

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 2005.

This is the second year that NARA prepared and submitted 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. Our independent auditor has rendered a qualified opinion on our FY 2005 financial statements, attesting to the fact that our financial statements are presented fairly with the exception of such adjustments, if any, for obligations and outlays related to non-Federal investments. NARA continued to make significant improvements as we further refined the processes of gathering required data for the financial statements and addressed internal controls weaknesses identified in last year's audit.

Deficiencies in the current provider's financial system remained a major obstacle to obtaining timely, accurate financial information as NARA continued to expend significant effort on cleansing accounting records in order to prepare auditable financial statements and other external reports to the Office of Management and Budget (OMB).

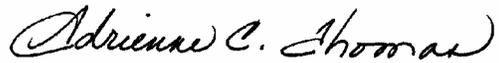
To address these long-standing issues, in FY 2004 NARA management contracted with a new financial system provider with implementation planned for the inception of FY 2006. While we anticipate that this change will result in significant improvements to NARA's accounting processes, financial reporting, and internal controls, the conversion process itself was an additional formidable challenge during FY 2005.

That notwithstanding, most of the audit material weaknesses have been addressed during FY 2005 or are well on the way to completion. Some that remain, such as compliance with United States Standard General Ledger (USSGL), are contingent on our pending conversion to the new financial system in FY 2006. Yet others, such as management and accounting for property, plant, and equipment and a single integrated financial management system, are on a longer time frame requiring some culture change as appropriate management processes are developed, implemented and enforced across NARA organization.

We are very proud of all NARA staff for meeting the accelerated reporting dates mandated by OMB, while developing new business processes, overcoming the challenges of the current system's deficiencies, implementing the new financial system and fully addressing 33 out of 39 recommendations from last year's audit.

While NARA has made significant progress in FY 2005, challenges remain as NARA works to further improve financial management processes and internal controls, and address longer term audit weaknesses, so it can ultimately achieve a clean bill of financial health, an unqualified audit opinion. While 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, NARA has made good strides to improved financial management.



Adrienne C. Thomas
Assistant Archivist for Administration and
Chief Financial Officer

Auditor's Reports

Inspector General's Summary

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2005

OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statement of the National Archives and Records Administration (NARA) for the fiscal year ended September 30, 2005. 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 NARA's financial statements, CG issued a qualified opinion for the effects of adjustments, if any, as might have been necessary had they been able to perform adequate audit procedures on obligations and outlays related to investment. NARA did not record obligations and outlays for purchases and redemption in its non-federal investments, as required by OMB Circular A-11, *Preparation, Submission, and Execution of Budget*.

CG reported a material weakness¹ in investments and four reportable conditions². The reportable conditions are in information technology, financial reporting, payroll, and property plant and equipment.

In its Report on Compliance with Laws and Regulations, CG states NARA's financial management systems did not substantially comply with Federal financial management systems requirements 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 FFMA; or conclusions with laws and regulations. CG is responsible for the attached auditor's report dated November 3, 2005 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.

¹A 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 amount 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.

²Reportable 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



Independent Auditor's Report

To the Inspector General of the
National Archives and Records Administration

We have audited the consolidated balance sheets of National Archives and Records Administration (NARA) as of September 30, 2005 (fiscal year 2005) and 2004 (fiscal year 2004), and the related consolidated statements of net cost, changes in net position, financing, and combined statement of budgetary resources for the years 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 audits

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 financial statements' presentation. We believe our audits provide a reasonable basis for our opinion.

NARA did not record obligations and outlays for the activities in its non-federal investments for sale prior to their conversion to a mutual fund in September 2005 and in fiscal year 2004. In fiscal year 2004, NARA was not able to complete the review of all budgetary accounts impacted by the general ledger system deficiency. 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.

In our report dated November 1, 2004, we expressed an opinion that the fiscal year 2004 financial statements did not fairly present financial position, net cost, and changes in net position, and reconciliation of net cost to budgetary obligations because we were not able to apply adequate auditing procedures to the reclassifications of expenses during the year and in the past to property, plant, and equipment asset due to inadequate supporting documentation to approximately \$53 million of internal-use software, software in development, and equipment. As described in Note 24, NARA restated its fiscal year 2004 financial statements to reflect

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adjusted balances resulting from its continuous research and validation of the expenses and recorded asset and accumulation of supporting documentation in fiscal year 2005. Accordingly, our present opinion on the fiscal year 2004 financial statements, as presented herein, is different from that expressed in previous report.

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 obligations and outlays related to investments referred to in the preceding paragraph in fiscal year 2005 and 2004, and the recoveries of prior year obligations, direct obligations incurred and undelivered orders in fiscal year 2004, the financial statements present fairly, in all material respects, the financial position of NARA as of September 30, 2005 and 2004, and its net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations for the years 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 3, 2005 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 audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis, required supplementary stewardship information, required supplementary information, and other accompanying information contain a wide range of data, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the NARA officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

Clifton Henderson LLP

Calverton, Maryland
November 3, 2005



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, 2005, and have issued our report dated November 3, 2005. 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 investment's budgetary entries related to purchase and redemption of non-federal securities. 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.

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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.

NARA attained a major achievement by having its financial statements audited for the first time in fiscal year 2004. NARA continues to design and implement internal controls to strengthen its financial reporting processes. In fiscal year 2005, however, certain controls were still being designed, not yet implemented, not fully implemented, or not consistently implemented throughout the year.

MATERIAL WEAKNESS

I. Investments (Modified Repeat Finding)

In fiscal year 2004, we determined based on our review of the activities and maturities of securities, that the trust and gift funds' investments in non-federal securities were bought and held for the purpose of sale. *Federal Trust Fund Accounting Guide*, Section IV, Trust Fund Investments, issued by the Department of the Treasury, and the OMB Circular No. A-11, *Preparation, Submission and Execution of Budget*, Part 3, Section 113.4 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."

To avoid the accounting burden of tracking purchases and redemptions for investments in non-federal securities held for sale as required in OMB Circular No. A-11, NARA converted its investments to a mutual fund in late September 2005. Therefore, as in prior year and prior to the conversion of the investments, NARA did not record obligation and outlay for the activities in its non-federal investments held for sale. We could not

determine the impact to the statement of budgetary resources of not recording these transactions because NARA could not provide the information.

NARA's decision to convert its investments to mutual fund was based on its continuous consultation in fiscal year 2005 with OMB and the U.S. Treasury United States Standard General Ledger (USSGL) group. As a result of these consultations, OMB clarified in its recent guidance the definition related to investments in federal and non-federal securities and the U.S. Treasury USSGL group acknowledged the need for standard general ledger (SGL) transactions for non-federal securities.

Recommendation:

1. Continue to pursue with U.S. Treasury USSGL group the SGL transactions and accounting scenarios for accounting for investments in non-federal securities specifically in mutual funds.

REPORTABLE CONDITIONS

II. Information Technology (IT)

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 the Records Center Program Billing System (RCPBS) do not conform to NARA's Information Technology Handbook – Operational Controls section on configuration management. Weaknesses that currently exist in NARA's controls over system modifications include the following:

- Our review of changes made to the RCPBS application during fiscal year 2005 indicate that 22% of our sample did not contain system owner approvals prior to the movement into the production environment; and
- Our review of changes made to the RCPBS application during fiscal year 2005 indicate that 47% of our sample did not contain documentation indicating testing and test plans were performed, prior to movement to production.

Recommendations:

2. Obtain proper approvals before moving RCPBS application changes into the production environment.
3. Document test plans and test results for all RCPBS application changes.

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 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:

- Plans of Actions and Milestones (POA&Ms) are not structured in compliance with OMB instructions. POA&Ms maintained by the Human Resources and

Information Systems (NH) division were determined to not include certain information required as per OMB memorandum M-04-25;

- Employee Clearance Records documentation was not available for 87% of our sample indicating removal of access privileges to IT system resource accounts.

Recommendations:

4. Maintain documentation of Employee Clearance Records for all departing employees, with clear identification of which system/application access has been removed.
5. Revise POA&Ms to include all required components as dictated per OMB M-04-25 instructions.

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. These vulnerabilities expose NARA and its computer systems to risks of 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.

Our testing has also indicated that physical and logical access controls are not effectively configured to ensure only authorized users are accessing applications, user system access is properly approved, passwords are uniformly configured, unauthorized access attempts are tracked, and access to sensitive areas is restricted to only those with a business purpose.

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

- Management has not enforced Directive 804, which requires the re-certification of system users. A user recertification process was either not in place or documented

for the RCPBS, PRISM and FMIS applications, to ensure user access is still appropriate.

