held for construction of the National Archives at College Park during the period of construction and hence. These funds will be relinquished to the U.S. Treasury.

G. Cash

Cash consists of petty cash imprest funds maintained at Presidential libraries and the National Archives regional and headquarters locations. These funds are used to finance the cashiers' start-up cash.

H. Net Position

Net position is the residual difference between assets and liabilities and is comprised of unexpended appropriations and cumulative results of operations.

Appropriations are recognized as capital when made available for apportionment by OMB. Unexpended appropriations represent the total amount of unexpended budget authority, both obligated and unobligated. Unexpended appropriations are reduced for appropriations used and adjusted for other changes in budgetary resources, such as transfers and rescissions. Cumulative results of operations is the net result of NARA's operations since inception.

I. Operating Material and Supplies

Operating material and supplies consist of tangible property to be consumed in normal operations and are expensed when purchased.

J. Inventories

The National Archives Trust Fund inventories, which consist of merchandise held for current sale, are stated at the lower of cost or market, with cost determined using the average cost method. An allowance for damaged and obsolete goods is based on analysis of historical information and an evaluation of inventory turnover from year to year. Expenses are recorded when the inventories are sold.

K. Property, Plant, and Equipment

NARA capitalizes individual acquisitions with costs exceeding \$25,000 and useful lives exceeding two years. NARA does not capitalize general purpose office furniture, installed carpeting, panel and office partitions, or free-standing storage shelving. Catwalks and installed shelving in the record facilities are capitalized and depreciated over 20 years. Acquisitions not meeting these criteria are recorded as operating expenses. Depreciation expense is calculated using the straight-line method. Federal Financial Accounting Standard (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, defines the diversity among Federal PP&E. NARA's PP&E fall into two categories: general PP&E and heritage assets. General PP&E are used to provide general government goods and services. Heritage assets are defined as possessing significant educational, cultural, or natural characteristics. Some heritage assets serve two purposes by being used in day-to-day Government operations and being a reminder of our heritage. All Presidential libraries and the National

Archives Building are classified as heritage assets and are not included in PP&E. The National Archives at College Park is classified as a multiuse heritage asset and is included in PP&E on the balance sheet. The costs of acquisition, betterment, or reconstruction of multiuse heritage assets are capitalized as general PP&E and depreciated. Physical quantity of both heritage and multiuse heritage assets is included in the required Supplementary Stewardship Information. The current condition of PP&E and heritage assets and estimated cost of deferred maintenance is reported in the required Supplementary Information.

L. Internal Use Software

NARA capitalizes internal-use software development projects whose total cost is \$250,000 or greater. Internal-use software includes commercial off-the-shelf (COTS) software and internally developed software. If additional costs are incurred to assist in implementing or modifying the COTS software, those costs are also capitalized. The estimated useful life for calculating amortization of software is five years.

M. Employee Health and Life Insurance Benefits

NARA employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employee Group Life Insurance Program (FEGSIP). Both of these programs require contributions from the employee based on the coverage options selected by the employee. NARA contributes the required employer share. Both of these programs provide post-retirement benefits. The Office of Personnel Management (OPM) administers and reports the liabilities for these post-retirement benefits. NARA recognizes the entire service costs of the post-retirement portions of these programs as Imputed Cost and Imputed Financing Sources.

N. Workers' Compensation Program

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from NARA for these paid claims.

Actuarial FECA liability represents the liability for future workers' compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period, wage inflation factors, medical inflation factors and other variables. These actuarially computed projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. NARA computed its actuarial FECA liability based on the model provided by DOL.

O. Employee Retirement Benefits

NARA employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Most NARA employees hired prior to January 1, 1984, participate in the CSRS, to which NARA contributes 8.51 percent of basic pay and the employee contributes 7.0 percent, for a total contribution of 15.51 percent. On January 1, 1984, FERS went into effect pursuant to Public Law 99-335. Under the FERS plan, NARA contributes 10.7 percent, while employees contribute 0.8 percent of basic pay, for a total contribution of 11.5 percent. NARA funds a portion of pension benefits for its employees under the CSRS and the FERS and makes the necessary payroll withholdings for them. NARA is not required to disclose the assets of the systems or the actuarial data with respect to accumulated plan benefits of the unfunded pension liability relative to its employees. Reporting such amounts is the direct responsibility of OPM.

NARA does, however, recognize and allocate the imputed costs on the Consolidated Statement of Net Cost and recognizes imputed financing related to these costs on the Consolidated Statement of Changes in Net Position.

Employees covered by CSRS and FERS are eligible to contribute to the U.S. Government's Thrift Savings Plan (TSP), administered by the Federal Retirement Thrift Investment Board. A TSP account is automatically established for FERS covered employees, and NARA makes a mandatory contribution of 1 percent of basic pay. FERS-covered employees are entitled effective December 2003 to contribute up to 14 percent of basic pay to their TSP account, subject to the U.S. Internal Revenue Service (IRS) dollar amount limits, with NARA making matching contributions up to an additional 4 percent of basic pay. Employees covered by CSRS are entitled to contribute up to 9 percent of basic pay to their TSP accounts, subject to the IRS dollar amount limits. NARA makes no matching contributions for CSRS-covered employees. Effective July 2003, TSP participants age 50 or older who are already contributing the maximum amount of contributions for which they are eligible may also make catch-up contributions subject to the IRS dollar amount limits. NARA also makes matching contributions to the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA). For employees covered by FERS, NARA matches the amount of 6.2 percent of gross pay up to \$87,000 to SSA's Old-Age Survivors and Disability Insurance (OASDI) program. Additionally, NARA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program.

P. Accrued Annual, Sick and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At the end of each fiscal year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. The amount of the adjustment is recorded as an expense. Current or prior year appropriations are not available to fund annual leave earned but not taken. Funding occurs in the year the leave is taken and payment is made. Sick leave and other types of non-vested leave are expensed as taken.

Q. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

R. Contingencies and Commitments

NARA is involved in various claims. A liability is generally recognized as an unfunded liability for those legal actions where unfavorable decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "possible" are disclosed in the notes to the financial statements. Liabilities that are considered "remote" are not recognized in the financial statements or disclosed in the notes to the financial statements.

S. Allocation of Program Management Cost

NARA allocates its general management and administrative support to its major components, records and archives-related services and Revolving Fund. General management costs are not allocated to the Trust and Gift Funds, since they are administered by the National Archives Trust Fund Board, which is not an organization within NARA (see note 21). In addition, there was no reasonable or consistent basis to allocate program management cost to other programs appearing on the Statement of Net Cost.

Note 2 – Non-entity Assets

Non-entity intragovernmental investments of \$17,452,599 were funded by the interest earned on the investment of funds raised from the sale of certificates of ownership to finance the construction of the National Archives at College Park. These funds will be relinquished to and are offset by a liability to the U.S. Treasury. See note 4.

Note 3 – Fund Balance with Treasury and Cash

Fund balances	
Appropriated funds	\$ 165,246,334
Revolving Fund	18,920,692
Trust Fund	900,516
Gift Fund	139,050
Sub-total	185,206,592
Investments	35,990,005
Less interest receivable on investments	(46,315)
Less non-entity investments	(17,452,599)
Imprest Fund (Cash)	36,195
Total	203,733,878

Status of fund balances with Treasury	
Unobligated balance	
Available	57,803,183
Unavailable	4,769,058
Obligated balance not yet disbursed	141,161,637
Total	203,733,878

Unavailable unobligated balance includes the following	
Allotments – Expired authority	\$ 4,769,058

Restricted donations, included in the available unobligated balance above, are obligated in accordance with the terms of the donor. All donations to Presidential libraries and the National Archives with specific requirements are considered restricted. The restricted unobligated balance is \$7,830,383.

The unused fund balance in cancelled appropriation for FY 1999 that is returned to Treasury at the end of the fiscal year is \$2,735,733.

Note 4 – Investments

At September 30, 2004, investments were composed of the following:

	<i>Cost</i>	<i>Amortization method</i>	<i>Unamortized (premium) discount</i>	<i>Investments, net</i>	<i>Other adjustments</i>	<i>Market value disclosure</i>
Intragovernmental securities						
Marketable		Straight-				
	\$31,281,405	line	\$ 76,675	\$ 31,204,730	\$ (30,627)	\$31,174,103
Total intragovernmental	31,281,405		76,675	31,204,730	(30,627)	31,174,103

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	Cost	Amortization method	Unamortized (premium) discount	Investments, net	Other adjustments	Market value disclosure
Other securities						
Money market funds	402,685			402,685		402,685
U.S. Treasury obligations	266,707			266,707	(2,061)	264,646
U.S. government agencies	1,488,601			1,488,601	3,852	1,492,453
Corp. & foreign bonds	2,580,967			2,580,967	214,960	2,795,927
Accrued interest	46,315			46,315		46,315
Total other	4,785,275		—	4,785,275	216,751	5,002,026
Total investments	\$36,066,680		\$ 76,675	\$ 35,990,005	\$ 186,124	\$36,176,129

Intragovernmental securities are invested in Treasury Bills and Notes through the Bureau of Public Debt. Included in that amount is the non-entity investment of \$17,452,599, which represents accumulated interest on long-term debt financing held for construction of the National Archives at College Park during the period of construction and hence. See note 2.

Other securities represent investments in short-term investment funds and fixed-income securities.

Note 5 – Accounts Receivable, Net

Accounts receivable and allowances for uncollectible accounts as of September 30, 2004, consisted of the following:

	Intragovernmental	With the public
Accounts receivable	\$ 14,150,707	\$ 881,628
Allowance for uncollectible accounts	—	(572)
Accounts receivable, net	\$ 14,150,707	\$ 881,056

The allowance for uncollectible accounts from the public is estimated based on an analysis of the aged receivables. Accounts receivable from Federal agencies are expected to be collected; therefore, there is not an allowance for uncollectible accounts.