- Documented approvals of user access to the RCPBS application were not available for 27% of our sample;
- Documented approvals of user access to the PRISM application were not available for all (100%) users;
- An excessive number (209) of individuals have access to the computer room; many who do not need access to perform their daily job responsibilities;
- NARA is not maintaining an up to date listing of its staff accessing externally hosted applications (i.e. Financial Management Information Systems (FMIS)) and associated system permissions.
- Password parameters to limit logon attempts to the RCPBS application are not configured in accordance with parameters defined within the NARA IT Security handbook;
- Several password parameters to limit access to the PRISM application are not configured in accordance with parameters defined within the NARA IT Security handbook;
- No automated mechanism (i.e. Audit trail) is in place to associate NARS5 or PRISM application user activity to their actions (for accountability purposes) such as modification of data. Additionally, unauthorized user access attempts are not being tracked for follow up;
- Validation edits are not in place to ensure daily batch transaction data transferred from the NARS5 application to the RCPBS application are received completely and accurately; and,
- User access to Disposition Authority (DAU) master files is not being properly restricted.

Recommendations:

6. Ensure all current and future RCPBS and PRISM application users have documentation indicating approved access by their supervisor and system owner.
7. Review password configurations of all NARA maintained (i.e. RCPBS and PRISM) applications and applications outsourced to the Bureau of Public Debt (BPD) to ensure passwords are implemented in accordance with specifications for password usage established by NIST in Federal Information Processing Standards Publication 112, PASSWORD USAGE, and NARA's IT Security Handbook.
8. Enforce Directive 804 and ensure that user access to all NARA (i.e. PRISM and RCPBS) and Bureau of Public Debt (BPD) hosted applications are re-certified on a regular basis in a joint effort by NH and system owners.

9. Review all individuals with access to the computer room, determine if access is needed to perform their job responsibilities, and remove any access not required on either a frequent or emergency basis.
10. Modify NARS5 user permissions to restrict access to the DAU file to only those individuals who require this access in order to perform their position responsibilities.
11. Incorporate logging (of user activity and failed logon attempts) functionality within the NARS5 and PRISM applications to the extent configurable within the application. Implement a process to review these logs on a regular basis. Also, incorporate such logging and audit trails in the functional requirements/design/configuration of any replacement systems (i.e. hosted by NARA or the Bureau of Public Debt (BPD)).
12. Ensure all NARA point of contacts (POCs) for outsourced applications maintain an up-to-date documented listing of all NARA user names and permissions.
13. Implement manual or automated validation edits to ensure daily batch transaction data transferred from the NARS5 application to the RCPBS application are received completely and accurately.

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:

- The Continuity of Operations Plan (COOP) for NARA captures some but not all essential business functions for locations. Based upon our review, NARA is

responsible for the maintenance and management of records at a national level. NARA has developed a Continuity of Operations Plan (COOP) covering Archives I, Archives II, Suitland, and Federal Register. If essential business functions are not identified and considered for each NARA location, low risk functions could be potentially recovered prior to high risk business functions at a particular location. Although Agency level communications are considered within the current Disaster Recovery plan, the sequence of applications for restoration at various locations is still under evaluation.

Recommendation:

14. NARA should update the agency COOP plan to reflect all business functions at each NARA location.

III. Financial Reporting

A. General Ledger (GL) System Setup and Posting Model Definitions

The 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 budget-related entries. NARA uses designated screens to record in its financial management system its budget-related entries for appropriations, apportionments and allotments. Transactions processed, however, did not post the correct entries resulting in incorrect account balances and requiring journal vouchers to reverse the incorrect entries. NARA expended a tremendous amount of time to compensate for the GL system's weaknesses and used numerous journal vouchers as a routine procedure to correct accounting entries. The extensive use of journal vouchers increases the risk of human errors and mistakes.

NARA believes that with their move to a new service provider in fiscal year 2006, the weaknesses related to the GL system setup and posting and the frequent use of journal vouchers will be corrected.

B. Review of Obligations

Starting towards the end of fiscal year 2004 audit, NARA implemented a supervisory review of unliquidated obligations (open items) to determine those that were valid and those that need to be deobligated. To perform this review, NARA receives from its service provider an open items report on a monthly basis and approximately one to two weeks after the month end. NARA distributes this report to its offices requesting the required review and a response three to four weeks after receipt. For reporting purposes, however, the timing of the review is such that it prevents NARA from

having its interim quarterly reports adjusted for obligations that are no longer valid. Moreover, there was no evidence that this control was consistently implemented in fiscal year 2005.

C. 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:

15. Ensure that the GL system setup and posting model definitions of the new service provider is in compliance with USSGL.
16. Develop a timetable that will permit the periodic timely review of obligations to meet the timelines established for external reporting in OMB Bulletin A-136, *Financial Reporting Requirements*.
17. Continue to 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.

IV. Property, Plant and Equipment (PPE)

Internally developed and completed software are two categories of PPE that are significant to NARA's financial statements. NARA continues to develop its policies and procedures for software in development and completed software. Costs associated with

the internally developed software were not maintained in cost center designed to track the software development phases and processes to ensure compliance with the Federal accounting capitalization standard. Also, we found six of ten completed software examined that did not have certification in-service date evidencing the acceptance of the software in development as completed and the start of depreciation calculation.

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.

Recommendations:

18. Finalize the policies and procedures for software in development and completed software.
19. Track costs and maintain documentation related to the various software development phases to ensure compliance with Federal accounting capitalization standard.
20. Create a certification in-service document to evidence acceptance of the software by its owner and maintain the document as support for depreciation start date.

V. Payroll

Internal controls over the maintenance of supporting documentation, validation and authorization of payroll related transactions need to be strengthened. Our test disclosed:

- Documentation supporting certain deductions is not maintained in employees' personnel files;
- Credit time earned or used was not recorded in the Electronic Time and Attendance Management System (ETAMS) until July 2005;
- Time and attendance (T&A) logs were not available for review for certain employees selected for testing;
- Time and Attendance Logs did not consistently include the proper validating signatures; and
- T&A reports are not consistently reconciled with Supervisory Time and Attendance Report or Leave and Earning Statement (LES).

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:

21. Ensure that NARA's service provider(s) are in compliance with NARA's policy of maintaining appropriate supporting records for payroll deductions authorized by the employees and have them readily available for examination.
22. Enforce the policy of recording leave earned and used in ETAMS.
23. Ensure that documentation supporting payroll transactions is properly maintained and readily available for examination.
24. Enforce the policy of signing and dating the Supervisor Time and Attendance Certification Report.
25. Periodically review and reconcile payroll related records to ensure accuracy of information.

VI. Status of Prior Year Comments

As required by Government Auditing Standards and OMB Bulletin No. 01-02, we have reviewed the status of NARA's corrective actions with respect to the findings and recommendations from the previous year's report on internal controls. For those items not addressed in various sections of our Independent Auditor's Report on Internal Control, summarized above, the following discusses the current status of resolutions for matters raised:

Financial Reporting

- **Condition:** In fiscal year 2004, NARA used spreadsheet-based applications that did not have adequate controls such as protecting cells, limiting access, and control of changes.

In fiscal year 2005, NARA implemented controls to limit access to the spreadsheets, control the changes, and protected cells to prevent inadvertent changes. Accordingly, we have removed this condition.

- **Condition:** In fiscal year 2004, NARA did not have written policies and procedures to formalize plans, methods and procedures to guide the financial statement preparation and reporting process.

In fiscal year 2005, NARA issued written policy and procedures. Accordingly, we have removed this condition.

- **Condition:** In fiscal year 2004, 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.

In fiscal year 2005, NARA has performed the periodic reconciliations. Accordingly, we have removed this condition.

Property, Plant and Equipment (PPE)

- **Condition:** In fiscal year 2004, NARA was still in the process of identifying assets that need to be capitalized rather than expensed.
In fiscal year 2005, NARA completed identification of its prior year assets that need to be capitalized and properly capitalized assets acquired during the year. Accordingly, we have removed this condition.

- **Condition:** In fiscal year 2004, NARA does not have monthly reconciliation procedures for all assets including heritage assets.

In fiscal year 2005, NARA developed and implemented monthly reconciliation procedures. Accordingly, we have removed this condition.

- **Condition:** In fiscal year 2004, budget requests received but were not prioritized nor scheduled were not included in the determination of the amount of deferred maintenance reported on the required supplementary information (RSI).

In fiscal year 2005, NARA formalized its condition assessment surveys and scheduled building condition assessments over a five-year cycle. Amounts estimated based on existing building condition reports were included in the deferred maintenance reported on the RSI. Accordingly, we have removed this condition.

Software Development and Change Controls

- **Condition:** In fiscal year 2004, we determined that NARA had implemented modifications and maintenance changes to NARANet which did not conform with NARA's System Development Life Cycle Guide to include missing approvals, and complete documentation of changes.

In fiscal year 2005, NARA updated configuration management Standard Operating Procedures (SOP's) to ensure documentation is properly completed and approved.

We randomly tested a sample of NARANet changes made during fiscal year 2005 and did not find exception. Accordingly, we have removed this condition.