Note 6 – Inventories

Inventories consist of merchandise held available for current sale at gift shops in the Presidential libraries and the National Archives buildings. There was no change to the allowance estimate for the quarter ending September 30, 2004.

Inventory held for sale	\$ 1,499,528
Allowance for damaged and obsolete goods	(504,681)
Net realizable value	\$ 994,847

Note 7 - General Property, Plant, and Equipment, Net

The following components comprise Property, Plant, and Equipment as of September 30, 2004:

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<i>Asset category</i>	<i>Estimated useful life in years</i>	<i>Acquisition cost</i>	<i>Accumulated depreciation/amortization</i>	<i>Net book value</i>
Land	n/a	\$ 6,159,194	\$ —	\$ 6,159,194
Buildings and structures	30	358,405,946	(130,860,139)	227,545,807
Construction and shelving in progress		24,307,466		24,307,466
Equipment	3 to 7	22,463,568	(11,226,904)	11,236,664
Shelving/catwalks	20	37,387,369	(23,520,563)	13,866,806
Leasehold improvements	5	384,390	(62,351)	322,039
Assets under capital lease	20	5,284,285	(2,169,396)	3,114,889
Internal-use software	5	27,044,585	(9,319,599)	17,724,986
Software development in progress		24,048,736		24,048,736
Total property, plant and equipment		\$ 505,485,539	\$ (177,158,952)	\$ 328,326,587

As described in note 1K, buildings and structures include only the National Archives at College Park, which is a multiuse heritage asset. All other buildings are deemed to be heritage assets and are not included in the general PP&E.

Note 8 – Other Assets

	<i>Intragovernmental</i>	<i>With the public</i>
Other assets	\$ —	\$ 1,014,500
Prepaid expenses	40,169	—
Advances	—	1,388
Total other assets	\$ 40,169	\$ 1,015,888

Other assets of \$1,014,500 represent a one-time cost of obtaining an operating lease. This cost is deferred and to be amortized over the lease term as additional rent expense.

Prepaid expenses represent amounts advanced for postage.

Advances represent amounts for travel and relocation.

Note 9 – Liabilities Not Covered by Budgetary Resources

	<i>Intragovernmental</i>	<i>With the public</i>
Debt held by the public (including accrued interest)	\$ —	\$ 246,046,049
Other	397,390	20,405,754
Total liabilities not covered by budgetary resources	397,390	266,451,803
Total liabilities covered by budgetary resources	24,303,567	30,919,641
Total liabilities	\$ 24,700,957	\$ 297,371,444

Liabilities not covered by budgetary resources are liabilities that are not funded by direct budgetary authority in the current fiscal year and result from the receipt of goods and services, or the occurrence of eligible events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through congressional appropriation.

Total other intragovernmental liabilities of \$397,390 represent workers' compensation claims paid by the Department of Labor (DOL). The \$20,405,754 of other liabilities with the public comprise unfunded annual leave of \$11,015,778 and workers' compensation of \$9,389,976 that represents

estimated future costs that have been actuarially determined and regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL.

Note 10 - Debt Held by the Public

Public Law 100-440 authorized NARA to “enter into a contract for construction and related services for a new National Archives facility. . . . The contract shall provide, by lease or installment payments payable out of annual appropriations over a period not to exceed thirty years.”

In 1989, NARA entered into an installment sale and trust agreement with the trustee, United States Trust Company of New York. Under terms of this agreement, the trustee obtained financing for the construction of the National Archives at College Park through the sale of certificates representing proportionate shares of ownership in installment payments to be made by NARA semiannually.

Although the full amount financed, \$301,702,000, was included (scored) for U.S. budget estimation purposes in fiscal year 1989, NARA requires an annual congressional appropriation to pay the redemption of debt (principal) and interest costs of \$28,971,371 annually. The 25-year semiannual payments of \$14,485,685 began in 1994 and will be completed in 2019.

Unpaid Principal Balance

2004 beginning balance	\$ 252,122,164
FY 2004 debt repayment	7,810,289
2004 ending balance	<u>\$ 244,311,875</u>

Note 11 - Other Liabilities

Intragovernmental	
Workers’ compensation	\$ 1,700,277
Capital lease liability-current	527,058
Capital lease liability-long term	1,613,788
Liability for non-entity investments	<u>17,452,599</u>
Total intragovernmental	21,293,722
Workers’ compensation	9,389,976
Accrued funded payroll and leave	6,165,179
Unfunded leave	11,015,778
Advances from others	281,860
Deferred credits-fees	<u>46,374</u>
Total other liabilities	<u>\$ 48,192,889</u>

The liability of \$11,090,252 for workers’ compensation at September 30, 2004, includes a current portion of \$1,700,277 million and estimated future costs of \$9,389,976 million. Estimated future costs have been actuarially determined and are regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL. Workers’ compensation is described in note 1N, Summary of Significant Accounting Policies, and is included in Liabilities Not Covered by Budgetary Resources, as described in note 9.