Entity-Wide Security Program

- **Condition:** In fiscal year 2004, weaknesses existed in the certification and accreditation (C&A) process, data ownership responsibilities and procedures, utilizing the Plan of Actions and Milestones (POA&M) to capture all findings from internal and external audit reports, and formalized System Interconnection Agreement (SIA) with the service provider for its financial systems.

In fiscal year 2005, NARA modified the Memorandum of Understanding (MOU) and developed and Interconnection Security Agreement (ISA) with the General Services Administration (GSA) to ensure security measures were consistent with Federal and NARA standards. This format serves as a template for NARA's relationship with the Bureau of Public Debt (BPD). NARA has tracked IT findings from various audit reports issued during the fiscal year 2005. We did however note that the Plans of Actions and Milestones (POA&M) was still not in a format acceptable by OMB. Therefore, except for the outstanding POA&M issue, we have removed this condition.

Controls to Protect Its Information

- **Condition:** In fiscal year 2004, NARA did not have adequate logical and physical access controls in place to properly secure and protect its software and hardware equipment. Weak logical access controls included; system users with access not required to perform their position responsibilities, users not required to change initial network passwords, an inadequate network addressing schema, outdated network topology; and numerous network vulnerabilities noted during security scans. Weak physical access controls included excessive access to sensitive areas such as the computer room at Archives II and no monitoring of access to sensitive areas.

In fiscal year 2005, we confirmed that NARA has strengthened password controls in Novell, developed procedures to review inactive network accounts and taken action to remove inactive users. The mandatory annual security awareness training is one method NARA is using to recertify user access. If users do not complete the training then their network accounts are disabled. We reviewed the updated NARA network topology. Additionally, NARA has taken steps to convert publicly addressable IP addresses to internal addresses. To standardize security configurations throughout NARA, NH has implemented server baseline processes with steps to identify configurations out of synch for follow up. NARA has a contract with a vendor who is in the process of installing cameras in the data center. Visitor sign in logs are now required to be signed once entering the computer room. We noted that although

NARA has instituted a user access recertification procedure to restrict access to the computer room, and removed several individuals as a result of this process, there are still an excessive number of individuals that do not regularly require this access to perform their position responsibilities. Therefore, except for the excessive access to the computer room, we have removed this condition.

Contingency Plan

- **Condition:** In fiscal year 2004, NARA did not sufficiently identify and prioritize critical data and operations. NARA's disaster recovery plans and Continuity of Operations Plan (COOP) did not address service disruptions occurring throughout all NARA physical locations, and were not adequately tested. External service provider memorandums of understanding (MOU) did not cover restoring lost connectivity between NARA and the external service provider (i.e. GSA). A wet pipe sprinkler was installed in the computer room that could expose sensitive computer equipment to water leaks.

In fiscal year 2005, we reviewed an updated disaster recovery plan and COOP which discusses the recovery of critical systems (identified by NARA as Internet and email access) and data. All other major applications and general support systems were determined by NARA to fail over to paper in the event of a service disruption. The COOP defines initial response actions, essential personnel, materials, databases, data and software to recover operations. In June 2005, NARA performed testing of their Internet connectivity and Web services disaster recovery plans. Although NARA has initiated a budget request to expand the COOP to cover other NARA locations, this activity has not been completed. NARA modified the MOU/ISA with GSA to incorporate service disruption measures and responsibilities. NARA has decided to accept the risk of not converting the sprinkler system to "dry pipe", since GSA building requirements recommend "wet pipe" sprinklers. Therefore, except for the COOP issue, we have removed this condition.

Cost Allocation Methodology

- **Condition:** In fiscal year 2004, NARA did not have a formal and comprehensive cost allocation methodology and does not ensure that related policies and procedures such as semi-automated allocation process policy are updated.

In fiscal year 2005, NARA updated its semi-automated allocation process policy and documented its allocation policy and procedures. Accordingly, we have removed this condition.

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 in the FMFIA report included in the Performance and Accountability Report to our report on internal control dated November 1, 2005. NARA's FMFIA report for fiscal year 2005 did not report the material weakness in investments that we identified in this report. We do not believe, however, that failure to report the material weakness constitutes a separate reportable condition or material weakness because different criteria is used in determining material weakness for both reports.

In addition to the material weakness 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 3, 2005.

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 3, 2005



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, 2005, and have issued our report thereon dated November 3, 2005. 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 investment's budgetary entries related to purchase and redemption of non-federal securities. 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, 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.

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Offices in 14 states and Washington, DC



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 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 III.C. 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 III.A. 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.

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 III.A., the system 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 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 3, 2005.

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 Gunderson LLP

Calverton, Maryland
November 3, 2005

Management Response to Auditor's Report



National Archives and Records Administration

8601 Adelphi Road
College Park, Maryland 20740-6001

Date: November 10, 2005

To: Paul Brachfeld, Inspector General

From: Allen Weinstein, Archivist of the United States

Subject: Management Response to Draft Independent Auditor's Reports on NARA's Internal Controls and Compliance with Laws and Regulations for FY 2005.

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. We appreciate your efforts and cooperation throughout this audit process.

NARA has worked hard to improve financial management processes and to resolve the information technology security material weakness. We are pleased that your reports recognize the notable progress that has been made during the year.

We will sustain our efforts in addressing remaining issues, as well as any new challenges. Our goal is to meet the spirit of President's Management Agenda of improved financial management that will be reflected in an "unqualified" audit opinion on our financial statements in the future.

While we generally agree with the assessments contained in the report, we want to reassure our stakeholders that major investments in information technology at NARA are made in an environment that has effective internal controls based on real risk assessment and management attention to those risks, and offer the following comments:

Reportable conditions:

III. Information Technology

1. Plans of Action and Milestones. The reportable conditions and recommendations generally address issues which are part of ongoing NARA efforts to improve existing policies, processes and procedures. We will reflect this in our Plan of Action and Milestones (POA&M) that will be the basis of our response. The Office of Information Services (NH) has modified its internal reporting processes to include a field that tracks resources allocated to POA&M issues.

2. Computer room access. While the number of people with access to the computer room may appear large to external auditors, this number is not excessive in light of the NARA risk analysis, budget constraints and business justification that underlies our current management policy. All who have access to the computer room have a legitimate job responsibility for being granted such access and these access approvals are reviewed on a regular basis.

3. Continuity of Operations (COOP). NARA management strongly believes that all functions critical to NARA's business needs have been covered in NARA's existing COOP plan. NARA's Headquarters element has a viable capability to survive regardless of a catastrophic event at Archives I, Archives II, the Federal Register; or, in the event of a regional disaster to the National Capitol Region, to transfer personnel and operations to the National Personnel Records Center in St. Louis, MO. The COOP Plan extends to the other subordinate activities across the nation through survival of the Headquarters element. There are no essential functions performed at the subordinate locations upon which the Headquarters is dependent. The COOP plan is written in accordance with Federal Preparedness Circular 65, dated 15 Jun 2004. The COOP plan has a training, testing and exercise schedule and it is reviewed regularly to ensure that the 17 essential functions can be performed at an enterprise-wide level, and that the plan is kept current with evolving agency and Presidential requirements.

4. Identified systems: RCPBS, FMIS, PRISM, NARS-5. Several of the reportable conditions involve agency systems that a) are scheduled for replacement or 2) were retired during the course of the audit, and the recommendations specify changes to application-level access policies, which the agency has previously evaluated at "low risk." NARA accepts those risks. In areas where user access needs to be monitored or improved, it will be done according to procedures that are appropriate to the FIPS 199 risk category of the system.

In closing, while challenges remain, we feel NARA has demonstrated its commitment to improved financial management and ability to produce accurate and reliable financial statements, which will be furthered with a new financial system. We would like to thank the office of Inspector General and Clifton Gunderson LLP for working in a professional and dedicated manner with NARA staff.



ALLEN WEINSTEIN
Archivist of the United States

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 2005 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, 2005, and September 30, 2004
(in thousands)

	2005	Restated 2004
Assets (Note 2)		
Intragovernmental		
Fund balance with Treasury (note 3)	\$ 167,231	\$ 185,207
Investments (notes 2, 4)	14,740	31,205
Accounts receivable (note 5)	9,181	14,151
Other (note 8)	—	40
Total intragovernmental	191,152	230,603
Cash (note 3)	48	36
Investments (note 4)	11,869	4,785
Accounts receivable, net (note 5)	863	881
Inventory, net (note 6)	1,104	995
General property, plant and equipment, net (note 7)	311,802	314,617
Other (note 8)	1,029	1,016
Total assets	\$ 517,867	\$ 552,933
Liabilities (Note 9)		
Intragovernmental		
Accounts payable	\$ 3,366	\$ 3,407
Other (notes 9, 11, 12)	3,454	21,294
Total intragovernmental	6,820	24,701
Accounts payable	20,112	24,426
Debt held by the public (notes 9, 10)	236,259	246,046
Other (notes 9, 11)	29,506	26,900
Total liabilities	292,697	322,073
Net Position		
Unexpended appropriations	117,554	139,793
Cumulative results of operations	107,616	91,067
Total net position	225,170	230,860
Total liabilities and net position	\$ 517,867	\$ 552,933

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For the years ended September 30, 2005, and 2004
(in thousands)

	2005	Restated 2004
Program costs		
Records and archives-related services		
Gross costs	\$ 280,307	\$ 241,712
Less: Earned revenues	(647)	(988)
Total net records and archives-related services program costs	279,660	240,724
Trust and Gift Funds		
Gross costs (excluding heritage asset renovation)	15,274	16,324
Heritage asset renovation costs (note 15)	880	1,237
Less: Earned revenues	(16,305)	(14,232)
Total Net Trust and Gift Fund costs	(151)	3,329
Electronic records archives		
Gross costs	35,655	11,225
Less: Earned revenues	—	—
Total net Electronic Records Archives program costs	35,655	11,225
National Historical Publications and Records Commission grants		
Gross costs	7,308	5,925
Less: Earned revenues	—	—
Total net National Historical Publications and Records Commission grants program costs	7,308	5,925
Archives facilities and presidential libraries repairs and Restoration		
Gross costs	701	16
Heritage asset renovation costs (Note 15)	10,390	13,488
Less: Earned revenues	—	(485)
Total net archives facilities and Presidential libraries repairs and restoration program costs	11,091	13,019
Revolving fund records center storage and services		
Gross costs	143,824	141,445
Less: Earned revenues	(132,023)	(129,239)
Total net Revolving Fund records center storage and services program costs	11,801	12,206
Costs not assigned to programs	—	—
Less: Earned revenues not attributed to programs	—	—
Net cost of operations	\$ 345,364	\$ 286,428

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
For the years ended September 30, 2005, and 2004
(in thousands)

	2005		Restated 2004	
	Cumulative results of operations	Unexpended appropriation s	Cumulative results of operations	Unexpended appropriation s
Beginning balances (note 19)	\$ 91,001	\$ 139,793	\$ 78,778	\$ 122,599
Prior period adjustments				
Changes in accounting principles (note 7)	(839)		—	
Corrections of errors (note 24)	—		(13,623)	
Beginning balances, as adjusted	90,162	139,793	65,155	122,599
Budgetary Financing Sources:				
Appropriations received	—	321,291	—	316,322
Other adjustments	—	(6,285)	—	(4,602)
Appropriations used	337,245	(337,245)	294,526	(294,526)
Non-exchange revenue	579		19	—
Donations	9,366		3,571	—
Other budgetary financing sources	21		—	
Other Financing Sources				
Imputed financing from costs absorbed by others	15,658		14,224	
Other	(51)			
Total financing sources	362,818	(22,239)	312,340	17,194
Net cost of operations	345,364		286,428	
Net change	17,454	(22,239)	25,912	17,194
Ending balance	\$ 107,616	\$ 117,554	\$ 91,067	\$ 139,793

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

For the years ended September 30, 2005, and 2004

(in thousands)

	2005	2004
Budgetary resources		
Budget authority		
Appropriations received	\$ 331,506	\$ 320,141
Unobligated balance, beginning of period (Note 19)	62,506	60,524
Spending authority from offsetting collections		
Earned		
Collected	168,253	160,973
Receivable from Federal sources	(5,410)	2,408
Change in unfilled customer orders		
Advance received	96	(88)
Without advance from Federal sources	(770)	2
Subtotal	162,169	163,295
Recoveries of prior year obligations	27,330	21,096
Permanently not available	(14,773)	(12,412)
Total budgetary resources	\$ 568,738	\$ 552,644
Status of Budgetary Resources		
Obligations incurred		
Direct	358,512	349,569
Reimbursable	135,513	140,503
Subtotal	494,025	490,072
Unobligated balance		
Apportioned	24,040	27,129
Exempt from apportionment	36,011	30,673
Unobligated balance not available	14,662	4,770
Total Status of Budgetary Resources	\$ 568,738	\$ 552,644
Relationship of Obligations to Outlays		
Obligated balance, net, beginning of period	141,162	142,166
Obligated balance, net, end of period		
Accounts receivable	(9,935)	(15,345)
Unfilled customer orders from Federal sources		(770)
Undelivered orders	83,324	119,479
Accounts payable	33,916	37,798
Outlays		
Disbursements	506,730	467,569
Collections	(168,349)	(160,885)
Net Outlays	\$ 338,381	\$ 306,684

The accompanying notes are an integral part of these statements.

Consolidated Statement of Financing
For the years ended September 30, 2005, and 2004
(in thousands)

	2005	Restated 2004
<i>Resources used to finance activities</i>		
Budgetary resources obligated		
Obligations incurred	\$ 494,025	\$ 490,072
Less: Spending authority from offsetting collections and recoveries	(189,499)	(184,391)
Obligations net of offsetting collections and recoveries	<u>304,526</u>	<u>305,681</u>
Other Resources		
Imputed financing from costs absorbed by others	15,658	14,224
Other	(51)	—
	<u>320,133</u>	<u>319,905</u>
<i>Total resources used to finance activities</i>		
<i>Resources used to finance items not part of net cost of operations</i>		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	35,522	(15,642)
Resources that fund expenses recognized in prior periods	(4,706)	—
Budgetary offsetting collections and receipts that do not affect net cost of operations	289	19
Resources that finance the acquisition of assets	(35,683)	(34,611)
	<u>(4,578)</u>	<u>(50,234)</u>
<i>Total resources used to finance items not part of net cost of operations</i>		
	\$ 315,555	\$ 269,671
<i>Components of the net cost of operations that will not require or generate resources in current period</i>		
Components requiring or generating resources in future periods		
Increase in annual leave liability	1,482	831
Other	1,966	(5,966)
	<u>3,448</u>	<u>(5,135)</u>
Components not requiring or generating resources		
Depreciation and amortization	23,649	20,739
Revaluation of assets or liabilities	1,322	—
Other	1,390	1,153
	<u>26,361</u>	<u>21,892</u>
<i>Total components of net cost of operations that will not require or generate resources in current period</i>		
	<u>29,809</u>	<u>16,757</u>
Net cost of operations	\$ 345,364	\$ 286,428

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 September 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 National Archives and Records Services. 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 Funds

- Operating Expenses
 - 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 that opened to the public at the end of 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, re-file, and disposal services for records stored in regional service 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

These statements were prepared from the accounting records of NARA in conformity with United States generally accepted accounting principles (GAAP), and the Office of Management and Budget (OMB) Circular NO. A-136, *Financial Reporting Requirements*. 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. These statements are, therefore, different from the financial reports prepared by NARA, also subject to OMB directives, for the purposes of reporting and monitoring NARA's status of budget resources.

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 and therefore not included when calculating the allowance for uncollectible accounts.

F. Investments in Securities

Investments in Federal 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. 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 the endowments, received pursuant to Title 44 U.S.C. section 2112, for the George Bush Library and Clinton Library. The purpose of the endowment is to provide income to offset the operations and maintenance costs of the corresponding Presidential library. Each endowment is reflected as a separate investment account. During fiscal year 2005, these accounts were transferred from an actively managed intermediate bond portfolio made up of many individual holdings to the purchase of shares in the Lehman Aggregate Bond Index. The investment in the Lehman Aggregate Bond Index will be recorded at fair value, and interest income earned will be recognized on a monthly basis.

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 comprises 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 line item 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 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 historical analysis and an evaluation of inventory turnover from year to year. Expenses are recorded when the inventories are sold.

K. Property, Plant, and Equipment

Property and equipment consist of land, buildings, typical office furnishings, installed shelving in the record facilities, and computer hardware and software. NARA capitalizes property with a cost exceeding \$50 thousand and a useful life exceeding two years. Depreciation expense is calculated using the straight-line method over the useful life. Property items not meeting the capitalization criteria are recorded as operating expenses.

In FY 2005 NARA changed the capitalization threshold from \$25 thousand. The aggregate cost and related accumulated depreciation of the assets that no longer meet the capitalization criteria was removed from the PP&E balances. The change in PP&E book value is recorded and presented as a prior period adjustment.

Federal Financial Accounting Standard (SFFAS) No. 6, Accounting for Property, Plant and

Equipment, defines the diversity among Federal PP&E. NARA's PP&E falls into two categories: general PP&E and heritage assets. General PP&E items are used to provide general Government goods and services. Heritage assets are defined as possessing significant educational, cultural, or natural characteristics. The National Archives Building in Washington and all Presidential libraries are classified as heritage assets and are not included on the balance sheet. Multiuse heritage assets are heritage assets that are used predominantly for general Government operations. The costs of acquisition, significant betterment, or reconstruction of multiuse heritage assets are capitalized as general PP&E and depreciated. The National Archives facility at College Park and the Southeast regional archival facility in Atlanta, GA, are classified as multiuse heritage assets and are included in general PP&E on the balance sheet. Physical quantity of both heritage and multiuse heritage assets is included in Required Supplementary Stewardship Information. The current condition of PP&E and heritage assets and estimated cost of deferred maintenance is reported in Required Supplementary Information.