The liability for non-entity investments offsets non-entity investments that were funded by the interest earned on the funds raised from the sale of certificates of ownership to finance the construction of the National Archives at College Park. NARA will be relinquishing the funds to U.S. Treasury upon meeting trust agreement conditions in FY 2005. See note 2.

Accrued annual leave consists of employees’ unpaid leave balances at September 30, 2004, and reflects wage rates in effect at fiscal year end. Accrued annual leave is described in note 1P,

Summary of Significant Accounting Policies, and is included in Liabilities Not Covered by Budgetary Resources, as described in note 9.

Note 12 – Leases

NARA leases office space, vehicles, copiers, and equipment under annual operating leases. These leases are cancelable or renewable on an annual basis at the option of NARA.

The NARA revolving fund conducts the major part of its operation from leased facilities. Most of the leases are cancelable operating leases. These leases may be cancelled with four months' notice or, in the case of the new Atlanta lease, may be terminated for convenience by NARA, under the provisions of the Federal Acquisitions Regulation.

Two leases are classified as capital leases. The capital leases represent the liability for shelving leased through GSA at the Dayton and Philadelphia records facilities. They expire in September 2007 and December 2014, respectively. The schedule below shows the future minimum payments under capital leases with the present value of the future minimum lease payments.

CAPITAL LEASES – NARA as lessee

Summary of assets under capital lease:	
Shelving	\$ 5,284,285
Accumulated depreciation	2,169,396
Future payments due	
Fiscal year	
2005	\$ 663,962
2006	645,817
2007	344,253
2008	146,173
2009	146,173
After 2009	743,064
Total future lease payments	2,689,442
Less: imputed interest	548,596
Net capital lease liability	\$ 2,140,846

Lease liabilities covered by budgetary resources \$ 2,140,846
 This amount is included in Intragovernmental Liabilities, Other.

NARA has non-cancelable operating leases with GSA which cover the Pittsfield, MA, Dayton (Kingsridge), OH, and Lenexa, KS, records facilities. The lease periods are January 5, 1994, through January 4, 2014 for the Pittsfield lease; June 1, 2004, through December 31, 2022, for the Dayton (Kingsridge) lease; and February 1, 2003, through January 31, 2023, for the Lenexa lease. The leases include no renewal options. The leases include escalation clauses for operating costs tied to inflationary increases and for real estate taxes tied to tax increases. (Note: The minimum future lease payments include estimated escalations for operating costs and real estate taxes. These amounts will be adjusted to the actual costs GSA incurs for operating costs and real estate taxes for each lease.) The schedule below shows the total future lease payments.

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OPERATING LEASES – NARA as lessee

Future payments due	
Fiscal year	
2005	\$ 5,354,227
2006	5,433,516
2007	5,515,679
2008	5,600,751
2009	5,688,833
After 2009	<u>64,449,539</u>
Total future lease payments	<u>\$ 92,042,545</u>

Note 13 – Commitments and Contingencies

NARA has incurred claims in the normal course of business. As of September 30, 2004, in the opinion of its General Counsel, NARA has no material outstanding claims. Counsel advised that an Equal Employment Opportunity Commission (EEOC) claim was recently filed for which a thorough analysis has not been completed.

The NARA Revolving Fund has entered into a lease agreement for a new records center in Perris, CA, with occupancy scheduled to begin on or about December 1, 2004. The lease term is twenty years with phased in monthly rental rates through December 2005, followed by annual rents of \$2,273,438. The phased-in rates for the first year are based on the scheduled completion dates of the storage bays.

Note 14 – Cost of Stewardship PP&E

Stewardship assets consist of heritage assets as defined in note 1K. No financial value is or can be placed on these assets.

The Consolidated Statement of Net Cost includes the following costs in the current period to renovate heritage assets:

<i>Asset</i>	<i>Gift</i>	<i>Appropriation</i>
Roosevelt Library	\$ 53,977	\$ 917,075
Reagan Library		2,446,093
Ford Library	1,183,320	330,554
National Archives Building		9,794,622
Total	<u>\$ 1,237,297</u>	<u>\$ 13,488,344</u>

For additional information about NARA's stewardship assets, see the Supplementary Stewardship Information section of this report.

Note 15 – Stewardship Assets Acquired Through Transfer, Donation, and Devise

NARA has ownership of heritage assets received through gifts of money, security, or other property. The National Archives Gift Fund receives and accepts, holds, and administers in accordance with the terms of the donor, gifts or bequests for the benefit of the National Archives Gift Fund activities or Presidential libraries. Additional information about heritage assets is presented in the Supplementary Stewardship Information, including the type and quantity of heritage assets added during the fiscal year.

Note 16 – Exchange Revenues

Records Administration Conference (RACO). Fees were determined based on attendance levels and costs in FY 2002 plus modest inflationary increases. The fees are \$225 per registrant, \$800 per Oceanic Suite exhibitor, and \$1,000 per Amphitheater exhibitor.

Records Management Program Training Course. The basic per day charge for records management training classes is \$150. This fee is based on the salary and benefits for a full-time program administrator, training costs for new trainers and additional training for existing trainers, and direct overhead costs (i.e., reproduction of class materials and preparation of training binders). In addition, this cost includes the purchase and updating of teaching and training aids and several computer software programs. This fee was based on a total Office of Records Services annual program average cost of \$120,000 per year with 800 training days ($\$120,000/800=\150).

Providing access to and assisting in reproducing foreign policy-related records in the Nixon Presidential Materials Project. NARA is reimbursed for the salary and benefits of two NARA archival staff members providing assistance in reproducing foreign policy-related records in the Nixon Presidential Materials. In addition, NARA is reimbursed for reproduction costs at \$.15 per copy.

Improvements for the joint National Park Service and National Archives Visitor Center at the Franklin D. Roosevelt Library. The National Park Service provided funds for their portion of the cost to cover improvements to the park entrance at the new joint National Park Service and National Archives Visitor Center at the Roosevelt Library.

Office Support for Air Force Declassification Office. Patrick Air Force Base employees are working at NARA on declassification of records. The Air Force provided funds for office support (wiring, furnishings, etc.) for the declassification employees.

Records Center Revolving Fund. The program office develops transaction billing rates annually for the upcoming fiscal year. The rates are developed to ensure full cost recovery for the delivery of storage and services of records held by the fund for its customer agencies. The rate development process is reviewed for reasonableness by the Revolving Fund office and receives final approval from the Archivist. Adjustments, changes, or additions to the rates are submitted to the Archivist for approval before implementation.

Note 17 – Gross Cost and Earned Revenue by Budget Functional Classification

Gross cost and earned revenue for NARA are classified under the budget functional classification General Government under the President’s budget. Gross cost and earned revenue are categorized as follows:

	<i>Intragovernmental</i>	<i>With the public</i>	<i>Total</i>
Gross cost	\$ 125,209,392	\$ 306,075,532	\$ 431,284,924
Earned revenue	(127,180,595)	(17,763,185)	(144,943,780)
Net cost	\$ (1,971,203)	\$ 288,312,347	\$ 286,341,144

Note 18 – Apportionment Categories of Obligations Incurred

OMB typically uses one of two categories to distribute budgetary resources in a fund. Apportionments that are distributed by fiscal quarters are classified as category A. Category B apportionments usually distribute budgetary resources by activities, project, objects, or a combination of these categories. For FY 2004, NARA has not received any Category B apportionments. NARA’s Revolving, Trust, and Gift Funds are exempt from apportionment. The amounts of direct and reimbursable obligations are displayed in the following chart.

<i>Obligations incurred</i>	<i>Category A</i>	<i>Exempt</i>	<i>Total</i>
Direct obligations	\$ 338,567,177	\$ 11,001,418	\$ 349,568,595
Reimbursable obligations	2,850,575	137,652,624	140,503,199
Total	\$ 341,417,752	\$ 148,654,042	\$ 490,071,794

Note 19 – Legal Arrangements Affecting Use of Unobligated Balances

Public Law 108-7, February 20, 2003, Division J, Title V, Section 508, authorized that up to 50 percent of NARA's unobligated balances remaining available at the end of fiscal year 2003 from appropriations made available for salaries and expenses for fiscal year 2003 shall remain available through September 30, 2004. A request must be submitted to the Committees on Appropriations for approval prior to the expenditure of these funds. In July 2004, NARA requested and was authorized to transfer \$297,966, which represents 50 percent of the unobligated balance available at the end of FY 2003.

Note 20 – Statement of Budgetary Resources vs. Budget of the United States

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanations of material differences between budgetary resources available, status of those resources, and outlays as presented in the statement of budgetary resources to the related actual balances published in the *Budget of the United States Government*. However, the *Budget of the United States Government* (President's Budget) that will include FY 2004 actual budgetary execution information has not yet been published. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements. The President's Budget for FY 2003 is not included because these are not comparative statements.

The FY 2004 data submitted to FACTS II for preparing the SF-133 and the President's Budget differs from the amounts reported on the statement of budgetary resources. The differences are due mostly to incorrect reporting in prior years on the SF-133 submissions for non-entity investments, resulting in overstatement in budgetary resources and status of budgetary resources of \$16 million. NARA intends to work with OMB to provide a revised submission during the FACTS II revision window to effect a correction for FY2004 President's Budget.