L. Internal Use Software

NARA capitalizes internal-use software development projects whose total cost is \$250 thousand or greater. Internal-use software includes commercial off-the-shelf (COTS) software and internally developed or contractor developed software. The estimated useful life 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 (FEGGLIP). 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 expected future workers' compensation benefits, which includes the liability for death, disability, medical, and miscellaneous costs for approved cases. The actuarial 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 11.2 percent, while

employees contribute 0.8 percent of basic pay, for a total contribution of 12 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 Statement of Net Cost and recognizes imputed financing related to these costs on the 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 15 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 10 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 \$90 thousand 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 is comprised of various Operating Administrations, each having its own management and organizational structure. 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

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National Archives Trust Fund Board, which is an organization independent of, and not funded by, NARA (see note 23). All other programs appearing on the Statement of Net Cost, such as Electronic Records Archives and National Historic Publications and Records Commission grants are a part of the bigger program of Records and Archives-Related Services, where the related administrative cost are included. These sub-programs are shown separately for the purpose of demonstrating custodial responsibility for the funding received for these programs.

T. Changes in generally accepted accounting principles

NARA has changed the threshold for capitalizing personal property from \$25 thousand to \$50 thousand in fiscal year 2005, as discussed in note K. All assets included in the PP&E have been revalued using the new threshold.

Note 2 – Non-entity Assets

Non-entity intragovernmental investments of \$17,453 thousand on the balance sheet as of September 30, 2004, were liquidated and relinquished to the U.S. Treasury during the second quarter of FY 2005. These investments were funded by the accumulated interest, earned during the period of construction and hence, on the funds remaining from the sale of certificates of ownership to finance the construction of the National Archives at College Park. No balance remains as of September 30, 2005.

Note 3—Fund Balance with Treasury and Cash

Fund balances	<i>(in thousands)</i>	2005	2004
Appropriated funds		\$ 141,835	\$ 165,246
Revolving Fund		23,413	18,921
Trust Fund		1,887	901
Gift Fund		96	139
Sub-total		167,231	185,207
Investments		26,609	35,990
Less interest receivable on investments		(8)	(46)
Less non-entity investments		—	(17,453)
Less Investments held outside Treasury		(11,861)	—
Imprest fund (cash)		48	36
Total		\$ 182,019	\$ 203,734

Status of fund balances with Treasury

Unobligated balance			
Available		60,052	57,803
Unavailable		14,662	4,769
Obligated balance not yet disbursed		107,305	141,162
Total		\$ 182,019	\$ 203,734

Unavailable unobligated balance includes the following

Allotments – Expired authority		\$ 14,662	\$ 4,769
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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 \$12,916 thousand as of September 30, 2005 and \$7,830 thousand as of September 30, 2004.

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The unused fund balance of \$3,715 thousand in cancelled appropriation for FY 2000 is returned to Treasury at the end of the fiscal year.

Note 4—Investments

Investments as of September 30, 2005, and September 30, 2004, consist of the following (in thousands):

Amounts for 2005 Balance Sheet Reporting

	Cost	Amortization method	Unamortized (premium) discount	Investments, net	Other adjustments	Market value disclosure
Intragovernmental Securities						
Marketable	14,793	Straight-line	\$ 53	\$ 14,740	\$ (1)	\$ 14,739
Total intragovernmental	14,793		53	14,740	(1)	14,739
Other securities						
Cash Equivalents	22			22		22
U.S. Treasury Obligations	—			—		—
U.S. government Agencies	—			—		—
Corp. & foreign Bonds	1			1		1
Closed-end Fixed Income	11,838			11,838		11,838
Accrued interest	8			8		8
Total other	11,869		—	11,869	—	11,869
Total investments	26,662		\$ 53	\$ 26,609	\$ (1)	\$ 26,608

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

Amounts for 2004 Balance Sheet Reporting

	Cost	Amortization method	Unamortized (premium) discount	Investments, net	Other adjustments	Market value disclosure
Intragovernmental securities						
Marketable	\$ 31,282	Straight-line	\$ 77	\$ 31,205	\$ (31)	\$ 31,174
Total intragovernmental	31,282		77	31,205	(31)	31,174
Other securities						
Money market funds	403			403	—	403
U.S. Treasury obligations	266			266	(2)	264
U.S. Government agencies	1,489			1,489	4	1,493
Corp. & foreign bonds	2,581			2,581	215	2,796
Accrued interest	46			46		46
Total other	4,785		—	4,785	217	5,002
Total investments	\$ 36,067		\$ 77	\$ 35,990	\$ 186	\$ 36,176

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Note 5—Accounts Receivable, Net

Accounts receivable and allowances for uncollectible accounts consisted of the following (in thousands):

	2005		2004	
	<i>Intra-governmental</i>	<i>With the public</i>	<i>Intra-governmental</i>	<i>With the public</i>
Accounts receivable	\$ 9,181	\$ 867	\$ 14,151	\$ 882
Allowance for uncollectible accounts	—	(4)	—	(1)
Accounts receivable, net	\$ 9,181	\$ 863	\$ 14,151	\$ 881

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.

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, 2005.

(in thousands)

	2005	2004
Inventory held for sale	\$ 1,609	\$ 1,500
Allowance for damaged and obsolete goods	(505)	(505)
Net realizable value	\$ 1,104	\$ 995

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

The following components comprise Property, Plant, and Equipment as of September 30, 2005, and September 30, 2004 (in thousands):

Asset category	<i>Estimated useful life in years</i>	<i>Acquisition cost</i>	<i>Accumulated depreciation/amortization</i>	2005	Restated 2004
				<i>Net book value</i>	<i>Net book value</i>
Land	N/A	\$ 6,159	\$ —	\$ 6,159	\$ 6,159
Buildings and structures	30	387,189	(143,270)	243,919	227,546
Construction and shelving in progress		5,462		5,462	24,307
Equipment & shelving	3 to 20	56,085	(33,790)	22,295	25,104
Leasehold improvements	5	3,430	(250)	3,180	322
Assets under capital lease	20	5,284	(2,434)	2,850	3,115
Internal-use software	5	35,145	(18,540)	16,605	21,603
Software development in progress		11,332	—	11,332	6,461
Total property, plant and equipment		\$ 510,086	\$ (198,284)	\$ 311,802	\$ 314,617

As described in note 1K, buildings and structures presented on the balance sheet include the National Archives at College Park and the Southeast regional archival facility in Atlanta, GA, which are multiuse heritage assets. All other buildings are deemed to be heritage assets and are not

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included in the general PP&E. The amount recorded as a prior period adjustment resulting from the change in accounting principles for the change in threshold for capitalizing personal property from \$25 thousand to \$50 thousand was \$839 thousand.

Note 8 – Other Assets

Other assets as of September 30, 2005, and September 30, 2004, consist of the following (in thousands):

	2005		2004	
	<i>Intra-governmental</i>	<i>With the public</i>	<i>Intra-governmental</i>	<i>With the public</i>
Other assets	\$ —	\$ 1,029	\$ —	\$ 1,015
Prepaid expenses	—	—	40	—
Advances	—	—	—	1
Total other assets	\$ —	\$ 1,029	\$ 40	\$ 1,016

The major part of *Other assets* consist of a one-time cost of obtaining an operating lease amounting to \$1,003 thousand as of September 30, 2005. This cost is deferred and is being amortized over the lease term as additional rent expense.

Prepaid expenses represent amounts advanced for postage for FY 2004. Advances represent amounts for travel and relocation for FY 2004.

Note 9 – Liabilities not covered by Budgetary Resources

Liabilities not covered by budgetary resources as of September 30, 2005, and September 30, 2004, consist of the following (in thousands):

	2005		2004	
	<i>Intra-governmental</i>	<i>With the public</i>	<i>Intra-governmental</i>	<i>With the public</i>
Debt held by the public (including accrued interest)	\$ —	\$ 236,259	\$ —	\$ 246,046
Other	258	21,840	397	20,406
Total liabilities not covered by budgetary resources	258	258,099	397	266,452
Total liabilities covered by budgetary resources	6,562	27,778	24,304	30,920
Total liabilities	\$ 6,820	\$ 285,877	\$ 24,701	\$ 297,372

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 \$258 thousand as of September 30, 2005 and \$397 thousand for FY 2004 represent workers' compensation claims paid by the Department of Labor (DOL). The other liabilities with the public of \$21,840 thousand for FY 2005 and the \$20,406 thousand for FY 2004 consist of unfunded annual leave of \$12,497 thousand and \$11,016 thousand and workers' compensation of \$9,342 thousand and \$9,390 thousand, respectively. These represent 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 for the corresponding years.