Note 21 – Dedicated Collections

Congress established the National Archives Trust Fund Board to receive and administer gifts and bequests of money and other personal property and to receive monies from the sale of reproduction of historical documents and publications for activities approved by the Board and in the interest of NARA and the Presidential libraries. The members of the Board are the Archivist of the United States, who serves as chairman; the Secretary of the Treasury; and the chairman of the National Endowment for the Humanities. Membership on the board is not an office within the meaning of the statutes of the United States.

The membership, functions, powers, and duties of the National Archives Trust Fund Board shall be as prescribed in the National Archives Trust Fund Board Act of July 9, 1941, as amended (44 U.S. C. 2301-2308). These bylaws are adopted pursuant to the authority vested in the Board by 44 U.S. C. 2303 (3) to adopt bylaws, rules, and regulations necessary for the administration of its function under this chapter.

National Archives Trust Fund Board administers the National Archives Trust Fund (NATF) and the National Archives Gift Fund (NAGF). NATF finances and administers the reproduction or publication of records and other historical materials for the benefit of NARA. NAGF accepts, receives, holds, and administers, in accordance with the terms of the donor, gifts or bequests of money, securities, or other personal property for the benefit of NARA activities. The major areas of activity for these funds are Presidential libraries, the Office of Regional Records Services, the National Historical Publications and Records Commission, and the Charters of Freedom Project.

Cumulative results of operations is reported as restricted or unrestricted. Restricted cumulative results of operations represents the net of donations and disposition of donations to the Gift Fund in accordance with terms of the donor. All donations and related expenses to Presidential libraries

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and donations and related expenses to National Archives Gift Fund activities with specific requirements are considered restricted; all others are reported as unrestricted.

Financial Information for NATF and NAGF as of September 30, 2004, consists of the following:

	<i>NATF</i>	<i>NAGF</i>
Assets		
Fund balance with Treasury	\$ 900,516	\$ 139,050
Cash	36,195	—
Investments, net	10,435,181	8,102,226
Accounts receivable	575,930	—
Inventory	994,847	—
Property, plant, and equipment	737,055	—
Prepaid postage	40,169	—
Total assets	13,719,893	8,241,276
Liabilities		
Accounts payable	787,530	30,514
Other liabilities	933,114	—
Total liabilities	1,720,644	30,514
Net position		
Cumulative results of operations		
Restricted	—	7,830,383
Unrestricted	—	380,379
Total net position	11,999,249	8,210,762
Total liabilities and net position	13,719,893	8,241,276
Net position, beginning of fiscal year	12,889,947	9,961,792
Change in net position		
Non-exchange revenue	18,831	—
Donations and forfeitures of cash and cash equivalents	—	3,570,778
Imputed financing from costs absorbed by others	441,414	—
Total financing sources	460,245	3,570,778
Net cost of operations	1,350,943	5,321,808
Net position, end of fiscal year	\$ 11,999,249	\$8,210,762

Note 22 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

As of September 30, 2004, budgetary resources were not yet available to fund certain liabilities reported on the balance sheet. For the balances in question, most are long-term in nature where funding is generally made available in the year the payments are anticipated. Debt held by the public is not covered by budgetary resources. The remainder are included as “Other liabilities” on the balance sheet and consist of annual leave liability, unfunded workers’ compensation, and unfunded pension expenses. The increase in annual leave liability is shown as a separate line item on the statement of financing. Changes to workers’ compensation and pension expenses are included in “Other components requiring or generating resources in future periods.”

Supplementary Information
For the Year Ended September 30, 2004

Schedule of Intragovernmental Amounts

Intragovernmental Assets

Trading Partner	Fund balance with Treasury	Investments	Accounts receivable	Prepaid expenses
Department of the Treasury	\$ 185,206,592	\$ 31,204,730	\$ 2,752,062	\$ —
Department of Defense			6,351,476	
Department of Justice			1,152,414	
U.S. Courts			686,789	
Department of Health and Human Services			465,063	
U.S. Postal Service			160,020	40,169
Other			2,582,883	
Total	\$ 185,206,592	\$ 31,204,730	\$14,150,707	\$ 40,169

Intragovernmental Liabilities

Trading Partner	Accounts Payable	Other
Department of the Treasury	\$ —	\$ 17,452,599
General Services Administration	1,714,917	2,140,846
Department of Defense	548,599	
Department of Labor	170,817	1,700,277
Office of Personnel Management	270,823	
Department of Health and Human Services	67,958	
Other	634,121	
Total	\$ 3,407,235	\$ 21,293,722

Intragovernmental Earned Revenues and Related Costs

Budget functional classification	Earned revenue	Gross cost to generate revenue
General Government	\$ 127,180,595	\$ 142,839,274

Schedule of Budgetary Resources by Major Budget Accounts

	<i>Records and Archives-Related Services</i>	<i>Gift Fund</i>	<i>Trust Fund</i>
Budgetary Resources			
Budget authority			
Appropriations received	\$ 256,700,000	\$ 3,818,032	\$ 836
Unobligated balance, beginning of period	4,686,110	8,011,603	10,451,259
Spending authority from offsetting collections			
Earned			
Collected	15,809,356	769	13,777,157
Receivable from Federal sources	70,399	9,924	95,498
Change in unfilled customer orders			
Advance received	—	—	(88,086)
Without advance from Federal sources	—	—	1,836
Subtotal	277,265,865	11,840,328	24,238,500
Recoveries of prior year obligations	14,970,706	15,248	300,488
Permanently not available	(12,060,552)	—	—
Total Budgetary Resources	280,176,019	11,855,576	24,538,988
Status of Budgetary Resources			
Obligations incurred			
Direct	272,433,986	3,920,829	14,890,878
Reimbursable	2,365,576	—	—
Subtotal	274,799,562	3,920,829	14,890,878
Unobligated balance			
Apportioned	607,399	—	—
Exempt from apportionment	—	7,934,747	9,648,110
Unobligated balances not yet available	4,769,058	—	—
Total status of budgetary resources	280,176,019	11,855,576	24,538,988
Relationship of Obligations to Outlays			
Obligated balance, net, beginning of period	61,212,464	4,297,693	792,554
Obligated balance, net, end of period			
Accounts receivable	403,388	46,316	567,550
Unfilled customer orders from Federal sources	—	—	1,836
Undelivered orders	50,550,201	276,014	1,305,752
Accounts payable	17,904,750	30,515	987,416
Outlays			
Disbursements	252,919,356	7,933,137	13,561,829
Collections	(15,809,356)	(769)	(13,689,072)
Total outlays	\$ 237,110,000	\$ 7,932,368	\$ (127,243)

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<i>Electronic Records Archives</i>	<i>National Historical Publications and Records Commission Grants</i>	<i>Archives Facilities and Presidential Libraries Repairs and Restorations</i>	<i>Records Center and Storage Services</i>	<i>Total</i>
\$ 35,914,000	\$10,000,000	\$ 13,708,000	\$ —	\$ 320,140,868
5,695,552	1,011,505	17,268,944	13,398,675	60,523,648
—	12,943	485,000	130,888,111	160,973,336
—	(3,615)	—	2,235,762	2,407,968
—	—	—	—	(88,086)
—	—	—	—	1,836
41,609,552	11,020,833	31,461,944	146,522,548	543,959,570
434,881	280,442	873,485	4,221,537	21,096,787
(211,893)	(59,000)	(80,877)	—	(12,412,322)
41,832,540	11,242,275	32,254,552	150,744,085	552,644,035
35,143,729	9,562,810	13,616,363	—	349,568,595
—	—	485,000	137,652,623	140,503,199
35,143,729	9,562,810	14,101,363	137,652,623	490,071,794
6,688,811	1,679,465	18,153,189	—	27,128,864
—	—	—	13,091,462	30,674,319
—	—	—	—	4,769,058
41,832,540	11,242,275	32,254,552	150,744,085	552,644,035
7,630,744	9,551,932	55,865,522	2,815,266	142,166,175
—	—	—	14,327,450	15,344,704
—	—	—	767,836	769,672
30,039,694	11,875,909	15,427,617	10,003,619	119,478,806
2,115,534	363,831	5,474,263	10,920,898	37,797,207
10,184,365	6,598,174	48,191,521	128,181,359	467,569,741
—	(12,943)	(485,000)	(130,888,110)	(160,885,250)
\$ 10,184,365	\$ 6,585,231	\$ 47,706,521	\$ (2,706,751)	\$ 306,684,491

Segment Information – Revolving Fund

NARA’s Revolving Fund provides storage and related services for Federal records still in agency custody and other instrumentalities of the Federal Government. The related services comprise retrieving, transferring, refiling, and disposing of the stored Federal records. The fund’s major customers (organizations that account for more than 15 percent of the fund’s revenues) are Department of Defense and Internal Revenue Service.

The following summarizes revolving fund financial information as of September 30, 2004:

Fund balance	\$ 18,920,692
Accounts receivable	14,370,695
Property, plant and equipment	22,915,262
Other assets	1,014,500
Liabilities due and payable for goods and services received	5,487,165
Other liabilities	15,113,678
Cumulative results of operations	\$ 36,620,306

The following summarizes, for the period ended September 30, 2004, the full cost of services provided, the related exchange revenues, and the excess of full costs over exchange revenues for the revolving fund:

Records center storage and services	
Intragovernmental gross costs	\$ 64,177,073
Less: Intragovernmental earned revenue	(129,574,547)
Intragovernmental net costs	(65,397,474)
Gross costs with the public	77,268,146
Less: Earned revenues from the public	(3,547,516)
Net costs with the public	73,720,630
Total net records center storage and services program costs	\$ 8,323,156

The segment information is presented prior to intra-agency eliminations and will, therefore, not agree to the Statement of Net Cost for the Revolving Fund, which is shown on a consolidated basis.