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 thousand, 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 thousand annually. The 25-year semiannual payments of \$14,486 thousand began in 1994 and will be completed in 2019.

Unpaid Principal Balance (in thousands)

2005 Beginning Balance	\$ 244,312
Less: FY 2005 debt repayment	8,488
FY 2005 reclassification	<u>1,257</u>
Ending balance—Principal, at September 30, 2005	234,567
Accrued interest payable	1,692
Total debt at September 30, 2005	\$ <u>236,259</u>

Note 11 – Other Liabilities

Other liabilities as of September 30, 2005 and September 30, 2004, consists of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Intragovernmental		
Workers’ compensation	\$ 1,840	\$ 1,700
Capital lease liability-current	398	527
Capital lease liability-long term	1,216	1,614
Liability for non-entity investments	—	17,453
Total intragovernmental	<u>3,454</u>	<u>21,294</u>
Workers’ compensation	9,342	9,390
Accrued funded payroll and leave	7,243	6,165
Unfunded leave	12,497	11,016
Advances from others	424	282
Deferred credits-fees	—	47
Total other liabilities	<u>\$ 32,960</u>	<u>\$ 48,194</u>

The liability of \$11,182 thousand for workers’ compensation at September 30, 2005, includes a current portion of \$1,840 thousand and estimated future costs of \$9,342 thousand. 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 September 30, 2004, liability for non-entity investments is eliminated as of September 30, 2005. See note 2.

Accrued annual leave consists of employees' unpaid leave balances at September 30, 2005, and reflects wage rates in effect at the time of calculation. 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 (in thousands).

CAPITAL LEASES –NARA as lessee	2005	2004
Summary of assets under capital lease:		
Shelving	\$ 5,284	\$ 5,284
Accumulated depreciation	2,434	2,169
Fiscal year	Future payments due	
2005	646	664
2006	344	646
2007	146	344
2008	146	146
2009	146	146
After 2009	597	743
Total future lease payments	2,025	2,689
Less: imputed interest	411	548
Net capital lease liability	\$ 1,614	\$ 2,141
Lease liabilities covered by budgetary resources	\$ 1,614	\$ 2,141
(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; September 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.)

NARA has non-cancelable operating leases with public corporations which cover the Perris, CA, and Atlanta, GA, records facilities. Both leases have three 10-year options to renew after the initial period. The lease period for Perris is December 1, 2004, through December 1, 2024, and for Atlanta is October 1, 2004, through September 30, 2024. The leases include escalation clauses for operating costs tied to inflationary increases and for real estate taxes tied to tax increases. (Note: The

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minimum future lease payments include estimated escalations for operating costs and real estate taxes. These amounts will be adjusted to the actual costs incurred for operating costs and real estate taxes for each lease.)

NARA has a non-cancelable operating lease with Potomac Electric Power Company for land that is leased for a parking lot at National Archives II, College Park. The lease is for 20 years from May 2003 through April 2023 and contains a set schedule of payments due. The following schedule shows the total future lease payments (in thousands).

OPERATING LEASES—NARA as lessee

Fiscal year	Future payments due
2006	\$ 10,064
2007	10,148
2008	10,236
2009	10,398
2010	10,585
After 2010	128,033
Total future lease payments	\$ 179,464

Note 13 – Commitments and Contingencies

NARA has incurred claims in the normal course of business. As of September 30, 2005, in the opinion of General Counsel, NARA has one material outstanding claim. Counsel advised that a claim was recently filed under the Federal Tort Claims Act, for which NARA's response is due on November 20. Since a thorough analysis has not been completed, there is a reasonable possibility of an unfavorable outcome, and the range of loss for the matter is estimated not to exceed \$300 thousand.

Note 14 – Intragovernmental Costs and Exchange Revenues by Program

	2005	2004
Records and archives-related services		
Intragovernmental gross costs	\$ 50,771	\$ 54,427
Less: Intragovernmental earned revenue	(267)	(988)
Intragovernmental net costs	50,504	53,439
Gross costs with the public	229,536	187,285
Less: Earned revenues from the public	(380)	—
Net costs with the public	229,156	187,285
Total net records and archives-related services program costs	279,660	240,724
Trust and Gift Funds		
Intragovernmental gross costs	1,848	2,133
Less: Intragovernmental earned revenue	(551)	(16)
Intragovernmental net costs	1,297	2,117
Gross costs with the public (excluding heritage asset renovation)	13,426	14,191
Heritage asset renovation costs (note 14)	880	1,237
Less: Earned revenues from the public	(15,754)	(14,216)
Net costs with the public	(1,448)	1,212
Total net Trust and Gift Fund costs	(151)	3,329
Electronic records archives		
Intragovernmental gross costs	3,736	4,311

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	<u>2005</u>	<u>2004</u>
Less: Intragovernmental earned revenue	—	—
Intragovernmental net costs	3,736	4,311
Gross costs with the public	31,919	6,914
Less: Earned revenues from the public	—	—
Net costs with the public	31,919	6,914
Total net Electronic Records Archives program costs	35,655	11,225
National Historical Publications and Records Commission grants		
Intragovernmental gross costs	\$ 49	\$ 248
Less: Intragovernmental earned revenue	—	—
Intragovernmental net costs	49	248
Gross costs with the public	7,259	5,677
Less: Earned revenues from the public	—	—
Net costs with the public	7,259	5,677
Total net National Historical Publications and Records Commission grants program costs	7,308	5,925
Archives facilities and Presidential libraries repairs and restoration		
Intragovernmental gross costs	231	1
Less: Intragovernmental earned revenue	—	(485)
Intragovernmental net costs	231	(484)
Gross costs with the public (excluding heritage asset renovation)	470	15
Heritage asset renovation costs	10,390	13,488
Less: Earned revenues from the public	—	—
Net costs with the public	10,860	13,503
Total net archives facilities and Presidential libraries repairs and restoration program costs	11,091	13,019
Revolving Fund records center storage and services		
Intragovernmental gross costs	73,004	64,177
Less: Intragovernmental earned revenue	(131,030)	(125,691)
Intragovernmental net costs	(58,026)	(61,514)
Gross costs with the public	70,820	77,268
Less: Earned revenues from the public	(993)	(3,548)
Net costs with the public	69,827	73,720
Total net Revolving Fund records center storage and services	11,801	12,206
Net Cost of Operations	<u>\$ 345,364</u>	<u>\$ 286,428</u>

Gross costs are classified on the basis of the sources of goods and services. Intragovernmental gross costs are expenses related to purchases from a Federal entity. Intragovernmental earned revenue represents exchange transactions between NARA and other Federal entities.

“Gross Public costs” are expenses related to purchases from a non-Federal entity, and the exchange revenue is classified as “with the public” where the buyer of the goods or services is a non-Federal entity.

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Note 15—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 as of September 30, 2005, and September 30, 2004, to renovate heritage assets (*in thousands*):

<i>Asset</i>	2005			2004	
	<i>Gift</i>	<i>Trust</i>	<i>Appropriation</i>	<i>Gift</i>	<i>Appropriation</i>
Archives I	\$ —	\$ —	4,530	\$ —	\$ 9,795
Roosevelt Library	251		1,020	54	917
Hoover			83		
Truman			391		
Eisenhower			245		
Kennedy			855		
Johnson			606		
Nixon			112		
Ford			196	1,183	331
Carter			1,048		
Reagan		629	283		2,446
Bush			1,020		
Total	\$ 251	\$ 629	\$ 10,390	\$ 1,237	\$ 13,488

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

Note 16 – 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 Required Supplementary Stewardship Information, including the type and quantity of heritage assets added during the fiscal year.

Note 17 – 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 a 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 Project. 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 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 during FY 2004. No funds were provided in FY 2005.

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 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. NARA has received a Category B apportionment in FY 2005 for Debt redemption, which was not separated out in FY 2004. NARA's Revolving, Trust, and Gift Funds are exempt from apportionment. The amounts of direct and reimbursable obligations are displayed in the following chart (in thousands).

<i>Obligations incurred</i>	<i>Category A</i>		<i>Category B</i>		<i>Exempt</i>		<i>Total</i>	
	2005	2004	2005	2004	2005	2004	2005	2004
Direct obligations	\$319,872	\$338,567	\$8,488	\$ —	\$30,152	\$ 11,001	\$358,512	\$349,568
Reimbursable obligations	652	2,851	—	—	134,861	137,653	135,513	140,504
Total	\$320,524	\$341,418	\$8,488	\$ —	\$165,013	\$148,654	\$494,025	\$490,072

Note 19—Adjustments to Beginning Balance of Statement of Net Position and Budgetary Resources

The FY 2004 FACTS II submission contained an adjustment of \$66 thousand to correctly state the fund balance with Treasury. This adjustment was not included for FY 2004 financial statements due to its immateriality and was identified as a "passed-on" audit adjustment in the management representation letter. Differences exist between FY 2004 ending and FY 2005 beginning balances in the *Cumulative results of operations* on the Statement of Net Position and the *Unobligated balance* on the Statement of Budgetary Resources, which were adjusted to agree to the correct balances in FACTS II.