Deferred Maintenance

NARA owns, builds, purchases and manages assets including the National Archives Building, the National Archives at College Park, the Presidential libraries, and land for future regional archives buildings. All of these support NARA’s stated mission. Recent major renovations have been completed at the National Archives Building and many of the Presidential libraries. The assets include some facilities for which repair and maintenance are needed but have not been performed due to current and prior years budgetary restraints. NARA refers to this unfunded repair and maintenance of facilities and infrastructure as deferred maintenance.

Due to the scope, nature, and variety of the assets and the nature of the deferred maintenance, exact estimates are very difficult to determine. Current estimates include repairs to roofs, parking lots, and light systems at four of the Presidential libraries.

NARA uses the condition assessment method to determine the condition of all constructed asset and to identify any deferred maintenance projects. The estimates generally exclude vehicles and other categories of operating equipment.

NARA categorizes facilities and equipment according to condition using terms such as those shown below:

Good. Facilities/equipment condition meets established maintenance standards, is operating efficiently, and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no deferred maintenance on building and equipment in good condition.

Fair. Facilities/equipment condition meets minimum standards but requires additional maintenance or repairs to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy.

Poor/Unsatisfactory. Facilities/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function.

The condition assessment process at NARA includes contracting with a professional architectural firm to perform Building Condition Reports (BCR) for all NARA-owned facilities on a periodic basis. Facility managers perform condition assessments annually between professional evaluations. All BCR and facility managers' recommendations are included on the project list. Each year, NARA management prioritizes all projects for funding considering strategic goals and operational needs. The projects that are not funded must be reevaluated and resubmitted in future years. At the end of FY 2004, four projects have not been completed and are considered deferred maintenance as shown in the chart below. All of the projects are at buildings and facilities classified as heritage assets. They include roof repairs, parking lot resurfacing, and exterior lighting.

Type of Deferred Maintenance

<i>Category</i>	<i>Method</i>	<i>Asset Condition</i>	<i>Estimated Deferred Maintenance</i>
Buildings	CAS	Good	\$2.7 to \$3 million dollars

In addition, NARA is custodian for numerous holdings as detailed in the RSSI. As custodian, NARA makes tremendous efforts to warrant the continued preservation of these holdings. For example, the condition of electronic records is either stabilized or not stabilized. Stabilized is defined as follows: the physical file containing one or more logical data records has been identified and its location, format, and internal structure(s) specified; logical data records within the file are physically readable and retrievable; the media, the physical files written on them, and the logical data records they contain are managed to ensure continuing accessibility; and an audit trail is maintained to document record integrity. Files that are not stabilized are in the pipeline awaiting processing, unreadable for technical reasons, or unreadable because the media are deteriorating. Currently, over 97 percent of the records have been stabilized, and ongoing work continues to stabilize the rest to the extent possible.

**Supplementary Stewardship Information
For the Year Ended September 30, 2004**

Heritage Assets

	<i>Balance 9-30-03</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance 9-30-04</i>
Record types				
Artifacts (# of items)				
Presidential libraries	526,119	12,495	0	538,614
Office of Regional Records				
Services	20	0	0	20
Washington, DC	1,493	0	2	1,491
Total	527,632	12,495	2	540,125
Traditional holdings (in cubic feet)				
Presidential libraries	235,709	2,402	0	238,111
Office of Regional Records				
Services	634,544	0	(894)	633,650
Washington, DC	2,146,787	76,608	0	2,221,395
Affiliated archives	7,126	72	0	7,198
Total	3,024,166	77,082	(894)	3,100,354
Electronic holdings (in logical data records)				
Presidential libraries	35,308,040	0	0	35,308,040
Washington, DC	4,707,555,362	886,279,338	0	5,593,834,700
Total	4,742,863,402	886,279,338	0	5,629,142,740
Non-record types				
Buildings and structures (in units)				
Presidential libraries	20	0	0	20
Other	2	0	0	2
Total	22	0	0	22
Land in pieces		2		2

See accompanying notes to the financial statement for information about multiuse heritage assets included in PP&E. During the year, significant renovations were made to the buildings in the amount of \$14,725,641. Of that amount \$1,237,297 came from gifts. Repairs to Presidential libraries are broken out separately on the Statement of Net Cost as "Heritage asset renovation costs." One of the buildings appearing in "Other" is a multiuse heritage asset included in PP&E on the balance sheet.

As discussed in note 1K, NARA defines heritage assets as possessing significant educational, cultural, or historic characteristics. All Presidential libraries and the National Archives Building are classified as heritage assets, as are all the holdings that contain artifacts, traditional holdings, and electronic holdings. The Archivist determines, through

the scheduling and appraisal process, whether records have sufficient administrative, legal, research, or other value to warrant their continued preservation by the Government and for how long (44 U.S.C. 3303a). When in the public interest, the Archivist may accept records for historical preservation (44 U.S.C. 2107). Information about deferred maintenance is contained in the Deferred Maintenance section of Supplementary Information.