Note 20—Legal Arrangements Affecting Use of Unobligated Balances

Public Law 108-199, January 23, 2004, 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 2004 to be available through the end of FY2005. During FY 2005, \$266 thousand was transferred to 2005 appropriation.

Note 21 - Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

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

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explanations of material differences between budgetary resources available, status of those resources and outlays as presented in the Statement of Budgetary Resources (SBR) to the related actual balances published in the *Budget of the United States Government* (President's Budget). However, the President's Budget that will include FY 2005 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in January 2006. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements.

Balances, reported in the FY 2004 SBR and the related President's Budget, are shown in a table below for each major budget account in which a difference exists. There are differences between the SBR and the President's Budget that are attributable to differing requirements imposed by Treasury and OMB. The differences are primarily due to reporting requirement differences for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

	FY 2004 (in millions)		
	<i>Statement of Budgetary Resources</i>	<i>President's Budget</i>	<i>Difference</i>
Records and Archives-Related Services			
Total budgetary resources	\$ 285	\$ 263	\$ 22
Status of budgetary resources			
Obligations incurred	278	261	17
Unobligated balance – available	2	2	–
Unobligated balance – unavailable	5	–	5
Total status of budgetary resources	\$ 285	\$ 263	\$ 22
Outlays	\$ 244	\$244	\$ –

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, 2005, 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 is 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."

Note 23 – 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.

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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, 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, 2005, and September 30, 2004, presented prior to intra-agency eliminations, consists of the following (*in thousands*):

	2005		2004	
	NATF	NAGF	NATF	NAGF
Assets				
Fund balance with Treasury	\$ 1,887	\$ 95	\$ 901	\$ 139
Cash	48	—	36	—
Investments, net	10,209	16,401	10,435	8,102
Accounts receivable	679	—	576	—
Inventory	1,104	—	995	—
Property, plant, and equipment	209	—	737	—
Prepaid postage	—	—	40	—
Total assets	14,136	16,496	13,720	8,241
Liabilities				
Accounts payable	798	4	788	30
Other liabilities	1,087	—	933	—
Total liabilities	1,885	4	1,721	30
Net position				
Cumulative results of operations				
Restricted	—	13,015	—	7,830
Unrestricted	—	3,477	—	381
Total net position	12,251	16,492	11,999	8,211
Total liabilities and net position	\$ 14,136	\$ 16,496	\$ 13,720	\$ 8,241
Net position, beginning of fiscal year	\$ 11,933	\$ 8,211	\$ 12,890	9,962
Change in net position				
Non-exchange revenue	1	578	19	—
Donations	—	9,366	—	3,571
Imputed financing from costs absorbed by others	469	(30)	441	—
Total financing sources	470	9,914	460	3,571
Net cost of operations	152	1,633	1,351	5,322
Net position, end of fiscal year	\$ 12,251	\$ 16,492	\$ 11,999	\$ 8,211

Note 24 – Restatements

NARA has restated the FY 2004 financial statements in accordance with SFFAS No. 21. The restatement reflects adjustments to the internal use software balance estimates, developed in the process of compiling the CFO Act financial statements for the first time in FY 2004. Additional research during fiscal year 2005 determined that the FY 2004 internal use software balance was overstated.

The restatement resulted in the changes to the Balance Sheet and the Statement of Changes in Net Position for fiscal year 2004 as follows (*in thousands*):

	<i>As Reported in FY 2004</i>	<i>Restated FY 2004</i>
General property, plant, and equipment, net	\$328,327	\$314,617
Cumulative results of operations	104,777	91,067
Net costs, FY 2004 activity	286,341	286,428

The overall effect is to reduce assets and cumulative results of operations by \$13,710 thousand for FY 2004 financial statements, where \$13,623 thousand is attributable to activity prior to and impacting the FY 2004 beginning balance, and \$87 thousand of FY 2004 activity originally capitalized is expensed.

Required Supplementary Stewardship Information

Heritage Assets Schedule

For the Year Ended September 30, 2005

	<i>Balance 9-30-04</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance 9-30-05</i>
Record types				
Artifacts (# of items)				
Presidential libraries	538,614	3,442		542,056
Office of Regional Records				
Services	20			20
Washington, DC	1,491		(3)	1,488
Total	540,125	3,442	(3)	543,564
Traditional holdings (in cubic feet)				
Presidential libraries	238,111		(6,540)	231,571
Office of Regional Records				
Services	633,650	43,702		677,352
Washington, DC	2,221,395	24,253		2,245,648
Affiliated archives	7,198	5,227		12,425
Total	3,100,354	73,182	(6,540)	3,166,996
Electronic holdings (in logical data records)				
Presidential libraries	35,308,040			35,308,040
Washington, DC	5,593,834,700	2,479,249,711		8,073,084,411
Total	5,629,142,740	2,479,249,711	—	8,108,392,451
Non-record types				
Buildings and structures (in units)				
Presidential libraries	17	1		18
Archives I	1			1
Multiuse buildings	1	1		2
Total	19	2	—	21
Land in pieces, multiuse	2			2

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 which include artifacts, traditional holdings, and electronic holdings.

Record types:

- *Artifacts* are objects whose archival value lies in the items themselves rather than in any information recorded upon them. The unit of measure for artifacts is the artifact.
- *Traditional textual (paper)* are records on paper whose intellectual content is primarily textual. The unit of measure for traditional textual is cubic feet.
- *Traditional nontextual (all media)* category includes all records not classified as textual (paper), artifacts, or electronic records. It includes still pictures on paper and film; posters; architectural drawings, charts, maps, and other cartographic records on paper; textual records on microfilm; as well as motion pictures, video, sound recordings, and other clearly nontextual records. The unit of measure for traditional nontextual is cubic feet.
- *Electronic records* are records on electronic storage media. The unit of measure for electronic records is the logical data record.

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 USC 3303a). When in the public interest, the Archivist may accept Government records for historical preservation (44 USC 2107) and accept non-Government papers and other historical materials for deposit (44 U.S.C. 2111). The Archivist also administers Presidential and Vice Presidential records in accordance with 44 U.S.C. Chapter 22. Methods of acquisition and disposal are according to the guidelines established through the legal authority granted to NARA. Information about the condition and deferred maintenance information is contained in the Deferred Maintenance section of the Required Supplementary Information.

Multiuse heritage assets reported above comprise two buildings and two pieces of land, which are sites for current or future multi-use regional archival facility. These are also included in PP&E on the Balance Sheet (note 7).

During the year, significant repairs and renovations, in the amount of \$11,270 thousand, were made to the heritage asset buildings. Of that amount, \$880 thousand came from gifts. These costs are broken out separately on the Statement of Net Cost as "Heritage asset renovation costs."

Required Supplementary Information

Schedule of Intragovernmental Amounts

*For the Year Ended September 30, 2005
(in thousands)*

Intragovernmental Assets

Trading Partner	Fund balance with Treasury	Investment s	Accounts receivable	Prepaid expenses
Department of the Treasury	\$ 167,231	\$ 14,740	\$ 20	\$ —
General Services Administration			—	—
Department of Defense			8,778	—
Department of Labor			1	—
National Science Foundation			—	—
Other			382	—
Total	\$ 167,231	\$ 14,740	\$ 9,181	\$ —

Intragovernmental Liabilities

Trading Partner	Accounts Payable	Other
Department of the Treasury	\$ 119	\$ —
General Services Administration	607	1,614
Department of Defense	289	—
Department of Labor	73	1,840
National Science Foundation	1,751	—
Other	527	—
Total	\$ 3,366	\$ 3,454

Schedule of Intragovernmental Amounts

For the Year Ended September 30, 2004
 (in thousands)

Intragovernmental Assets

Trading Partner	Fund balance with Treasury	Investments	Accounts receivable	Prepaid expenses
Department of the Treasury	\$ 185,207	\$ 31,205	\$ 2,752	\$ —
Department of Defense			6,352	—
Department of Justice			1,152	—
U.S. Courts			687	—
Department of Health and Human Services			465	—
U.S. Postal Service			160	40
Other			2,583	—
Total	\$ 185,207	\$ 31,205	\$ 14,151	\$ 40

Intragovernmental Liabilities

Trading Partner	Accounts Payable	Other
Department of the Treasury	\$ —	\$ 17,453
General Services Administration	1,715	2,141
Department of Defense	549	—
Department of Labor	171	1,303
Office of Personnel Management	271	—
Department of Health and Human Services	68	—
Other	633	397
Total	\$ 3,407	\$ 21,294

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

	Fiscal Year 2005		
	<i>Records and Archives-Related Services</i>	<i>Gift Fund</i>	<i>Trust Fund</i>
Budgetary Resources			
Budget authority			
Appropriations received	\$ 266,945	\$ 10,215	\$ —
Unobligated balance, beginning of period	5,376	7,935	9,583
Spending authority from offsetting collections			
Earned			
Collected	9,677	—	16,209
Receivable from Federal sources	(295)	(46)	106
Change in unfilled customer orders			
Advance received	—	—	96
Without advance from Federal sources	—	—	(2)
Subtotal	9,382	(46)	16,409
Recoveries of prior year obligations	13,969	92	1,552
Permanently not available	(14,338)	—	—
Total Budgetary Resources	281,334	18,196	27,544
Status of Budgetary Resources			
Obligations incurred			
Direct	265,547	13,573	16,579
Reimbursable	652	—	—
Subtotal	266,199	13,573	16,579
Unobligated balance			
Apportioned	667	—	—
Exempt from apportionment	—	4,623	10,965
Unobligated balances not yet available	14,468	—	—
Total status of budgetary resources	281,334	18,196	27,544
Relationship of Obligations to Outlays			
Obligated balance, net, beginning of period	68,052	260	1,724
Obligated balance, net, end of period			
Accounts receivable	(108)	—	(674)
Unfilled customer orders from Federal sources			
Undelivered orders	29,639	—	807
Accounts payable	17,649	4	1,046
Outlays			
Disbursements	273,397	13,783	15,467
Collections	(9,677)	—	(16,305)
Total outlays	\$ 263,720	\$ 13,783	\$ (838)

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Fiscal Year 2005					
<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	\$ 5,000	\$ 13,432	\$ —	\$ 331,506	
6,689	1,679	18,153	13,091	62,506	
—	—	2	142,365	168,253	
			(5,175)	(5,410)	
—	—	—	—	—	
—	—	—	(768)	(770)	
—	—	2	136,422	162,169	
876	251	4,819	5,771	27,330	
(287)	(40)	(108)	—	(14,773)	
43,192	6,890	36,298	155,284	568,738	
39,508	6,399	16,906	—	358,512	
—	—	—	134,861	135,513	
39,508	6,399	16,906	134,861	494,025	
3,490	491	19,392	—	24,040	
—	—	—	20,423	36,011	
194	—	—	—	14,662	
43,192	6,890	36,298	155,284	568,738	
32,155	12,240	20,902	5,829	141,162	
—	—	—	(9,153)	(9,935)	
33,247	10,715	5,236	3,680	83,324	
5,600	268	888	8,461	33,916	
31,940	7,405	26,865	137,873	506,730	
—	—	(2)	(142,365)	(168,349)	
\$ 31,940	\$ 7,405	\$ 26,863	\$ (4,492)	\$ 338,381	

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

	Fiscal Year 2004		
	<i>Records and Archives-Related Services</i>	<i>Gift Fund</i>	<i>Trust Fund</i>
Budgetary Resources			
Budget authority			
Appropriations received	\$ 256,700	\$ 3,818	\$ 1
Unobligated balance, beginning of period	4,686	8,011	10,451
Spending authority from offsetting collections			
Earned			
Collected	15,809	1	13,777
Receivable from Federal sources	71	10	95
Change in unfilled customer orders			
Advance received	—	—	(88)
Without advance from Federal sources	—	—	2
Subtotal	15,880	11	13,786
Recoveries of prior year obligations	14,971	15	301
Permanently not available	(12,060)	—	—
Total Budgetary Resources	280,177	11,855	24,539
Status of Budgetary Resources			
Obligations incurred			
Direct	272,434	3,921	14,891
Reimbursable	2,365	—	—
Subtotal	274,799	3,921	14,891
Unobligated balance			
Apportioned	608	—	—
Exempt from apportionment	—	7,934	9,648
Unobligated balances not yet available	4,770	—	—
Total status of budgetary resources	280,177	11,855	24,539
Relationship of Obligations to Outlays			
Obligated balance, net, beginning of period	61,212	4,298	793
Obligated balance, net, end of period			
Accounts receivable	(403)	(46)	(568)
Unfilled customer orders from Federal sources	—	—	(2)
Undelivered orders	50,550	276	1,305
Accounts payable	17,905	30	987
Outlays			
Disbursements	252,919	7,933	13,562
Collections	(15,809)	(1)	(13,689)
Total outlays	\$ 237,110	\$ 7,932	\$ (127)

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Fiscal Year 2004

<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	\$ 10,000	\$ 13,708	\$ —	\$ 320,141
5,696	1,012	17,269	13,399	60,524
—	13	485	130,888	160,973
—	(4)	—	2,236	2,408
—	—	—	—	(88)
—	—	—	—	2
0	9	485	133,124	163,295
435	280	873	4,221	21,096
(212)	(59)	(81)	—	(12,412)
41,833	11,242	32,254	150,744	552,644
35,144	9,563	13,616	—	349,569
—	—	485	137,653	140,503
35,144	9,563	14,101	137,653	490,072
6,689	1,679	18,153	—	27,129
—	—	—	13,091	30,673
—	—	—	—	4,770
41,833	11,242	32,254	150,744	552,644
7,631	9,552	55,865	2,815	142,166
—	—	—	(14,328)	(15,345)
—	—	—	(768)	(770)
30,040	11,876	15,428	10,004	119,479
2,117	364	5,474	10,921	37,798
10,184	6,598	48,192	128,181	467,569
—	(13)	(485)	(130,888)	(160,885)
\$ 10,184	\$ 6,585	\$ 47,707	\$ (2,707)	\$ 306,684

Segment Information—Revolving Fund

NARA's Revolving Fund provides storage and related services of Federal records still in agency custody and other instrumentalities of the Federal Government. The related services comprise retrieving, transferring, re-filing, 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 the Department of Defense and the Internal Revenue Service.

The following summarizes revolving fund financial information as of September 30, 2005, and September 30, 2004 (*in thousands*):

	<u>2005</u>	<u>2004</u>
Fund balance	\$ 23,413	\$ 18,921
Accounts receivable	9,200	14,371
Property, plant, and equipment	21,048	22,915
Other assets	1,029	1,014
Liabilities due and payable for goods and services received	2,984	5,487
Other liabilities	16,395	15,114
Cumulative results of operations	\$ 35,311	\$ 36,620

The following summarizes, for the period ended September 30, 2005 and 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 (*in thousands*):

<u>Records center storage and services</u>	<u>2005</u>	<u>2004</u>
Intragovernmental gross costs	\$ 73,004	\$ 64,177
Less: Intragovernmental earned revenue	(136,153)	(129,574)
Intragovernmental net costs	(63,149)	(65,397)
 Gross costs with the public	 70,820	 77,268
 Less: Earned revenues from the public	 (993)	 (3,547)
Net costs with the public	69,827	73,721
 <u>Total net records center storage and services program costs</u>	 <u>\$ 6,678</u>	 <u>\$ 8,324</u>

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, MD, the Southeast regional archives building in Atlanta, GA, the Presidential libraries, and land for a future regional archive building. 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.

NARA uses the condition assessment method to determine the condition of fixed assets and determine deferred maintenance. The condition assessment surveys (CAS) at NARA are conducted by a professional architectural firm, which performs Building Condition Reports (BCR) for all NARA owned facilities on a periodic basis. During FY 2005 NARA formalized the BCR process and established a five-year schedule so that all buildings will have a BCR completed on a five-year cycle. Facility managers will continue to perform condition assessments annually to identify critical needs between BCRs. Maintenance required to bring fixed assets to acceptable condition, which is not scheduled or performed when needed, is included in the deferred maintenance estimate below.

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 correcting deficiencies that relate to the safety or the protection of valuable materials, modifications to provide safety and public accessibility to the facility, and electrical upgrades to prevent loss of critical data. The estimates generally exclude vehicles and other categories of operating equipment.

At the end of fiscal year 2005, 10 locations are included for the deferred maintenance estimate including eight Presidential libraries. The included projects are either a part of major renovations or have been identified from a current BCR. Also included is a roof repair at a Presidential library that was identified before the current BCR schedule and is a critical maintenance need.

<u>Category</u>	<u>Method</u>	<u>Acceptable Asset Condition</u>	<u>Estimated Deferred Maintenance</u>
Heritage assets – Buildings	CAS	Good	\$27 to 28 million
Multiuse assets – Buildings	CAS	Good	\$1.9 to 2 million

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

- *Good.* Facilities/equipment condition meets established maintenance standards, operates 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 condition does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function.

In addition, NARA is a custodian for numerous holdings as detailed in the Required Supplementary Stewardship Information. As custodian, NARA makes tremendous efforts to ensure 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.